



# Innovative ESF financial instruments in the Sardinia region

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# Background: some figures Sardinia



Surface:	24,090 km <sup>2</sup>
Population 2016:	1.653.135
Population density:	68,6 people/km <sup>2</sup>
GDP 2015:	€32.481 m
GDP 2015 IT:	€ 1.645.439 m
Sardinian GDP	2% of Italian GDP
Cohesion Policy:	in transition region
Unemployment rate 2016:	17,6%
Unemployment rate IT 2016:	11,7%
Youth unemployment rate 2016:	58,6%
Youth unemployment rate 2016 IT:	39,6%





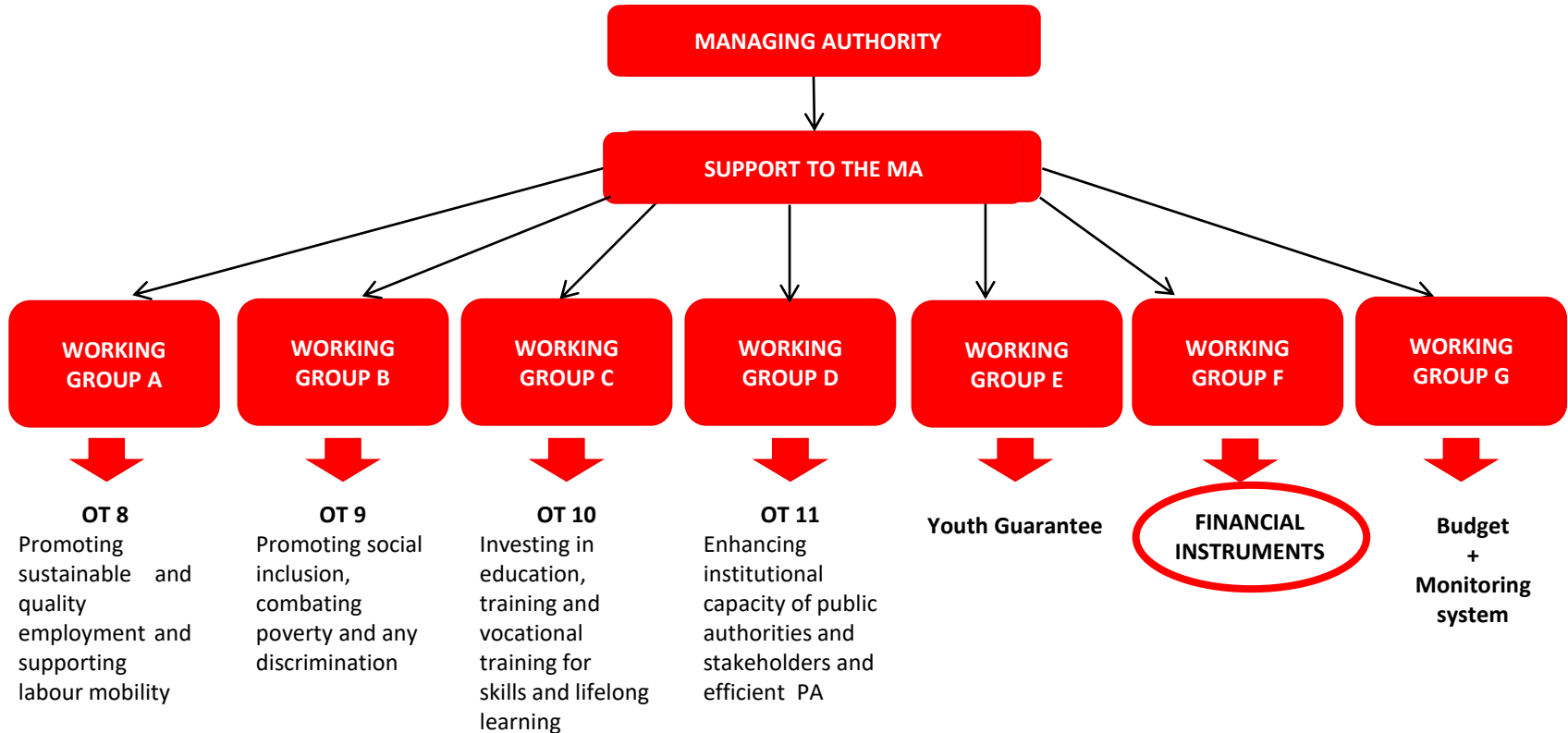
# ESF MANAGING AUTHORITY IN SARDINIA



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# ESF Managing Authority organisation



There is one working group for each thematic priority . Furthermore, there are 3 other working groups focused on strategic topics, such as Youth Guarantee and Financial Instruments.

