The structure and functioning of the EFSI: how financial intermediaries could access EFSI funding

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Abstract:

This paper describes how financial intermediaries can access the funds provided by the European Fund for Strategic Investments (EFSI) in order to take more risks and provide funding to social service providers. The EFSI is an initiative launched by the European Commission and the European Investment Bank in order to overcome a lack of funding that is hampering the economic recovery in the European Union. EFSI funds and guarantees are not directly available, but are channelled through two paths (the European Investment Bank and the European Investment Fund) which in turn have different instruments that take advantage of such funds. Financial intermediaries have an important role in the process, oftentimes being the last link in the chain before the final beneficiary. However, given that this initiative has only been established recently, it is possible that new instruments will be created/enhanced in order to satisfy the demand.

1. Introduction

Since its appointment in November 2014, the European Commission has identified the kick-start of the European economy as one of the priorities of its mandate. To this end, in 2015 it launched its initiative, the Investment Plan for Europe. One of its pillars is the European Fund for Strategic Investments, the EFSI. The purpose of such fund is to address a funding gap that is hampering firms' ability to expand and innovate at their full potential. As we will see later in the paper, in the Regulation that describes the functioning of the EFSI, the Commission pointed out the strategic sectors that would benefit the most from the funds. Perhaps unsurprisingly, the social economy is one of such sectors, thanks to its capacity to create long-term jobs while producing positive externalities in the whole society.

The purpose of this paper is to describe the EFSI and the application procedures necessary to access the available funds. The perspective of this paper is on financial intermediaries and consequently the focus will be on how such entities can apply and use the funding specifically for social enterprises, and whether there are synergies between their needs and what the European Union (EU) can offer.

After a description of the reasons why the European Commission came up with the Investment Plan for Europe from which the EFSI originated, a general overview on what the ESFI is - and what it is not - and its corollary bodies will be provided.

Afterwards, a section on the different application procedures with respect to requirements of the EU institutions and the specific instrument will be outlined. Here we will distinguish between the two main channels for accessing EFSI funds, the European Investment Bank (EIB) and the European Investment Fund (EIF).

Keeping with the social service providers as final beneficiaries of financial intermediaries, we included in the description also the guarantees provided under the European Commission's Programme for Employment and Social Innovation (EaSI) and the Social Impact Accelerator (SIA), which at the moment are not covered by the EFSI but specifically target social enterprises and social service providers. Finally, the concluding remarks will summarise the main findings of this paper.

Regarding the definition of what we mean when we talk about social service providers, in 2006 the European Commission described in a Communication[1] what constitute Social Services of General

[1] *Implementing the Community Lisbon programme: Social services of general interest in the European Union*, COM(2006) 177 of 26 April 2006.

Interest (SSGI) and we use this definition to encapsulate social service providers. It identified two broad types of services, namely:

- statutory and complementary social security schemes covering the main risks of life; and
- services provided directly to the person, such as social assistance services, employment and training services, childcare, social housing or long-term care for the elderly and for people with disabilities.

In 2007[2], the Commission refined its analysis of SSGI and highlighted a certain number of objectives that social services pursue — such as responding to vital human needs, contributing to non-discrimination and creating equal opportunities. The Commission also highlighted the principles of organisation which are common to these services — such as solidarity, proximity, comprehensiveness, personalisation and an asymmetric relationship between user and provider. On a final note, social service providers are also a heterogeneous group, including small organisations, as well as ones with a budget in the order of hundreds of millions – if not billions – of euros.

As a final note on social services, they share certain characteristics with the social economy that can be used by the former to benefit from initiatives and instruments that are designed for the latter, provided that they meet the eligibility criteria.

2. Background[3]

Since the global economic and financial crisis, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe firmly on the path of economic recovery.

The European Commission has highlighted[4] the weakness of investment as a cause of a fragile recovery from the economic crisis in the EU and even more so in the euro area. The main reason for persistently weak investment is low investor confidence. This uncertainty is rooted in low expectations about the demand for goods and services, the fragmentation of financial markets and a lack of sufficient risk-bearing capacity that is required to catalyse investments. Due to the

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[2] *Services of general interest, including social services of general interest: a new European commitment*, COM(2007) 725 final of 20 November 2007.
[3] http://www.eib.org/attachments/efsi_factsheet1_why_en.pdf
[4] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2015.169.01.0001.01.ENG

uncertainty of economic and political developments and the still high levels of indebtedness in parts of the EU economy and their impact on credit risk, access to finance has been difficult, in the Member States most affected by the crisis, especially for riskier long-term finance projects, mid-cap companies and SMEs. Limited fiscal room for manoeuvre, coupled with a constraint of bank finance reduce the system's capacity for risk-bearing.

In this context, the best use of public money is to strengthen the risk-bearing capacity in order to re-launch private investment. Adequate levels of resources are available and need to be mobilised across the EU in support of investment. There is no single, simple answer, no growth button that can be pushed, and no one-size-fits-all solution. The Commission is setting out an approach based on three pillars: structural reforms to put Europe on a new growth path; fiscal responsibility to restore the soundness of public finances and cement financial stability; and investment to kick-start growth and sustain it over time.

The latter of these measures is called Investment Plan for Europe. It has three objectives: to provide additional fuel to the EU's recovery and reverse the drop in investment; to take a decisive step towards meeting the long-term needs of the European economy by boosting competitiveness in strategic areas; and to strengthen the European dimension of our knowledge, human capital and physical infrastructure, and the interconnections that are vital to the Single Market. According to European Commission estimates, the Investment Plan has the potential to add € 330 to 410 billion to the EU's GDP and create 1 to 1.3 million new jobs in the coming three years. The main instrument to deploy the funds is called European Fund for Strategic Investments (EFSI) and it will be described in the following section.

3. The European Fund for Strategic Investments

The EFSI is an initiative launched jointly by the European Investment Bank (EIB) Group and the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. EFSI is a € 16 billion guarantee from the EU budget, complemented by an allocation of € 5 billion of EIB's own capital. Its dedicated governance ensures that it remains focused on its specific objectives, namely to increase the volume of higher risk projects supported by EIB Group financing operations and address the market failure in risk-taking which hinders investment in Europe[5]. However, **it is important to stress that the EFSI is not a Fund or other legal entity nor does it trade independently**[6].

