EUROPEAN COMMISSION
DG Employment, Social Affairs and Inclusion

Europe 2020: Employment Policies
Sectorial Employment Challenges, Youth Employment and Entrepreneurship

TESTING THE MARKET – MANAGEMENT OF A DEDICATED INVESTMENT VEHICLE FOR SOCIAL ENTREPRENEURSHIP FINANCE

Important Disclaimer

This short version of the term sheet for a financial instrument to promote social entrepreneurship through a dedicated investment vehicle under the EaSI is for market testing purposes only. This document is an outline of the design for the product described herein, which is subject to change and non-exhaustive.

This document is intended to provide a basis for the expression of interest from potential fund managers and does not constitute a recommendation, an offer or a binding commitment by the Commission.

The Commission reserves itself the right not to issue a call for the selection of fund manager(s) under the EaSI.

1. European Programme for Employment and Social Innovation (EaSI)

On 6 October 2011, the Commission proposed a Programme for Social Change and Innovation[1] which will *inter alia* "promote employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable groups and micro-enterprises, and by increasing access to finance for social enterprises" in the programming period 2014-2020.

Political agreement between the co-legislators on the programme has been reached and the regulation establishing the programme, now named Programme for Employment and Social Innovation (EaSI), is expected to be formally adopted in autumn 2013.

[1] COM(2011)609 final

Social entrepreneurship support

In the Commission proposal, EUR 92.28 million were earmarked for social enterprise support for start-up and existing social enterprises. The final figure depends on the outcome of the negotiations on the Multiannual Financial Framework 2014-2020.

The programme will make available hybrid financing for social enterprises which could take the form of a combination of equity, quasi-equity, loan instruments and grants.

For the implementation of the financial instrument promoting social entrepreneurship finance under EaSI, the Commission will cooperate with a financial institution. For guarantees, this is likely to be the European Investment Fund. For the dedicated investment vehicle (DIV) that undertakes funded investments in social entrepreneurship finance intermediaries, the choice of the manager is still open.

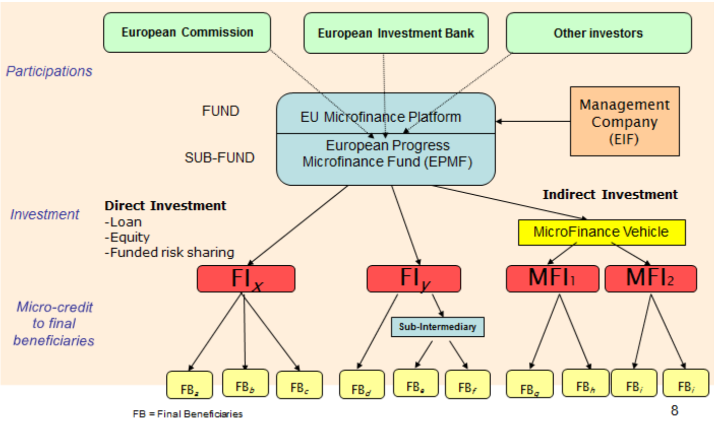
2. Indicative terms of the Dedicated Investment Vehicles (DIV) for social entrepreneurship finance

EU policy objective	Under the EaSI, the Commission aims at supporting the development of the social investment market and facilitate access to finance for social enterprises (see definition below) by making available equity, quasi-equity, loan instruments and grants of up to EUR 500 000 to social enterprises, that either have an annual turnover not exceeding EUR 30 million, or an annual balance sheet total not exceeding EUR 30 million, which themselves are not a collective investment undertaking.
Social enterprise definition	'Social enterprise' means an undertaking, regardless of its legal form, which: (i) in accordance with its Articles of Association, Statutes or any other statutory document establishing the business, has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners, members and shareholders, where the undertaking: – 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; (ii) uses its profits first and foremost to achieve its primary objective and has in place predefined procedures and rules for any circumstances in which profits are distributed to shareholders and owners, in order to ensure that any distribution of profits does not undermine the primary objective; (iii) is managed in an entrepreneurial, accountable and transparent way, in particular by involving workers,

	customers and/or stakeholders affected by its business activities.
Social impact measurement	The methodology to be used for social impact measurement is not yet defined. However, the expert group working on the issue is expected to recommend a methodology in which each Social Enterprise defines one or more indicators of social impact that are linked to the social objective and are validated on the basis of a stakeholder consultation procedure. To be eligible for support, the social enterprise will have to demonstrate the congruence of the indicator(s) chosen with the social objective and the following of a number of steps to ensure the solidity of the stakeholder consultation.
Form of implementation	The Commission concludes a delegation agreement (see below) with the manager of a DIV. The DIV manager provides funded instruments to financial intermediaries in the countries targeted by the action (see below) which allows them to extend their outreach to financial beneficiaries from within the target group (see above under "EU policy objective").
Intermediaries	Banks, asset managers or other financial intermediaries (can be public or private institutions)
Products to be offered to the intermediaries	Mainly equity which can be supplemented by debt or mezzanine capital according to market developments / market needs.
Duration:	The commitment period for the Commission is 2014-2020. The investment period of the DIV is up to 10 years after the start of the programme. After 2024, a period of 4 to 6 years will be left to wind up the fund.
Country coverage	The 28 Member States of the European Union. Although the instrument will be demand-driven (demand by potential intermediaries), a certain geographical balance between the Member States will need to be respected. In addition to the EU Member States, the following countries may participate in the instrument (if agreements are concluded with the Commission, in which case, the country concerned would make a financial contribution as well): (a) The EFTA and EEA member countries (Iceland, Liechtenstein, Norway, Switzerland), in accordance with the EEA Agreement; (b) The candidate countries and potential candidates (The former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, Turkey; Albania, Bosnia and Herzegovina, Kosovo), in accordance with the general principles and the general terms and conditions laid down in the framework agreements concluded with