This organizational structure reflects the **strategic role** of FIs.





# Financial Instruments in the Regional Operation Programme 2007/2013



# Fls in the ROP 2007/2013 (1/2)



## WHY

They are a **sustainable** and **efficient** way to invest in the growth and development of both **individuals** and **enterprises**.

They have a **great added value**: their revolving nature. It is the capacity of the financial instrument to generate additional flows of money – either through repayments or through the realisation of investments – with the objective of further reutilisation. This revolving nature allows us to benefit from increased resources.

## WHAT

*Fondo Microcredito*

*Fondo PISL-POIC*

*Fondo Sviluppo del sistema Cooperativistico*

*Fondo Finanza Inclusiva*

**BUDGET:**

more than **€ 121 millions**

**18%** of the total PO budget

## HOW

In house financial intermediary - SFIRS



# Fls in the ROP 2007/2013 (2/2)

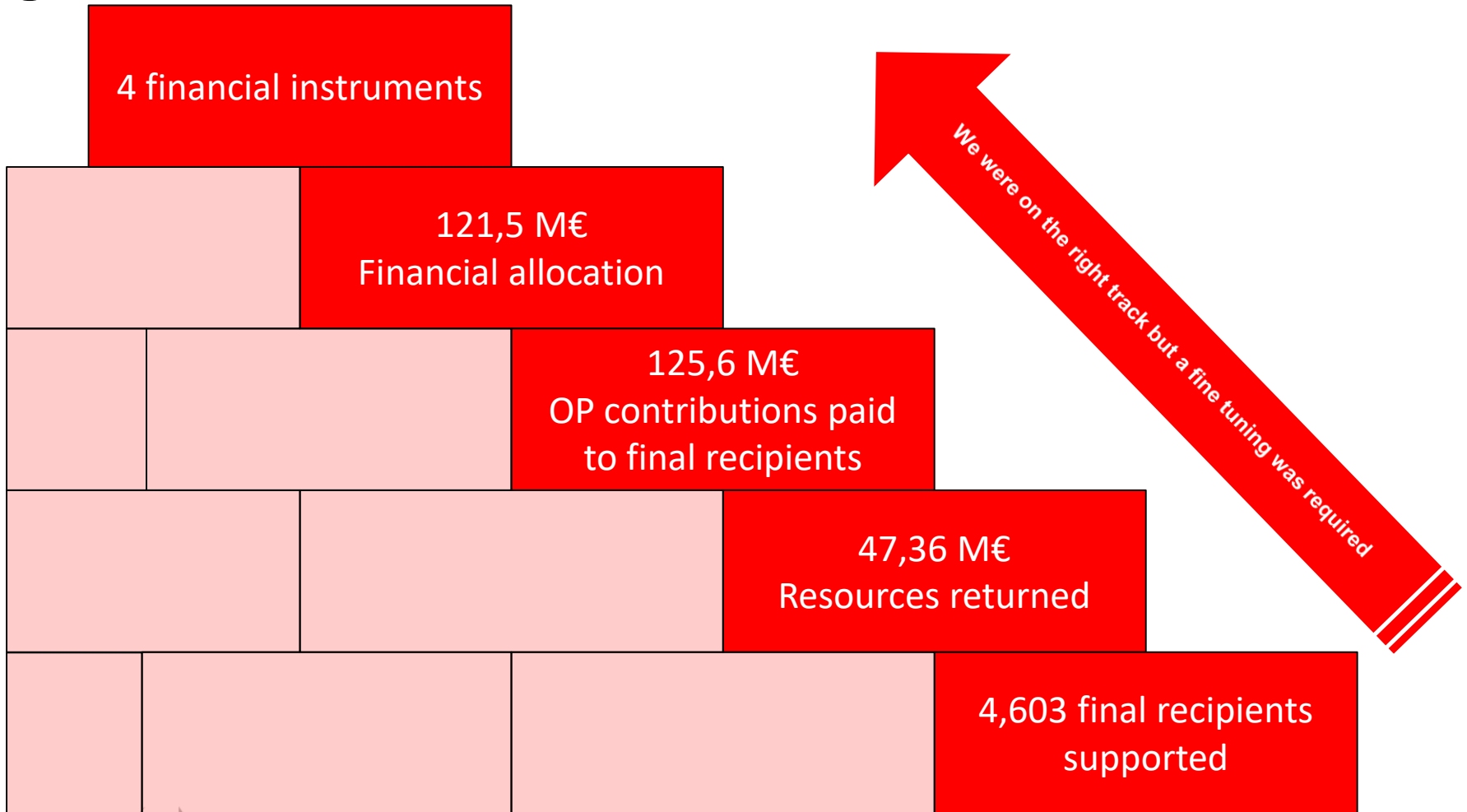


	Microcredito	PISL - POIC	Finanza inclusiva	Cooperative
Financial products	Loans: 5.000€ <x< €25.000 (microloans) Interest rate: 0%	Loans: max €50.000 (microloans) Interest rate: 0%	Guarantees and counter-guarantees	Quasi equity loans: max € 120.000
Final recipients	Vulnerable people who are in a disadvantaged position with regard to access to the conventional credit market and who want to start or further develop their own	<p><b>PISL</b> Non-bankable people who want to start a new business in Municipalities involved (&lt; 20,000 inhabitants)</p> <p><b>POIC</b> Entrepreneurs who want to expand their business with a new activity in Municipalities involved (&gt; 20,000 inhabitants)</p>	<p>People/enterprises:</p> <ul style="list-style-type: none"> <li>- with difficulty in getting access to the conventional credit market</li> <li>- who are final beneficiaries of ESF grants or other public grants. (in order to pay an advance to a final beneficiary, the Public Authority could ask for a guarantee).</li> </ul>	Cooperatives with difficulty in getting access to the conventional credit market
# final recipients	3,809	712	21	61
OP financial allocation	78,5 M€	28,7 M€	7,5 M€	6,7 M€
OP contributions paid to f.r.	91,3 M€	24,01 M€	5,28 M€	6,7 M€