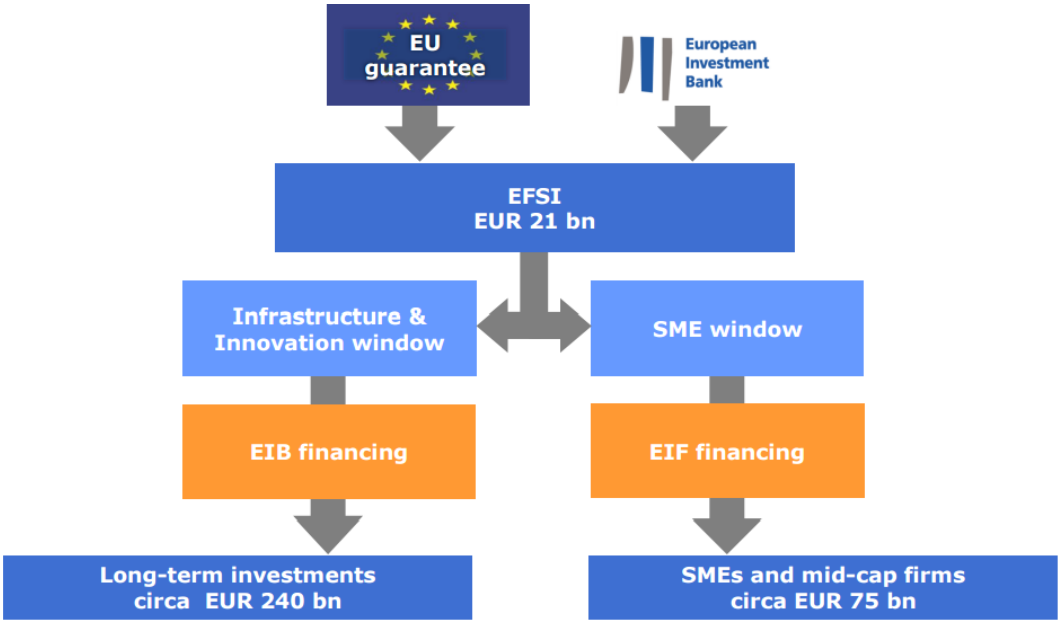
The purpose of the EFSI is to support strategic investments in infrastructure as well as risk finance for small businesses. The funds will focus on investments in infrastructure and innovation, as well as finance for Small- and Medium- sized Enterprises (SMEs). The criteria used to select the projects to be funded comprise high societal and economic value contributing to EU policy objectives and projects must attract private capital by addressing market failures. Moreover, they have to satisfy technical criteria: potential projects must come on top of existing EIB and EU financing possibilities, must be economically and technically viable and must be consistent with EU state aid rules[7]. **According to the EU Regulation on the European Fund for Strategic Investments[8], the main areas which will be targeted by the fund include: human capital, culture and health, in particular through education and training, cultural and creative industries, innovative health solutions, new effective medicines, social infrastructures, social and solidarity economy and tourism.**

The text therefore includes to a limited extent not only social service providers but also the social economy among the target sectors, reflecting in this way also the position taken by social service providers' representatives such as the European Association of Service providers for Persons with Disabilities (EASPD)[9].

[5] http://www.eib.org/about/invest-eu/index.htm?lang=en
[6] http://www.eib.org/attachments/press/investment_plan_for_europe_qa_en.pdf
[7] http://ec.europa.eu/priorities/jobs-growth-investment/plan/efsi/index_en.htm
[8] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2015.169.01.0001.01.ENG
[9] http://easpd.eu/en/content/european-fund-strategic-investments-more-added-value-investing-social-sector

Nevertheless, we have reviewed all the available documentation on the EFSI to analyse how such funds will be deployed concretely and, as of December 2015, there are no specific instruments that target social service providers. Still, we have to keep in mind that the EFSI entered into its operative phase in late 2015 and therefore it is in its first steps: further instruments and tools are still being developed and might become available in the coming months.

The present structure of the EFSI is indeed as follows[10]:



The provision of funds and guarantees is split between the EIB and the EIF according to the window that is used.

The **SME Window** will provide support to SMEs (enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding € 50 million, and/or an annual balance sheet total not exceeding € 43 million) and midcaps (entities having up to 3,000 employees). The SME Window of EFSI will be implemented via the EIF, through agreements between the EIF and financial intermediaries. Moreover, financial support must be additional to what will have been delivered under the existing and already foreseen programmes in the period 2015-2018. The SME Window should have a budget of € 5 billion (the volume can be increased, depending on market needs). It will offer a mix of facilities: covering both debt and equity financing; providing finance to SMEs and small mid-caps in early, as well as expansion stages of their life-cycle; financing of investment projects as

[10] https://ec.europa.eu/growth/tools-databases/eip-raw-materials/en/system/files/ged/A-Carano_presentation%20EFSI%20dg%20GROW%2020150520.pdf

well as working capital; catering specifically for the needs of higher-risk, innovative or research-intensive companies[11].

The **Infrastructure and Innovation Window**, on the other hand, will be managed by the EIB. In this instance the EFSI will serve as credit protection for new EIB activities. Typical products offered under this Window are long-term senior debt for higher risk projects, subordinated loans and equity and quasi-equity and thanks to the Window support projects are expected to attract more investors, according to their interest in the projects. Typical projects serviced will be infrastructure (broadband, transportation...), energy (renewables, energy efficiency...), investment funds, education and research and innovation[12]. These categories are mainly indicative at the moment, as this Window is still being set up, however some large projects have already started to get direct funding from the EIB.

Before going into detail (chapter 4), it's important to underline the fact that **at the moment EFSI funds will actually be used to strengthen already existing financial instruments provided by the EIB and the EIF: most of such instruments are deployed via local financial intermediaries (banks, investment funds, microcredit institutions, etc.). This is why financial intermediaries may have a specific interest in exploring such instruments, as they support the development of their financial activities, allowing a reduction of risk when financing social service providers.** Still, social service providers will have to meet specific requirements set by the Commission (which are not tailored for social enterprises at the moment, but are more general) to be eligible beneficiaries of financial intermediaries using the EU-funded instruments. Obviously, as previously said, further procedures to unlock the funds may be developed in the future, and new instruments may be envisaged. In fact, some facilities require more design, market testing and preparation and will be launched gradually in 2016 and 2017[13].

[11] https://eu-access-to-finance-day.teamwork.fr/docs/luxembourg/presentations/Roger-Havenith.pdf
[12] https://ec.europa.eu/growth/tools-databases/eip-raw-materials/en/system/files/ged/A-Carano_presentation%20EFSI%20dg%20GROW%2020150520.pdf
[13] https://eu-access-to-finance-day.teamwork.fr/docs/luxembourg/presentations/Roger-Havenith.pdf

3.1 Additional Services

As previously discussed, the EFSI is an instrument that provides funds and guarantees to projects. Two platforms are being established to support it, in order to provide investors, project promoters and public managing authorities with advice and information about current and future investment projects and their development and preparation: **the European investment advisory hub and the European investment project directory**. The main reason for creating an advisory hub and project directory is the perceived lack of information about investment projects. In addition, not all project promoters are able to structure projects so that they attract investors, especially investors from other member states. Similarly, not all projects are structured to make the best use of the existing EU instruments and funds.

