



EIF and Social Enterprises

May 2017

“We pursue EU policy objectives and financial sustainability”



Shareholders

unique tripartite structure:

- 63.7% European investment Bank (EIB),
- 24.3% European Commission (EC),
- 12% 26 public & private financial institutions (FIs)

Assets under management

of EUR 14bn,
mobilising
over EUR 77bn with
other market players

AAA-rated

by the three major
rating agencies

Capital increase to EUR 4.5bn

ensuring strong
capital base

“ A new programme to support micro-
enterprises and
social entrepreneurship”



Social Entrepreneurship

Objective:

- Support the **development of the social investment market**
- Facilitate **access to finance** for social enterprises

A multiplicity of definition, in the framework of EaSI a social enterprise is: an operator who voluntarily commits his entrepreneurial talent to mobilise private resources with the primary aim of creating social value, while essentially operating in a market driven environment.

A Pan-European Approach

- Social Enterprise sector is most developed in Germany and the United Kingdom, together, these two countries host more than half of the European Social Enterprise sector.
- Also Italy, UK and France often considered to be the cradle of Social Entrepreneurship, hosts a large concentration of Social Enterprise activity.
- The remainder of Social Enterprise activity is scattered across Europe. Especially in a number of (South)-Eastern European countries the sector remains relatively underdeveloped.

The analysis above shows the Social Enterprise credit market is characterised by market imperfections that justify public intervention.

A Pan-European Approach II

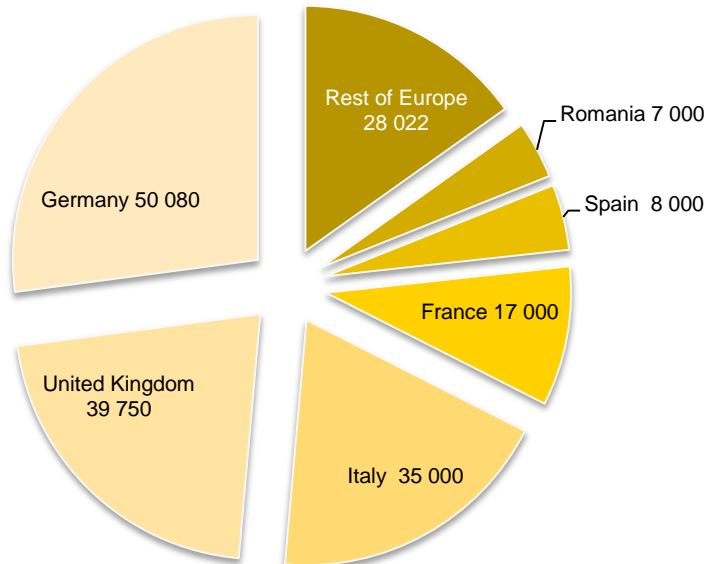
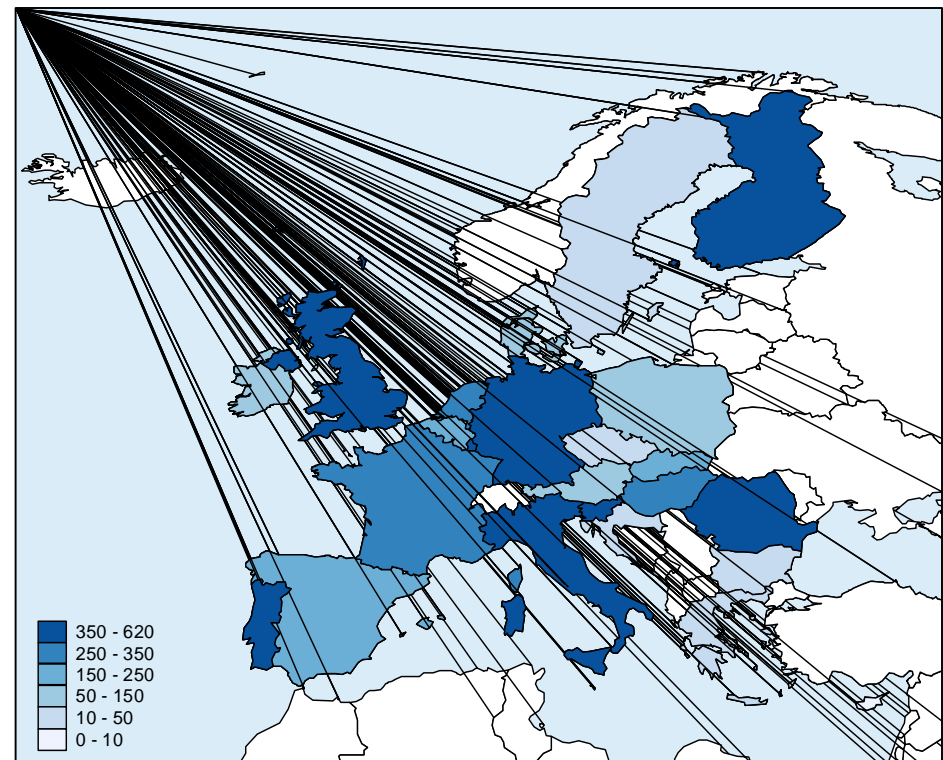


