Promoting the use of EFSI funds among banking networks as a tool to ease access to credit for social service providers

Commissioned, monitored and guided in 2015 by EASPD

Researched and Written in 2015 by
Diesis Coop and Sefea Consulting

This publication has been commissioned, monitored and guided by EASPD. A special thanks to Thomas Bignal, Policy Officer for his contribution to this work.

This publication has been researched and written by DIESIS and SEFEA Consulting.

This publication has been produced with the financial support of the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). The information contained in this publication does not necessarily reflect the official position of the European Commission.

Table of Contents

Abstract:

This document addresses some questions financial intermediaries may have regarding social service providers as a robust, long-term investment opportunity. It also argues that the conjuncture is good for starting investing in the social services sector, given that the European Union is supporting the financing of projects that would normally be out of the normal activities of financial intermediaries via the European Fund for Strategic Investments.

1. Introduction

Investing in high-quality, affordable and efficient social services is needed today more than ever. This paper outlines the reasons for banking networks to promote the use of EFSI funds among their members as a tool to ease access to credit to social service providers and the social economy in general. Firstly, we describe what social service providers are, and their growing importance in the European economic landscape. We continue by outlining the European Fund for Strategic Investments (EFSI) and the European instruments financial intermediaries may use to target social service providers. We conclude by stressing the important role of financial intermediaries and the opportunity they have to start investing in social service providers with the support of European funds.

2. The Social Services sector – A Resilient Market

The concepts of social economy and social service providers are quite difficult to pinpoint, as there are different legal forms and definitions across Europe.

Regarding social service providers, in 2006 the European Commission described in a Communication[1] what constitute Social Services of General 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

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

- 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.

Both documents show that social services play a prevention and social cohesion role in European societies. They not only help people to live in dignity and enjoy their fundamental rights, but also to fulfil their potential and to take part in society[3].

Health and social services already accounts for between 5 and 13% of EU GDP. There is a huge opportunity for the European Union to expand on this if it were to create the right framework environment to help the sector fulfil its potential. 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. Moreover, the role of social services is even more crucial in times of economic recessions as social services also play a strategic role in strengthening social cohesion and fighting poverty.

The austerity measures over the past few years as a response to the economic and fiscal crisis have had a severe impact on the social care sector. Indeed, the levels of expenditure reduction were more drastic in the social services sector, as compared with social security, healthcare and education – even though this varied from country to country. In this context of budget reduction, the funding of the social services sector is also severely affected. The cuts are not only affecting the public sector as the non-public service providers also heavily depend on public funding. Indeed, based on research EASPD did in 2012, 75% of funding of service providers to people with disabilities was linked to public sources, albeit to differing degrees[4].

---

[2] *Services of general interest, including social services of general interest: a new European commitment*, COM(2007) 725 final of 20 November 2007.

[3] *Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020*. 3rd Biannual Report on Social Services of General Interest. European Commission 20/02/2013.

[4] http://www.easpd.eu/sites/default/files/sites/default/files/job_creation_potential_of_social_services_sector_final_2april2015.pdf

The **social economy**, which shares many characteristics with social service providers, on the other hand brings together a large and rich variety of organisational forms shaped by diverse national and welfare contexts but with shared values, characteristics and goals, combines sustainable economic activities with positive social impact, while matching goods and services to needs. It plays an important role in the transformation and evolution of contemporary societies, welfare systems and economies thus **substantially contributing to economic, social and human development across and beyond Europe** and are supplementary to existing welfare regimes in many member states.

The social economy and social services sector further contribute to several key EU objectives, including the achievement of smart, sustainable and inclusive growth, high-quality employment, social cohesion, social innovation, local and regional development and environmental protection. It is also an important tool which contributes to ensuring people's well-being. Even more important, the social economy is **a sector which has weathered the economic crisis much better than others and is gaining increasing recognition at European level**. In the last few years, the social economy has increasingly gained political visibility as a sector that constitutes an important pillar notably in terms of employment and social cohesion across Europe and which is key to achieving the goals of the Europe 2020 Strategy[5].

Public consultations[6] highlighted the capacity of the social economy in general to provide **innovative responses to the current economic, social and, in some cases, environmental challenges** by developing sustainable, largely non-exportable jobs, social inclusion, improvement of local social services, territorial cohesion, etc.