The European investment advisory hub is to serve as a 'one-stop-shop' for investors or project promoters seeking advice on investment projects and their financing. The hub's new advisory services should be additional to the support already available under other EU programmes. The services provided by the hub will include:

- providing technical assistance to authorities and project promoters;
- helping project promoters to develop their projects so that they fulfil the eligibility criteria according to the EFSI regulation;
- helping to make EFSI support available throughout the EU through efficient use of local knowledge;
- acting as a platform for peer-to-peer exchange and sharing of knowledge on project development.

The European investment project directory's purpose (currently under development[14]) is to provide information for potential investors about projects that are looking for investors, to increase their visibility and thus contribute to the effectiveness of the European fund for strategic investments. The directory will display projects for information purposes only: the fact of being featured in the directory will not mean that the projects have been pre-selected for financing from the European fund for strategic investments or EU programmes[15].

[14] http://ec.europa.eu/priorities/jobs-growth-investment/plan/eipp/index_en.htm
[15] http://www.consilium.europa.eu/en/policies/investment-plan/investment-advisory-hub/

Hence financial intermediaries will soon have two services that could greatly improve their capacity for assessing social projects, as well as allow them to access a potential innovative pipeline of projects waiting for finance. Such features should speed up financing and spread best practices faster. Indeed, financial intermediaries and social service providers can use the platforms for getting assistance and feedback on how to set up their projects properly. More specifically, on the one hand, social service providers can upload their investment plan, get visibility and increase the likelihood to find (or be found by) a financial intermediary. On the other hand, financial intermediaries in turn will gain access to a platform that includes further opportunities of investment and best practices, that might help to get a better and deeper knowledge of innovate sectors not yet fully explored, like social service providers.

4. How to Apply to the Funding

As already mentioned in Chapter 3, at the moment the EFSI funds will be deployed via EIF and EIB, through already existing instruments. **Most of these instruments are accessible only by financial intermediaries, that can use the funding to increase and further develop their own activities, financing SMEs and other projects that meet the requirements set by the Commission, including social service providers when possible.** We will now describe more into detail the existing instruments and the related criteria, in order to allow financial intermediaries to check their eligibility and see how they can use the instruments to target social service providers, provided they meet the requirements set by the Commission.

4.1 European Investment Bank Path

The main activity of the EIB is to lend to clients of all sizes to support sustainable growth and jobs. The EIB's support is often central to attracting other investors. Its main lending activities are divided in: project loans for projects bigger than € 25 million; intermediated loans via local banks; venture capital in funds that invest in high-tech and growth SMEs; microfinance; and equity and fund investment to catalyse further activity[16]. Besides lending, the EIB has other tools that provide further financing opportunities[17]. The image below details the standard EIB project cycle[18]:

Finally, the EIB provides advisory services. It makes technical and financial expertise available to its clients to develop and implement investment projects and programmes and to improve institutional and regulatory frameworks. When complementing EIB loans, advisory services strengthen the economic and technical foundations of an investment and catalyse funding from other sources. The EIB's key areas of expertise comprise sectors such as infrastructure financing, climate change mitigation and adaptation, urban development and SME support[19].

After describing the main activities of the EIB, we will go into more detail only in the ones that involve the EFSI, specifically lending. In this case the application procedure is divided into two categories depending on the amount that is being requested and the watershed is whether a project requires more or less than € 25 million.

For projects above € 25 million, the EIB will directly provide the funds. No special formalities are involved for the submission of applications to the EIB for individual loans. Project promoters are

[16] http://www.eib.org/products/lending/index.htm
[17] http://www.eib.org/products/blending/index.htm
[18] http://www.eib.org/projects/cycle/index.htm
[19] http://www.eib.org/products/advising/index.htm

required simply to provide the Bank's Operations Directorate with a detailed description of their capital investment together with the prospective financing arrangements. Initial contacts to discuss a proposed project can be in any form, by telephone, fax, e-mail or letter. The project promoter should provide sufficient information to allow the EIB to assess whether the project adheres to EIB lending objectives and has a well-developed business plan[20]. As a general rule, the EIB expects to receive a comprehensive feasibility study. Where this has not been prepared, the project promoter may use his own discretion in compiling detailed information to permit the technical, environmental, economic, financial and legal appraisal of projects. Additional information may be required subsequently. A comprehensive and detailed list of documentation needed for applying is available at the EIB website[21].

In the case of projects below € 25 million, the EIB does not provide direct financing to projects. Instead, EIB provides intermediated loans (credit lines) to local, regional and national banks to foster their financial activity and support such kind of projects, and the lending decision for EIB loans via credit lines remains with the financial intermediary. Loan conditions can be flexible in terms of the size, duration, structure etc. Lending decisions remain with the intermediary institutions, which also retain the financial risk of the on-lending. The EIB has no contractual relationship with final beneficiaries. The intermediary must transfer a financial advantage reflecting the impact of our funding. The intermediary has to inform the end-client of this.[22]

Hence, financial intermediaries willing to strengthen their own financial capacity, aiming for instance at better supporting social service providers, might get in touch with the EIB[23]. As reference, the list of EIB financial intermediaries which have received credit lines up to now is available online.

[20] http://www.eib.org/projects/cycle/applying_loan/index.htm
[21] http://www.eib.org/attachments/application_documents_en.pdf
[22] http://www.eib.org/products/lending/intermediated/index.htm
[23] http://www.eib.org/infocentre/contact/index.htm

4.2 European Investment Fund Path

The European Investment Fund (EIF) is a specialist provider of risk finance to benefit small and medium-sized enterprises (SME) across Europe and is part of the EIB Group. Its shareholders are the European Investment Bank (EIB), the European Union, represented by the European Commission and a wide range of public and private banks and financial institutions. The EIF carries out its activities using either its own resources or those provided by the European Investment Bank, the European Commission, by EU Member States or other third parties.

The EIF cooperates with a wide range of financial intermediaries such as banks, leasing companies, guarantee funds, mutual guarantee institutions, promotional banks or any other financial institution providing financing to SMEs, or guarantees for SME financing. Its guarantee instruments consist of two main products supporting access to finance for SMEs: the Credit Enhancement/Securitisation (Guarantees for securitised SME financing instruments) and the Guarantees/counter-guarantees for portfolios of micro-credits, SME loans or leases (Management of European Commission initiatives)[24].

The resources under EFSI will enable the EIF to deploy its existing support for SMEs at a higher and faster rate than initially planned to satisfy strong demand of support to SME's access to finance in a crisis period. **Initial EFSI resources under the SME Window will be used to accelerate and enhance the deployment of existing EU flagship programmes which the EIF manages, and more precisely the COSME and InnovFin, and to significantly increase the Risk Capital Resources (RCR) mandate for equity investments[25]. Such programmes, though not explicitly targeting social service providers, might be used by financial intermediaries to support such sector.**

Financial institutions, including guarantee or credit institutions and loan (debt) funds authorised to carry out lending or leasing activities to SMEs according to applicable legislation, established and operating in one or more of the EU Member States, are eligible to apply for COSME and InnovFin programmes. The basis for selecting partner institutions is an open Call for Expression of Interest. As for the equity part, risk capital funds targeting smaller businesses interested in collaborating with EIF are invited to contact the EIF's Equity Investment department. We will describe each instrument in more detail in the following subsections[26].