	them on their participation in Union programmes.
Budget	The main part of the budget is expected to be split between the guarantees (not part of the DIV) and the DIV in a roughly equivalent ratio. The final budget allocation is subject to market demand.
Dedicated Investment Vehicle	The DIV could take the form of a FCP (Fonds Commun de Placement), SICAV (Société d'investissment à capital variable) or other. It is important that the form chosen allows for potentially low financial return (in view of the instrument's social objectives). It should also have a compartment structure (see below).
Delegation agreement	The delegation agreement is signed between the Commission and the DIV manager. It lays down the precise and detailed terms and conditions applicable for the implementation and the management of the financial instrument, the tasks and obligations of the DIV manager, the rules for the selection of intermediaries, governance aspects, remuneration of the DIV manager etc
Leverage	According to the EU's Financial Regulation, the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance. Leverage effect of Union funds is defined as the amount of finance to eligible final beneficiaries (i.e. here: social enterprises) divided by the amount of the Union contribution. This means that leverage should be seen as a ratio between the financial resources allocated to a financial instrument (input) and the finance provided to eligible final beneficiaries (output).
Compartment structure	Managing Authorities of programmes co-financed by the European Structural and Investment Funds (ESIF) in the EU's Member States and regions will have the right to make use of the structures of the centrally managed instruments (like the financial instruments under the EaSI) to set up their own social entrepreneurship support schemes. This could be made possible via a compartment structure of a Europe-wide instrument. One of the compartments of the dedicated investment vehicle could be the EaSI instrument, but other compartments could be added for ring-fenced contributions from the ESIF at regional or national level, which would need to be invested in the territory of the Member State or region whose authorities have provided the ring-fenced contribution. Example: The microfinance instrument of the current period has the

<table>
<tr><td></td><td>following structure:



This DIV is a FCP (Fonds commun de placement). The European Investment Bank is a co-investor. The current management company is the European Investment Fund (EIF). The only sub-fund is the European level instrument ("European Progress Microfinance Fund"), but theoretically there could be additional sub-funds (e.g. for contributions from the Member States and regions under the ESF).</td></tr>
<tr><td>Reporting</td><td>The fund manager will be required to provide a semi-annual reporting to the Commission, including on the financial implementation and the allocation and accessibility of funding and investment by sector, geographical area and type of beneficiary. Those implementation reports shall also set out the applications accepted or rejected with regard to each specific objective and the contracts concluded by the public and private bodies concerned, the actions funded and the results, including in terms of its social impact, employment creation and sustainability, of the businesses to which support has been granted. This means that the DIV manager will need to contractually require such information to be provided by the intermediaries in which it will invest.</td></tr>
<tr><td>Fees</td><td>Management fees usually have a fixed and a performance-based component and are subject to negotiation.</td></tr>
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3. Indicative criteria for the selection of the fund manager

In the event the Commission decides to launch a call for the selection of the manager of the DIV, criteria like the following will be taken into account for the selection of the manager (please note that the list is non-exhaustive and not final and thus subject to changes):

- prior experience with the implementation of similar financial instruments, including the expertise and experience of proposed team members;
- a robust and credible methodology for identifying and appraising financial intermediaries and designing the most suitable financial products to be offered, also with a view to maximise the social impact;
- the level of management costs and fees for the implementation of the financial instrument and the methodology proposed for their calculation;
- the ability to raise resources for investments into the DIV additional to programme contributions;
- in cases where bodies implementing the financial instrument allocate own financial resources to this financial instrument or share the risk, proposed measures to mitigate a possible conflict of interest.
- the ability to cover all EU member states and, if required, the ability to extend to additional participating countries (see above).

4. How to signal interest

Potential fund managers are requested to signal their interest by explaining in a short document (not more than 3 pages, in English):

- their prior experience with the implementation of similar financial instruments;
- how they assess their ability to raise resources for investments into the DIV additional to programme contributions;
- their ability to cover all EU member states and, if required, the ability to extend to the additional participating countries.

The document should be sent to empl-social-enterprise@ec.europa.eu.

The Commission will decide on the launch of a call in the first half of September, taking into account the interest expressed by the market until this point in time.