# FIs in the ROP 2007/2013: a global view





# Financial Instruments in the Regional Operation Programme 2014/2020



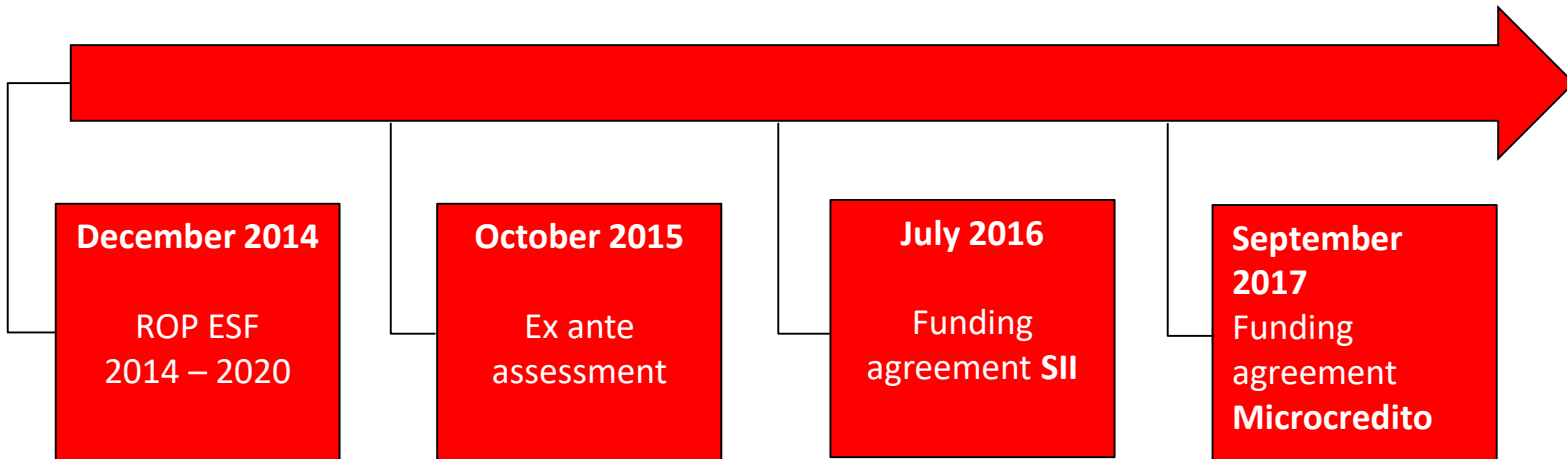


<p><b>Fondo Microcredito</b></p>	<p><b>Improvements required</b> The majority of recipients who applied for a microcredit have no specific skills in running a business. It is essential to provide personal assistance in business creation (pre and post mc). and management.</p>	
<p><b>Fondo PISL-POIC</b></p>	<p><b>Weaknesses</b> Microcredito and PISL-POIC offered similar products. The consequence: Microcredito, better known than PISL- POIC, "cannibalized" PISL- POIC (crowding- out effect).</p>	
<p><b>Fondo per lo sviluppo del sistema cooperativistico regionale</b></p>	<p><b>Strength</b> Financial support for the cooperative system is needed. WBO Operations <b>Weakness:</b> not good results in 2007/2013</p>	
<p><b>Fondo Master and Back</b></p>	<p><b>New instrument</b> OP ESF 2007/2013: learning mobility grants. In the new programming period, Master and Back becomes a combination of grants and loans.</p>	
<p><b>Fondo Social Impact Investing</b></p>	<p><b>New instrument</b> Payment by results instrument Social enterprises (social and environmental issues)</p>	