An important outcome of the activities of social service providers and the social economy is its contribution to increasing and diversifying the supply of services to families and individuals. The ability to identify emerging needs and develop appropriate answers is due in large part to the multi-stakeholder nature of these organisations, which often involve in their governance workers, clients and volunteers, ensuring that the new services that are developed and delivered are closer to the needs of local communities. Over time, the activities carried out by social economy organisations have often been recognised and supported by the state, and in some cases even became part of the public welfare system – as is the case for social service providers[7].

To conclude, we can clearly identify social service providers and the whole social economy sector as an interesting market for investors, but the asymmetry of information (investors and social

---

[5] http://data.consilium.europa.eu/doc/document/ST-13766-2015-INIT/en/pdf
[6] http://ec.europa.eu/internal_market/smact/docs/20110413-communication_en.pdf
[7] http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPubs=yes

enterprises not knowing each other very well) is still quite a relevant issue hindering the development of the relationship. Luckily, a few European financial tools (described in the next chapter) are now made available to financial intermediaries, reducing their risk and therefore offering the opportunity to boost their share in this promising market.

3. The European Fund for Strategic Investments

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 Fund for Strategic Investments (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. The 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[8]. However, it is important to stress that the EFSI is not a Fund or other legal entity nor does it trade independently[9]. Moreover, we have to keep in mind that the EFSI entered into its operative phase in 2015 and therefore it is in its first steps: further instruments and tools are still being developed and might become available in 2016 and 2017[10].

As of January 2016, two paths for accessing EFSI funds are available: through the EIB and the European Investment Fund (EIF). Before going into detail it is important to underline the fact that at the moment EFSI funds will actually be used to strengthen the financial instruments already existing and provided by the EIB and the EIF, and **most of such instruments are actually deployed via local financial intermediaries** (banks, investment funds, microcredit institutions, etc.), **allowing them to provide more and more easily accessible finance to clients**. At this point, there is therefore a

---

[8] http://www.eib.org/about/invest-eu/index.htm?lang=en
[9] http://www.eib.org/attachments/press/investment_plan_for_europe_qa_en.pdf
[10] https://eu-access-to-finance-day.teamwork.fr/docs/luxembourg/presentations/Roger-Havenith.pdf

relevant **opportunity for financial intermediaries to access EU funding in order to boost their own financial activities targeting social service providers**.

The existing facilities managed by the **EIF** that will take advantage of the EFSI funds are the following (note: it is likely that further products will be designed)[11]:

- COSME Loan Guarantee Facility[12]: Capped Guarantee for Riskier SMEs. It will support lending to higher-risk SMEs without a specific sector or stage focus;
- InnovFin SME Guarantee Facility[13]: Uncapped Guarantee for RDI-intensive SMEs and Small Mid-caps. It will support lending to research and innovation intensive SMEs and small midcaps that cannot realise their investment projects in full with traditional senior secured loans. The guarantee will cover the part of the cost of investment projects that is not supported by traditional lending;
- Equity[14] facility for the early and growth stages, including co-investment: it will focus on providing equity financing to SMEs in their seed, start-up and early stages as well as growth and expansion stages. It will also offer a co-investment facility to equity funds and serve as a possible basis for closer cooperation with National Promotional Operators.

In the case of the **EIB**, 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. Project promoters can directly get in touch with the EIB only for projects that are above the € 25 million threshold. Otherwise, they need to contact financial intermediaries that are financed by the EIB[15].

It is important to note that at the moment the EU instruments supported by EFSI are not explicitly targeting social service providers, but can still be used by financial intermediaries for such kind of beneficiaries, as long as they meet the requirements set by the EIB and EIF. In addition, there are two European financial tools that specifically targets social entrepreneurship and are again deployed via financial intermediaries are therefore really interesting for financial intermediaries focusing on or willing to explore such sector:

---

[11] https://eu-access-to-finance-day.teamwork.fr/docs/luxembourg/presentations/Roger-Havenith.pdf
[12] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm
[13] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/index.htm
[14] http://www.eif.org/what_we_do/equity/index.htm
[15] http://www.eib.org/projects/cycle/applying_loan/index.htm

- the **European Commission**'s Programme for Employment and Social Innovation[16] (EaSI) has issued a dedicated Guarantee facility, a financing instrument at EU level to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions; and
- the **EIF**'s Social Impact Accelerator[17] (SIA), the first pan-European public-private partnership addressing the growing need for availability of equity finance to support social enterprises.