[24] http://www.eif.org/what_we_do/guarantees/index.htm
[25] http://www.eif.org/what_we_do/efsi/index.htm
[26] http://www.eif.org/what_we_do/efsi/index.htm

4.2.1 Equity & Mezzanine

Through venture capital and private equity interventions, the EIF plays a crucial role in the creation and development of high-growth and innovative SMEs by facilitating access to equity for these companies across the entire lifecycle of corporate innovation. It does so by investing in venture and growth capital, from the very earliest stages of intellectual property development into technology transfer, to more mature phases of development. In supporting both well-known and first time teams, it has built a strong track record in the industry. Through this reputation, while maintaining a highly selective process, the EIF takes significant minority stakes in funds which provide a catalytic effect on commitments from a wide range of investors, particularly in the private sector. The scale and scope of the EIF investments, along with its added value on fundraising, allows it to promote best market practice and corporate governance for teams it chooses to support. EIF's equity activity is principally backed by resources from its main shareholders, the EIB and the European Commission[27], and has been strengthened by the EFSI funds.

The EIF invests EIB resources under the EIB Risk Capital Resources (RCR) mandate, to pursue its equity activities. In fact, the RCR provides € 9.5 billion to support technology and industrial innovation and targets early to lower mid-market funds that specifically focus on the enlarged Europe (EU-28, EU candidate, potential candidate and EFTA countries) and on SMEs and midcaps. RCR is the core pillar of EIF’s equity activity and is a critical resource that enables EIF to pursue its core investment strategy in the venture capital and growth segments and consequently supports the stabilisation of the European private equity market. Under RCR, EIF co-finances with its own funds.

The RCR mandate has also opened the scope of EIF’s activities to new segments and given EIF opportunities to reach additional final beneficiaries, such as midcaps, bridging market gaps which were not supported with existing instruments whilst complementing EIB’s current midcaps product offering. RCR capacity is also successfully used to invest directly in vehicles and cornerstone structures.

One of the complementary tools under RCR launched at the end of 2014 is the Mezzanine Co-Investment Facility (MCIF). This € 100m programme enables EIF to co-invest in target companies alongside mezzanine funds supported under the debt-equity window of RCR. MCIF widens the

[27] http://www.eif.org/what_we_do/equity/index.htm

spectrum and leverages the efficiency of EIF's risk finance support for SMEs and midcaps, thereby enhancing their access to finance[28].

Financial intermediaries willing to seek EIF equity funding for social service providers must take into account the Fund's requirements for investing. More precisely, the Funds aims at investing in[29]:

- Independent management teams that raise funds from a wide range of investors in order to provide risk capital to growing Small and Medium-sized Enterprises (SMEs).
- Funds targeting early stage companies that are developing or using advanced technologies in industry or services.

The EIF is also willing to help Venture capital and Private equity fund management companies raising funds interested in cooperating with it by sharing its experience and expertise in all phases and areas of structuring, raising and managing a fund. A list of financial intermediaries is available online.

Despite the fact that it is not a beneficiary of EFSI funds, it is important to note that there is **another European financial tool provided by the EIF that specifically targets equity needs of social enterprises, the Social Impact Accelerator (SIA). A comprehensive and detailed information is available at the EIF website.**

SIA is indeed the first pan-European public-private partnership addressing the growing need for availability of equity finance to support social enterprises.

SIA operates as a fund-of-funds managed by EIF and invests in social impact funds which strategically target social enterprises across Europe. In the context of the SIA, a social enterprise shall be a self-sustainable SME whose business model serves to achieve a social impact. It shall provide an entrepreneurial solution to a societal issue based on a scalable approach, and shall have a measurable impact.

SIA is a first step in the EIB Group's (European Investment Bank and EIF) strategy to pioneer the impact investing space and respond to the wider EU policy aim of establishing a sustainable funding market for social entrepreneurship in Europe. This segment of the business world is becoming increasingly instrumental in promoting social inclusion, providing alternative sources of employment for marginalised social groups, and contributing to growth. These positive results underline the

[28] http://www.eif.org/what_we_do/resources/rcr/index.htm
[29] http://www.eif.org/EIF_for/venture_capital_equity_funds/index.htm

importance of SIA's aim to build up the existing market infrastructure for social impact investing in such a way that this emerging asset class is placed on a path to long-term sustainability. At end of July 2015, SIA reached its final closing, at the size of € 243 million, combining resources from the EIB Group and external investors, including Credit Cooperatif, Deutsche Bank as well as the Finnish group SITRA and the Bulgarian Bank of Development (BDB). For SIA, EIF seeks to invest in social impact funds which:

1. in addition to financial return targets, also pursue explicit social impact investment targets at the level of their portfolio companies;
2. measure and report on social impact performance achieved at social enterprise level, in addition to financial return performance; and
3. follow strong environmental, social and governance standards in their own activities.

EIF therefore seeks to identify qualified and credible partners with extensive experience in social impact financing. Fund managers interested in partnering with EIF under the SIA should provide detailed information on:

- The investment strategy and a description of the social impact segment on which it is focused. This section should outline how the investment proposal fits with the current social impact investing market landscape, including the sector and stage targeted and the reasons for this focus;
- The team, which should reflect the skill-set required to implement the investment strategy. This section should address how team members complement each other in terms of know-how and experience, and ideally demonstrate evidence of the team's stability and proven ability to work together effectively. Emerging and/or first time teams would be also considered;
- The track record, which should provide evidence of the team's investment capabilities, including adequate experience in targeting social enterprises in the specific target geography;
- The fund size and supporting evidence demonstrating its commercial viability and the stability of its investment capacity;
- The fund's legal and tax structure and other relevant terms and conditions; and
- The alignment of interest between the stakeholders of the fund.

Financial intermediaries interested in partnering with the SIA to develop their support to social enterprises should send their investment proposal to this address. According to the information provided, EIF's Impact Investing team will decide on whether or not to initiate a due diligence process.

4.2.2 COSME

Through COSME LGF (Loan Guarantee Facility), the EIF offers guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies, etc.) to help them to provide more loans and leases to SMEs. By sharing the risk, COSME guarantees allow the financial intermediaries to expand the range of SMEs they can finance, facilitating access to debt finance for many SMEs who might be having difficulties in accessing the traditional banking system[30].