Figure 1: Geographical distribution of the 184,852 European Social Enterprises

Figure 2: Number of Social Enterprises per million of inhabitants



Challenges on the debt market

- **Information asymmetries and lack of collateral;** Collateral requirements are more problematic for Social Enterprises than for conventional SMEs due to the importance of grant.
- **High fixed costs and small average investment sizes;** to assess the sustainability of a Social Enterprise's business model, the social elements of the Social Enterprise's output must be evaluated in addition to screening financial metrics.
- **Mismatch between supply and demand** Social Enterprises, who often operate on a highly localised basis. This implies that Social Enterprises are predominantly found in economically and socially deprived areas, therefore geographically disconnected from mainstream finance providers. Another driver of supply and demand mismatch are differences in national regulatory frameworks across Europe.

Guarantee Instrument

- Guarantee rate **up to 80% of** the microloan
- Cap rate **up to 30%** based on E(Losses) of the portfolio, provided that **min 5.5 leverage** is reached (range: 80% with 22.7%; 60% with 30%)
- Guarantee premium does not apply
- **Up to 5 years availability period** for building up the portfolio
- Potential **No capital charge** (0% RWA) for counterparty risk on the covered part of the micro-loan, given the **EIF's status as Multilateral Development Bank**, subject to local regulatory requirements

Capacity Building Instrument

(direct equity; subordinated loan; indirect investment)

- **Purpose:** investment in branch expansion; IT infrastructure; staff recruitment and/or training; operating expenses of greenfield etc
- **Exposure:** max 30% of the MFI's total equity
- **Ex-ante identified Exit Strategy** (*on a case by case basis*)

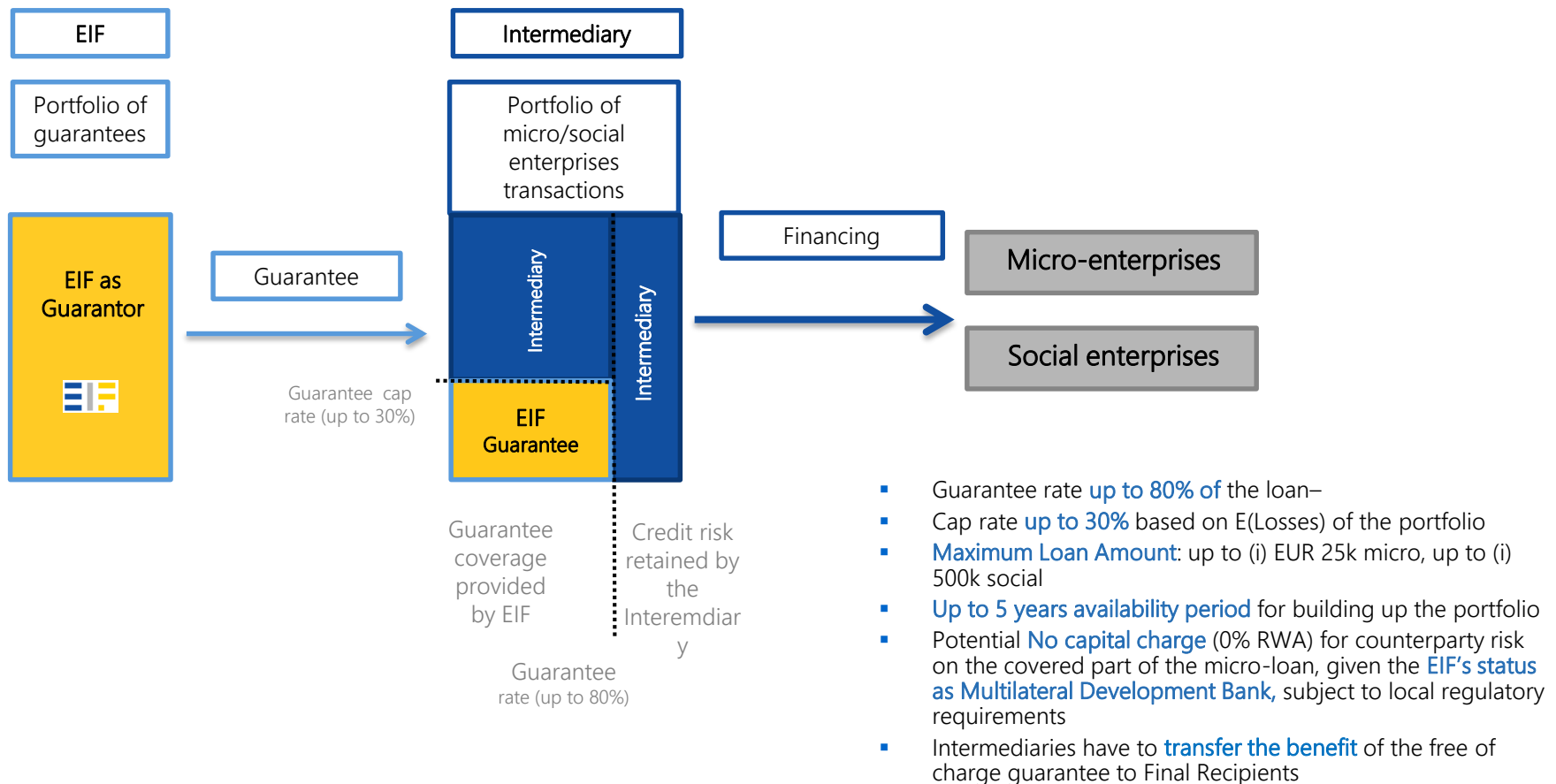
Funded Instrument* (Senior and/or Subordinated Loans)