	EIF	**EIB**	**European Commission**
EFSI	• COSME • InnovFin • Equity	• EIB loan • Intermediated loan	
NON-EFSI	• SIA		• EaSI

4. The Role of Financial Intermediaries

As previously said, social service providers and the social economy in general have been identified as a strategic and resilient sector, able to satisfy not only economic needs and long-term employment but also provide positive externalities to the wider society. However, they also face a number of challenges, especially regarding access to finance - an area where the synergy between financial intermediaries and the EFSI can come into play and be a game changer.

Indeed, social service providers have difficulty finding funding, for which their needs vary according to their level of development (conceptual support, development of pilot projects or prototypes, large-scale development). Constraints concerning redistribution of profits or employment of vulnerable workers often give the impression to creditors or potential investors that they are higher-risk and less profitable than other businesses. A great deal of attention is being paid to this issue and new options are being developed, ranging from social impact investment to special financial instruments (such as the European Social Entrepreneurship Fund, recently created as a EU-wide

[16] http://ec.europa.eu/social/main.jsp?catId=1081
[17] http://www.eif.org/what_we_do/equity/sia/

form of investment vehicle focusing on financing social enterprises)[18]. At the same time, **increasing numbers of investors are seeking to combine social or environmental results with their legitimate concern of obtaining a financial return** on the investment, while pursuing long-term objectives in the general interest[19]. Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, clean technology, microfinance, and affordable and accessible basic services including housing, healthcare, and education. Impact investing is a relatively new term, used to describe investments made across many asset classes, sectors, and regions. As a result, the market size has not yet been fully quantified. However, the Global Impact Investing Network conducts a yearly survey[20] and the results are by and large positive. Collectively, **surveyed organisations were managing a total of USD 60bn in impact investments today**, 35% of which is proprietary capital and 65% managed on behalf of clients. Respondents reported that their **portfolios are performing mostly in line with both their impact expectations and their financial return expectations**. Significantly, **27% of respondents reported outperformance against their impact expectations** (number of respondents: n=139), compared to 20% in last year's survey (n=119), and 14% reported outperformance against their financial return expectations (n=139), compared to 16% in last year's survey (n=122). Conversely, only 2% reported underperformance on impact (n=139), while 9% reported financial underperformance relative to their expectations (n=139).

In addition to the elements above, it can be useful to remember that social service providers also often get contributions from the state, which usually has a long-term relationship with this type of actors. For financial intermediaries this factor can be reassuring, for the state is the most reliable source of financing and becoming part of an investment which includes public authorities offers the prospect of a secure operation. If we add the presence of the EFSI to the potential presence of the state, the risk for investing in social service providers dramatically decreases.

For financial intermediaries, this historical moment presents an excellent opportunity to further diversify their portfolio. On the one hand, the rationale for the EFSI is to fill an investment gap due to the recent economic turmoil and stimulate financial intermediaries to fund projects that would

[18] http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPubs=yes
[19] http://ec.europa.eu/internal_market/social_business/docs/COM2011_682_en.pdf
[20] https://thegiin.org/assets/documents/pub/2015.04%20Eyes%20on%20the%20Horizon.pdf

have avoided otherwise. On the other, social enterprises and social service providers have seen the demand for their services expand and the main means of funding shrink, thanks to cuts in public procurements throughout Europe.

If we put these two factors together, it is easy to see the potential for mutual benefit and long-term relationships between financial intermediaries and social service providers. The former can **take advantage of the chance of getting guarantees and loans from the EIB and the EIF, thus greatly reducing the risk of their investments**, while the latter will get access to another reliable source of funding - something they increasingly need.

The EFSI favours the financing of projects with social as well as economic value, hence investing in social service providers can be a way of increasing the likelihood of getting access to European funds. In this way, financial intermediaries can ease their way in an ecosystem whose importance is rising. In this sense, **taking advantage of the opportunity offered by the EFSI can be useful for the strategic positioning of the financial intermediary**, which means that it will be better positioned to gather know-how and first-hand experience on how to deal with this form of business model and gain an advantage with respect to the latecomers - especially once the EFSI will no longer be operational. In addition to this, there are the EaSI and SIA, two instruments that specifically target the social economy and that increase the number of options a financial intermediary has at its disposal.

To sum up, is there a case for providing finance to social service providers via European funds? As we have seen, the answer is yes, and the timing is perfect given the presence of three factors that work in synergy:

- financial intermediaries have increasingly shown interest in social service providers and the social economy;
- social service providers in turn require new sources of credit; and
- the EFSI can catalyse the process thanks to its products.