On the one hand the Financial Intermediaries willing to access the guarantees and counter-guarantees need to meet the following Eligibility Criteria:

- The Financial Intermediary shall be a financial institution or credit institution duly authorised, if applicable, to carry out lending or leasing activities or providing bank guarantees according to the applicable legislation;
- The Financial Intermediary shall be established and operating in one or more Participating Countries.

On the other hand, financial intermediaries can use the guarantees and counter-guarantees only to support SMEs meeting specific additional requirements. Social service providers are not a specific target of such instrument, but as long as they meet the more general SMEs criteria, they are eligible. More specifically, final recipients must comply with each of the following eligibility criteria:

- The Final Recipient shall be a micro, small or medium-sized enterprise ("SMEs") as defined in the Commission Recommendation 2003/361/EC[31];
- Firm in Difficulty: the Final Recipient shall not be a "firm in difficulty" as within the meaning of the Commission Regulation (EU) N° C(2014) 3292/3 of 21 March 2014[32] declaring certain

[30] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm
[31] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF
[32] http://ec.europa.eu/competition/state_aid/legislation/gber_regulation_en.pdf

categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, as amended, restated, supplemented and/or substituted from time to time;

- Restricted Sectors: the Final Recipient shall not have a substantial focus on one or more Restricted Sectors (as determined by the Financial Intermediary in its discretion based, without limitation, on the proportionate importance of such sector on revenues, turnover or client base of the relevant Final Recipient);
- The Final Recipient shall not be delinquent or in default in respect of any other loan or lease either granted by the Financial Intermediary or by another financial institution pursuant to checks made in accordance with the Financial Intermediary's internal guidelines and credit and collection policy;
- The Final Recipient shall not be established in territories whose jurisdictions do not cooperate with the Union in relation to the application of internationally agreed tax standards, such jurisdictions being set out in the relevant OECD report as non-compliant;
- The Final Recipient shall be established and operating in a participating country;
- The Final Recipient shall not be performing Illegal Economic Activities, any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity[33].

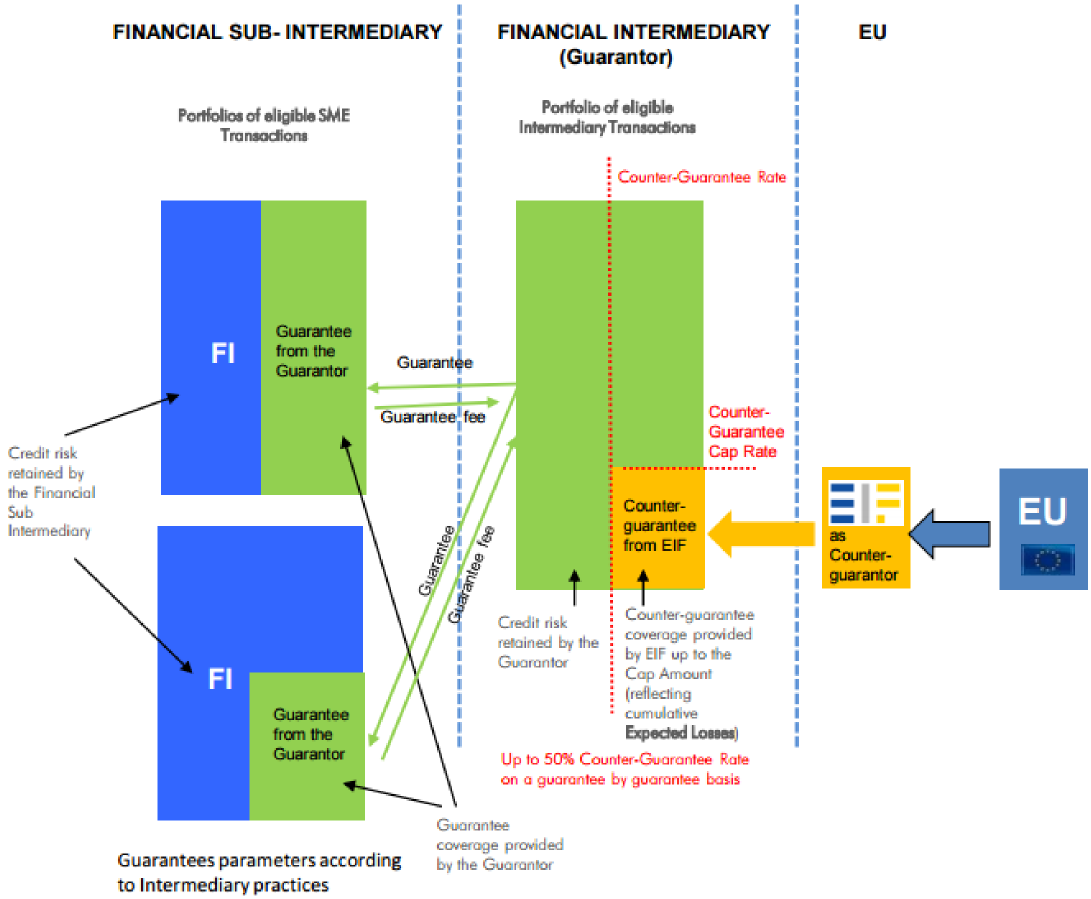
Under this Facility the EIF provides:

- first-loss capped **guarantees** and **counter-guarantees** to selected Financial Intermediaries;
- in the case of **securitisation** option of the LGF, guarantees on mezzanine tranches of the securitised portfolio of the selected Financial Intermediaries.

More into detail, first loss portfolio **Counter-guarantee** provides partial credit risk coverage on a guarantee-by-guarantee basis for the creation of a portfolio of eligible Intermediary Transactions. The Counter-Guarantee shall cover Losses incurred by the Intermediary at a Counter-guarantee Rate which cannot exceed 50%. Losses covered by the Counter-guarantee in respect of the Portfolio of eligible Intermediary Transactions shall in aggregate not exceed the Cap Amount agreed in the

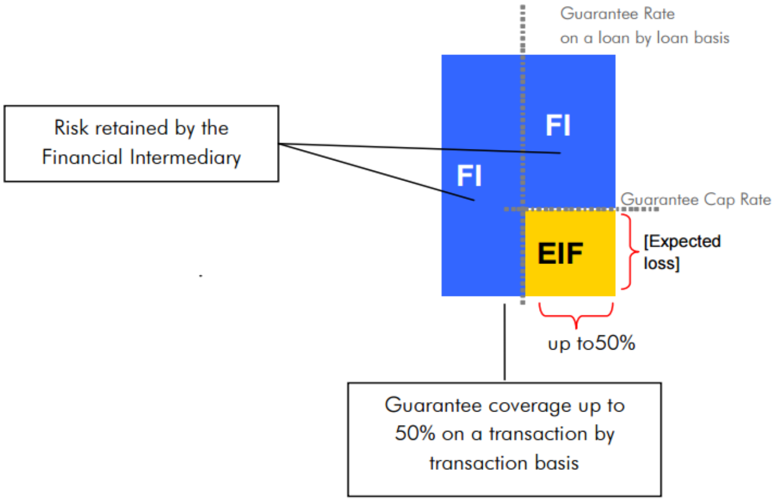
[33] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/call/Annex%20III-%20COSME%20COEI-%20Guarantee%20Term%20Sheet%20-%20final.pdf

counter-guarantee agreement between EIF and the relevant Intermediary. The maximum term of the Counter-guarantee will be 10 years. An indicative chart of the structure is set out below[34]:



First loss portfolio **Guarantee** providing partial credit risk coverage on a transaction-by-transaction basis for the creation of a portfolio of eligible Intermediary Transactions. The Guarantee provided by EIF shall cover Losses incurred by the Financial Intermediary at a Guarantee Rate which cannot exceed 50%. Losses covered by the Guarantee in respect of the Portfolio of eligible Intermediary Transactions shall in aggregate not exceed the Cap Amount agreed in the guarantee agreement between EIF and the relevant Financial Intermediary. The maximum term of the Guarantee will be 10 years. An indicative chart of the structure is set-out below[35]:

[34] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/call/Annex%20II-%20COSME%20COEI-Counter-guarantee%20Term%20Sheet%20-%20final.pdf
[35] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/call/Annex%20III-%20COSME%20COEI-%20Guarantee%20Term%20Sheet%20-%20final.pdf



The **COSME Guarantee for Securitisation** will be provided to Financial Intermediaries in respect of the mezzanine tranche of eligible Securitised Portfolios consisting of at least 80% of SME debt finance transactions. The remainder of the transactions in the eligible Securitised Portfolio may include corporate loans with larger corporates. The Guarantee may be provided for the mezzanine tranche of cash or synthetic securitisation operations. The credit risk protection shall be provided through a Guarantee which shall be issued by EIF acting jointly with the European Commission for the benefit of a beneficiary of the guarantee. It shall cover the credit risk associated with the mezzanine tranche of the eligible Securitised Portfolio. For the purpose of alignment of interest, the financial intermediary will have to retain a minimum exposure. The Guarantee shall constitute a financial Guarantee and shall cover losses incurred by the Beneficiary of the Guarantee in respect of the Guaranteed Mezzanine Tranche.

Financial intermediaries interested in applying are encouraged to visit the EIF website, read the Call for Expression of Interest and download the application document.

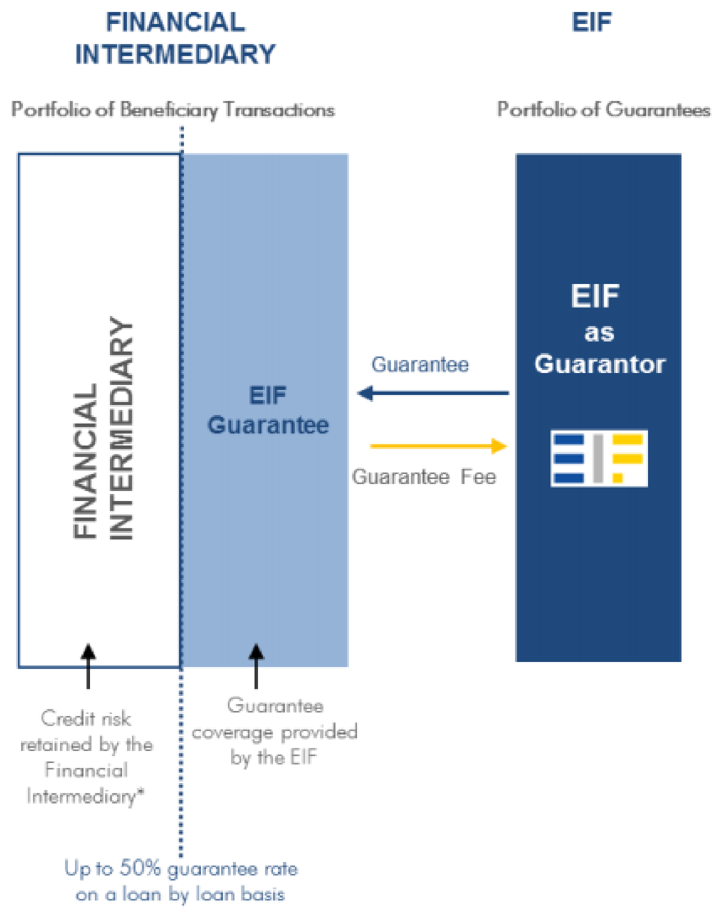
While not specifically targeting social service providers, financial intermediaries interested in investing in social entrepreneurship can still use the COSME to support such kind of businesses, provided they fulfill the criteria set up by the EIF.

4.2.3 InnovFin Guarantee Facility

The InnovFin Guarantee Facility is a portfolio direct financial guarantee providing credit risk coverage on a loan by loan (or lease by lease) basis for the creation of a portfolio of eligible Beneficiary Transactions, where beneficiaries must be innovative SMEs. Also in this case social enterprises are not a specific target, but they can be eligible as long as they meet the requirements set by the European Commission, described below. The Guarantee shall cover Defaulted Amounts incurred by the Financial Intermediary in respect of each defaulted eligible Beneficiary Transaction in accordance with the Guarantee Rate.

The InnovFin SME Guarantee Facility will be deployed by eligible local banks, leasing companies, guarantee institutions, etc. which are selected after a due diligence process following the launch of a Call for Expression of Interest. The EIF covers a portion of the losses incurred by the financial intermediaries on loans, leases and guarantees between € 25,000 and € 7.5 million which they provide under the InnovFin SME Guarantee Facility. Eligible funding to the client of the financial intermediary shall be covered by EIF at a guarantee rate of up to 50%. The Guarantee shall constitute a financial guarantee and shall cover defaulted amounts (relating to unpaid principal and interest) incurred by the Financial Intermediary in respect of each defaulted eligible funding to the client of the financial intermediary[36]. An indicative chart of the structure is set-out below:

[36] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/call/Annex%20II%20Indicative%20Guarantee%20Termsheet.pdf



* Additional external credit protection may be obtained by the Financial Intermediary. At any time the economic exposure retained by the Financial Intermediary towards any Beneficiary Transaction must not be lower than 20% of the principal amount outstanding

Eligible applicants are:

- Financial, credit institutions or loan (debt) funds duly authorised to carry out lending or leasing activities to SMEs according to applicable legislation, be established and operating in one or more EU Member States and Horizon 2020 Associated Countries.
- Guarantee schemes, guarantee institutions or other credit or financial institutions duly authorised to issue guarantees to SMEs according to applicable legislation, established and operating in one or more EU Member States and Horizon 2020 Associated Countries.