Exposure Limit:	max 100% of Equity
Maturity:	long-term
Currency:	EUR or local currency
Pricing:	market rates, fixed or floating
Security:	None
Disbursement:	In min 2 tranches
Interest payment:	Semi-annually
Repayment:	Individually agreed upon schedule

*Estimated to be available from Q2-2017

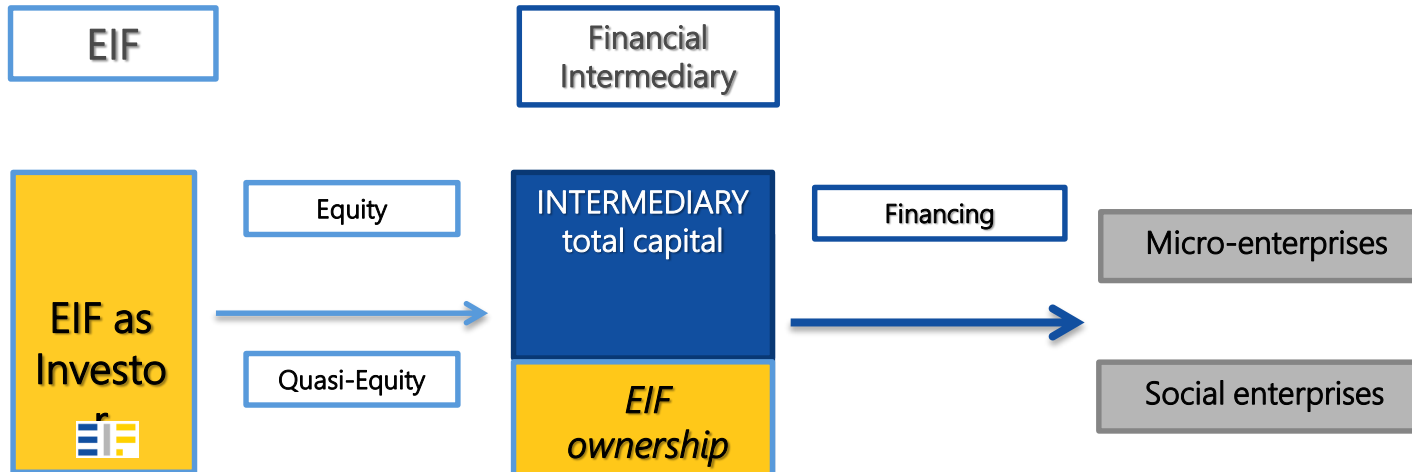
EaSI Guarantee Instrument

Launched in June 2015



EaSI Capacity Building Instrument

Launched in December 2016



- **Purpose:** investment in branch expansion; IT infrastructure; staff recruitment and /or training; operating expenses of greenfield etc
- **Exposure:** max 30% of the FI's total capital
- **Ex-ante identified** Exit Strategy (on a case by case basis)

Torfs, W., Lupoli, M. (2017). **Guaranteeing Social Enterprises – The EaSI way**. EIF Research & Market Analysis. Working Paper 2017, 39

(http://www.eif.org/news_centre/publications/EIF_Working_Paper_2017_39.htm).

This report summarises the current state of the external financing markets of the Social Enterprises targeted by the Employment and Social Innovation (EaSI) guarantee program managed by the European Investment Fund (EIF) and funded by the European Commission.



Thank you