# FIs in the ROP 2014/2020



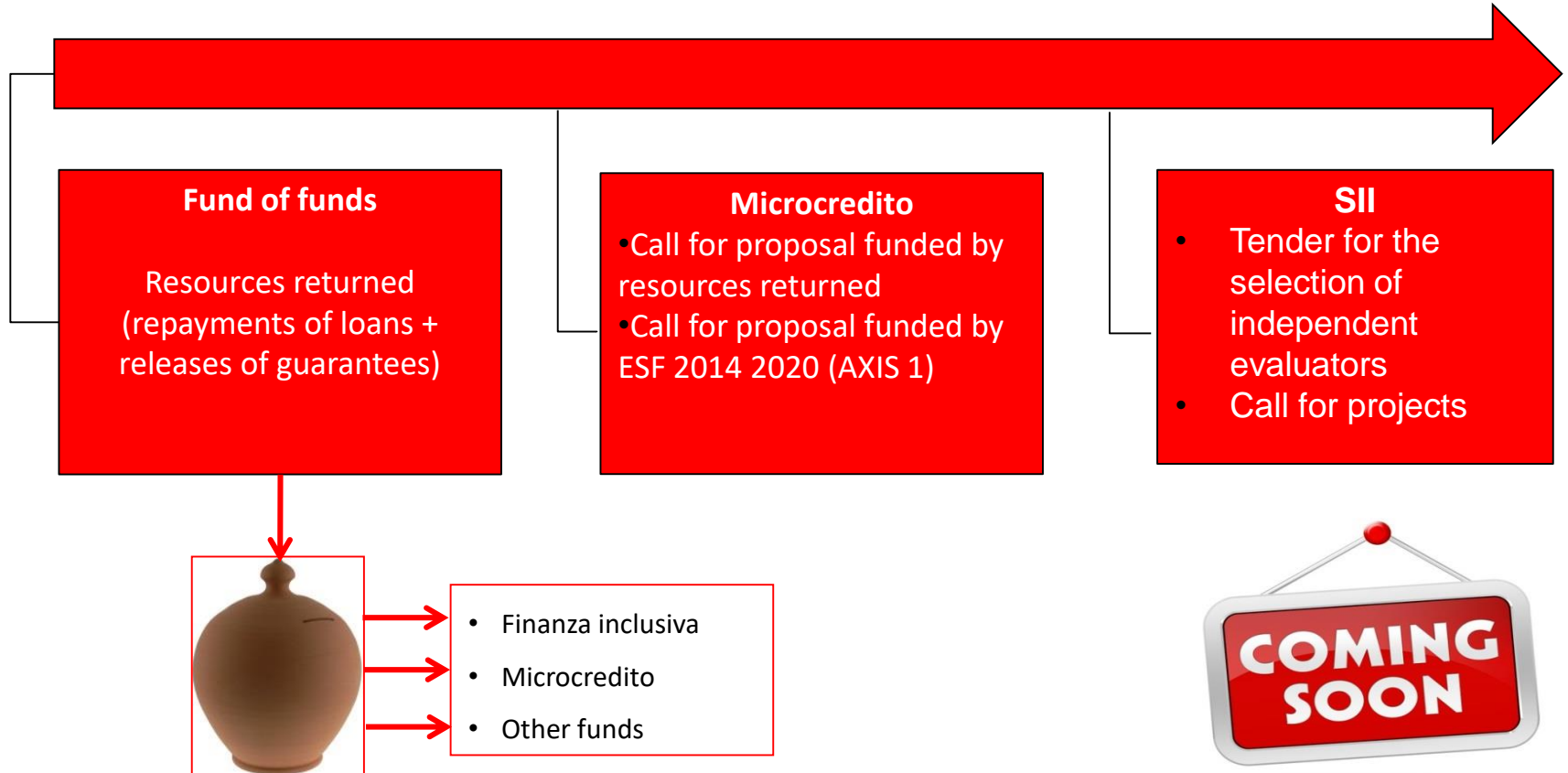
## Where we are



# FIs in the ROP 2014/2020



Where are we going?





# Fund for the development of the cooperative system in Sardinia?

## Workers Buy-Out (WBO)





## *Why has Sardinia Region decided to implement the Fund for financial support for the cooperative system*

The **Sardinia Region** recognizes the strategic role of the cooperative system in **Economic and Social Development**.

Since a long time, the **Sardinia Region** has adopted policies aimed at encouraging the development of the **cooperative businesses** through *ad hoc* financing.

**Implementing a specific Fund**, the Sardinia Region wanted to integrate existing policies in an innovative way to offer financial support for the cooperative system by using **ESF OP 2007-2013** resources.

**Regional Council Deliberation 31/17 of 5 August 2014**

- **Sardinia Region set-up a revolving risk capital Fund aimed at supporting the process of capitalisation of Sardinian cooperative businesses.**



## Testing and implementation of new WBO - Measures 1/2

Taking into account the results achieved by the Fund and the FIS OP 2014-2020 ex-ante assessment, the Sardinia Region decided to review and integrate the Fund strategy testing and implementing an additional action designed to support WBO initiatives.

Regional Council  
Decision 52/28 of  
28 October 2015



- **Enhancing** the financial support for the cooperative system
- **Funding set aside** for this financial instrument has been reviewed
- **Implementation** of innovative measures focused on “Workers buyout (WBO)”





## Testing and implementation of new WBO - measures 2/2

- **Second Call for proposal published in 2017** - AXIS I and AXIS II OP EFS 2007/2013
- **Provision of reimbursable and rotating contributions awarded in the form of shareholder loans.**

The Call includes two actions:

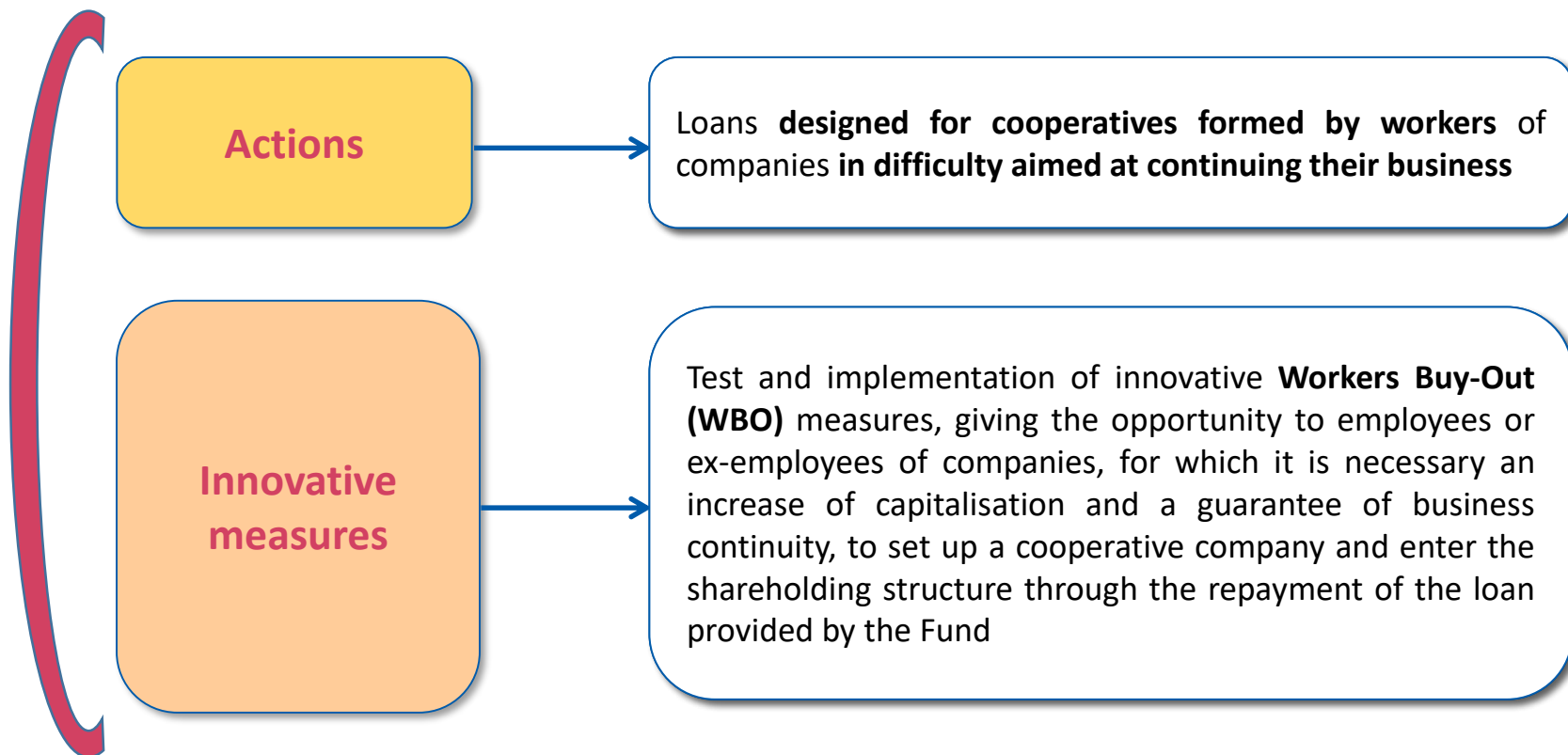
1

Action focused on the provision of shareholder loans to sardinian cooperative companies

2

“Workers Buy-Out” (WBO) action for the implementation of measures, giving the opportunity to employees of companies at risk of business disruption, to set up a cooperative company and enter, through the repayment of the loans provided by the Fund, the shareholding structure.

# The WBO Action





*Fund for financial support for the cooperative system OP 2007-2013 - Final recipients*

The following **categories** of subjects are the **Fund recipients**:

**Cooperative companies** based in Sardinia - also newly established or in the process of being established - **submitting an investment plan accompanied by a process of capitalisation of the cooperative.**

As regards **action n. 2**, intended to support “Workers Buy-Out” actions (WBO), the members of the cooperatives **must be employees of companies at risk of business disruption.** More precisely, the company structures of the same cooperative companies **must be composed**, for the absolute majority, **by employees of companies at risk of business disruption**; these companies must operate in economic sectors identified by the 2007 ATECO classification with the same business activity code as the company of origin.