Such eligible financial intermediaries must use the InnovFin guarantee to target research-based and innovative SMEs and Small Mid-caps established and operating in one or several EU Member States and Horizon 2020 Associated Countries, and that comply with at least one the following eligibility criteria:

- The beneficiary is a SME and intends to use the funds to invest in producing or developing new or substantially improved products, processes or services that are innovative and where there is a risk of technological or industrial failure as evidenced by an evaluation carried out by an external expert, or
- The beneficiary is a “fast-growing enterprise”, which is an SME or a Small Mid-cap operating in a market for less than 12 years following its first commercial sale and with an average annualised endogenous growth in employees or in turnover greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period, or
- The beneficiary is an SME or a Small Mid-cap that has been operating in a market for less than 7 years following its first commercial sale and its R&I costs represent at least 5% of its total operating costs in at least one of the three preceding years or in the case of a start-up enterprise without any financial history, in the audit of its current fiscal period, as certified by an external auditor, or
- The beneficiary shall have a significant innovation potential or be a “R&I-intensive enterprise”, by satisfying at least one of the following conditions: 1) The beneficiary’s R&I annual expenses are equal or exceed 20% of the amount of the funds as per the beneficiary’s latest certified financial statements, under the condition that the beneficiary’s business plan indicates an increase of its R&I expenses at least equal to the amount provided; or 2) The beneficiary undertakes to spend an amount at least equal to 80% of the funding on R&I activities as indicated in its business plan and the remainder on costs necessary to enable such activities; or 3) The beneficiary has been formally awarded grants, loans or guarantees from European R&I support schemes or through their funding instruments or regional, national research or innovation support schemes over the last thirty-six months, under the condition that the funds are not covering the same expense; or 4) The beneficiary has been awarded a R&D or Innovation prize provided by an EU institution or an EU body over the last twenty-four months; or 5) The beneficiary has registered at least one technology right (such as patent, utility model, design right, or software copyright) in the last twenty-four months and the purpose of the funds is to enable, directly or indirectly, the use of this technology right; or 6) The beneficiary is an early stage SME and has received an investment over the last twenty-four months from a venture capital investor or from a business angel being a member of a business angels network; or such venture capital investor or business angel is a shareholder of the beneficiary; or 7) The beneficiary requires a risk finance investment which, based on a business plan prepared in view of entering a

new product or geographical market, is higher than 50% of its average annual turnover in the preceding 5 years; 8) The beneficiary is a SME and its R&I costs represent at least 10% of its total operating costs in at least one of the three preceding years, or in the case of a start-up enterprise without any financial history, in the audit of its current fiscal period, as certified by an external auditor; or 9) The beneficiary is a Small Mid-cap and its R&I costs represent either at least 15% of its total operating costs in at least one of the three preceding years, or at least 10% per year of its total operating costs in the three preceding years[37].

To sum up, financial intermediaries will be able to provide innovative and research-based social service providers that meet the above criteria better access to credit, and will benefit from several advantages[38]:

- Attractive and fixed guarantee fees payable on the outstanding amount of the guarantee: 0.50% p.a. for debt financing to SMEs 0.80% p.a. for debt financing to Small Mid-caps;
- The guarantee automatically covers 50% of the principal and interest losses on each exposure;
- Payments will be made upon default, with a pro-rata sharing of recoveries;
- No capital charge (0% Risk-Weighted Assets) for counterparty risk is required on the covered part of the loan portfolio thanks to EIF's Multilateral Development Bank status;
- InnovFin SME Guarantee is a flexible product which grants the financial intermediary a great degree of autonomy, e.g. the intermediary has full delegation on the origination, credit decisions, servicing, etc.;
- Quarterly reporting requirements are designed in a pragmatic and lean way.

Interested financial intermediaries can answer to the call for expression of interest (available online)

and gain access to the InnovFin Guarantee Facility.

[37] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/call/Annex%20II%20Indicative%20Guarantee%20Termsheet.pdf
[38] http://www.eif.org/news_centre/publications/eif_flyer_innovfin_sme_guarantee_en.pdf

4.2.4 EaSI Guarantee Financial Instrument

It is important to note that there is another European programme that specifically targets social entrepreneurship, the Programme for Employment and Social Innovation (EaSI), which includes a financial tool that will be outlined below. **To clarify further, at the moment the EaSI financial tool is not being enhanced by the EFSI, but given it specifically targets social enterprises, it is certainly worth considering for financial intermediaries willing to support such kind of sector.**

This programme targets the EU's objective of high level employment, guaranteeing adequate social protection, fighting against social exclusion and poverty and improving working conditions. Under the overall EaSI programme, a Microfinance and Social Entrepreneurship axis was established with the aim to:

- increase access to, and the availability of, microfinance for
    1. vulnerable persons who have lost or are at risk of losing their job, or have difficulty in entering or re-entering the labour market, or are at the risk of social exclusion, or are socially excluded, and are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own microenterprise;
    2. micro-enterprises in both start-up and development phase, especially micro-enterprises which employ persons as referred to in point (1);
- support the development of the social investment market and facilitate access to finance for social enterprises by making equity, quasi-equity and loan instruments available to social enterprises with either an annual turnover not exceeding € 30 million, or an annual balance sheet total not exceeding € 30 million which are not themselves a collective investment undertaking.

Within this axis, the EIF has been entrusted by the EU to provide first-loss capped guarantees and counter-guarantees to selected Financial Intermediaries.

The **First loss portfolio EaSI Social Entrepreneurship Guarantee** issued by the EIF provides partial credit risk coverage to eligible Financial Intermediaries with a financial commitment having a nominal value of up to € 500,000. The EaSI Social Entrepreneurship Guarantee shall cover losses incurred by the Financial Intermediary at a guarantee rate of up to 80%. Losses covered by the EaSI Social Entrepreneurship Guarantee in respect of the portfolio of eligible Final Recipient Transactions shall in aggregate not exceed a stipulated cap amount. In order to ensure alignment of interest, the Financial Intermediary shall retain a material interest in the Portfolio which shall not be less than 20% of the outstanding principal amount of each Final Recipient Transaction included in the Portfolio. Secondly, the Financial Intermediary shall not enter into any credit support, guarantee or other transfer of risk arrangements with respect to the above-mentioned relevant portion, provided that any collateral, security or guarantee payable to the Financial Intermediary that qualify as "recoveries" under the relevant EaSI Social Entrepreneurship Guarantee Agreement shall not be taken into account for this purpose. Regarding the costs, other than a commitment fee, if applicable, no EaSI Social Entrepreneurship GuaranteeFee shall be charged to the Financial Intermediary [39].

The EIF therefore does not provide any type of finance to micro-entrepreneurs or social enterprises directly, but thanks to the risk-sharing mechanism between the financial intermediaries and the European Commission, the EaSI Guarantee enables selected microcredit providers and social enterprises investors to expand the range of enterprises they can finance. This will facilitate access to finance for target groups who might be having difficulties in accessing the conventional credit market.

Final beneficiaries of the EaSI Guarantee Instruments are enterprises with either an annual turnover not exceeding € 30 million, or an annual balance sheet total not exceeding € 30 million which are not themselves a collective investment undertaking.[40]

Social enterprises are defined specifically by the EaSI as an undertaking, regardless of its legal form, which:

- in accordance with its articles of association, statutes or with any other legal document by which it is established, has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners, members and shareholders, and which provides services or goods which generate a social return and/or employs a method of production of goods or services that embodies its social objective;

[39] http://www.eif.org/what_we_do/microfinance/easi/easi-call-for-expression-of-interest/easi-guarantee-_annex-iii_social-entrepreneurship-direct-guarantee.pdf
[40] http://www.eif.org/what_we_do/microfinance/easi/

- uses its profits first and foremost to achieve its primary objective and has predefined procedures and rules covering any distribution of profits to shareholders and owners that ensure that such distribution does not undermine the primary objective; and
- is managed in an entrepreneurial, accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activities.

€ 96 million is already available through the EaSI Guarantee for interested microcredit providers and financial intermediaries targeting social enterprises[41].

Financial intermediaries eligible to benefit from EaSI Guarantee Financial Instrument in respect of Social Entrepreneurship (Counter-) Guarantees provided under the Facility are: financial institutions, guarantee schemes, guarantee institutions, foundations, family offices, social investment funds or other institutions duly authorised to provide loans/guarantees or risk sharing structures according to the applicable legislation[42]. Hence, interested financial intermediaries should answer to the call for expression of interest. A comprehensive and detail document on this is available online.

5. Looking into the Future

As already mentioned elsewhere in this document, the EFSI entered into its operative phase in 2015 and therefore it is in its first steps. However, there are some plans to develop and introduce further instruments that have social enterprises as their specific target.

Indeed, according to the *Annual Growth Survey 2016 - Strengthening the recovery and fostering convergence*, issued by the European Commission[43], one of the key areas of future investments is in human capital, given its role in creating new enterprises and increasing the stock of skilled people in the EU. According to the EU Regulation on the European Fund for Strategic Investments[44], investing in human capital is one of the main areas in which the EFSI is supposed to intervene, therefore it is

[41] http://ec.europa.eu/social/main.jsp?catId=1084&langId=en
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likely that this document will have an impact in directing the funds towards this sector (the European Commission is also the provider of part of the EFSI funds). Accordingly, 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[45].

Even more relevant to social service providers, the Commission explicitly stated that it is essential that Member States promote social investment more broadly, including in healthcare, childcare, housing support and rehabilitation services to strengthen people's current and future capacities to engage in the labour market and adapt. Social investment offers economic and social returns over time, notably in terms of employment prospects, labour incomes and productivity, prevention of poverty and strengthening of social cohesion. Social infrastructure should be provided in a more flexible way, personalised and better integrated to promote the active inclusion of people with the weakest link to the labour market. In line with these goals, four projects in healthcare – especially infrastructure but also R&D and job creation – have already been approved in late 2015, mobilising a combined investment of more than 800 M€[46].

Furthermore, the European Commission is discussing to put forward a pilot initiative targeting vulnerable and socially excluded groups with focus on refugees and migrants. This pilot will be given € 100 million in order to test the model and assess whether it is possible to expand it.

Two additional interdependent pillars are under development:

- Social Impact Funds for mobilising private resources and channelling support to social enterprises catering to vulnerable groups, and developing the social economy (under discussion with EIF);
- Payment-by-results for scaling-up social impact services delivered by the private sector and remunerated upon the achievement of specific social objectives (under discussion with EIB).

For social service providers looking to get financing from the EFSI, is should be useful to remember that there is a useful tool to further increase the funding streams: public-private partnerships (PPPs). PPPs are a mechanism for governments to procure and implement public infrastructure and/ or services using the resources and expertise of the private sector. Where governments are facing ageing or lack of infrastructure and require more efficient services, a partnership with the private

[45] https://ec.europa.eu/priorities/sites/beta-political/files/sector-factsheet-social-economy-health_en.pdf
[46] *Ibid*.

sector can help foster new solutions and bring finance. PPPs combine the skills and resources of both the public and private sectors through sharing of risks and responsibilities. This enables governments to benefit from the expertise of the private sector, and allows them to focus instead on policy, planning and regulation by delegating day-to-day operations. In order to achieve a successful PPP, a careful analysis of the long-term development objectives and risk allocation is essential. The legal and institutional framework in the country also needs to support this new model of service delivery and provide effective governance and monitoring mechanisms for PPPs. A well-drafted PPP agreement for the project should clearly allocate risks and responsibilities[47].

An interesting example of PPP, given its mix of public, private and EFSI funds is found in Ireland[48]. This project will build up to 14 primary care centres including accommodation for the primary care team and general practitioner services, with a total cost of 143 M€ and a EIB contribution of around 70 M€. Social benefits of the project include an improved work environment for staff and additional health benefits to patients from improved facilities (increased quality of care, reduced waiting times for treatment, reduced distress and increased access). There is a growing demand for health care services which in the absence of enhanced primary care based treatment strategies, presents as demand on already constrained hospital resources with consequences for Emergency Department waiting times, pressure on hospital beds and delays in elective treatment. The demand for health care is rising at a higher rate than the average in Europe with Ireland's elderly population rising at nearly double the European average. Other factors such as the rise in obesity, chronic disease and advances in health technology are all further increasing demand for health services and as a consequence additional facilities and accommodation will be required[49].

[47] http://ppp.worldbank.org/public-private-partnership/overview
[48] http://www.eib.org/projects/pipeline/2014/20140692.htm
[49] http://health.gov.ie/blog/press-release/eib-invests-e70m-in-14-new-primary-care-centres-varadkar-lynch/

6. Conclusion

The EFSI's main purpose is to fill a lack of funding in the EU that has become evident after the global financial crisis and needs private funds for integration in order to reach its full potential - which is € 315 billion.

Financial intermediaries are therefore a key component of this process, as they provide the fundamental multiplier for the EFSI to reach its goal.

As the main body of the paper outlined, there is a wide range of mechanisms that grant access to funds through financial intermediaries. When intersecting the funding instruments with social service providers, we discover that at the moment the EFSI does not have instruments that are aimed specifically at social service providers. Still, financial intermediaries are the main actors engaged to deploy the financial support provided by the Commission, and several instruments might be used also to target social service providers. In the future, as new instruments are developed, social enterprises and hopefully social service providers are likely to get a dedicated instrument (or those already existing might be strengthened as well, like the EaSI or SIA, previously described).

Indeed, we stress the fact that this paper contains information valid as of December 2015: the mechanisms currently in place may change and evolve as more feedback is gathered and some facilities may require more design, market testing and preparation and will be launched gradually in 2016 and 2017.

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