Financial support for the cooperative is not a pure equity capital injection but shareholder loan

**Action 1**

**Up to Euro 60.000, per cooperative, reimbursable at zero interest-rate.**

**Pay back period: 5 years (maximum).**

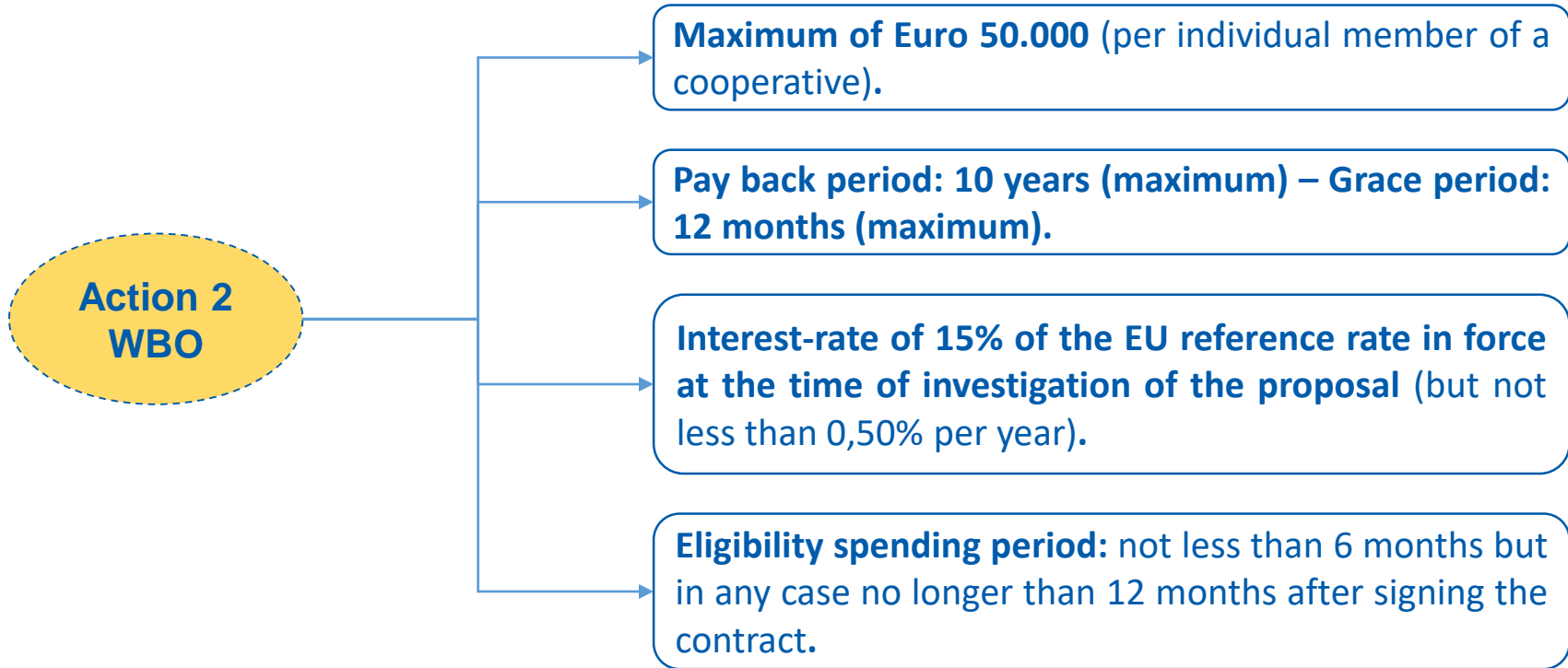
**Eligibility spending period: not less than 6 months but in any case no longer than 12 months after signing the contract.**

**Minimum of Euro 21.000 and maximum of Euro 120.000.**

**From Euro 60.001 to Euro 120.000 per cooperative, reimbursable at a fixed-rate interest of 15% of the EU reference rate in force at the time of investigation of the proposal (but not less than 0,50% per year).**



## Shareholder loan main features - supporting WBO measures 2/2





## *Business plan and eligible costs*

In order to grant the loan, each cooperative must prepare and submit a Business Plan, in accordance with the company objectives in terms of increasing of the production capacity, the production of new products or the modification of the existing one, etc. and may include innovative investments or investments aimed at developing internal skills, marketing and internationalization plans.

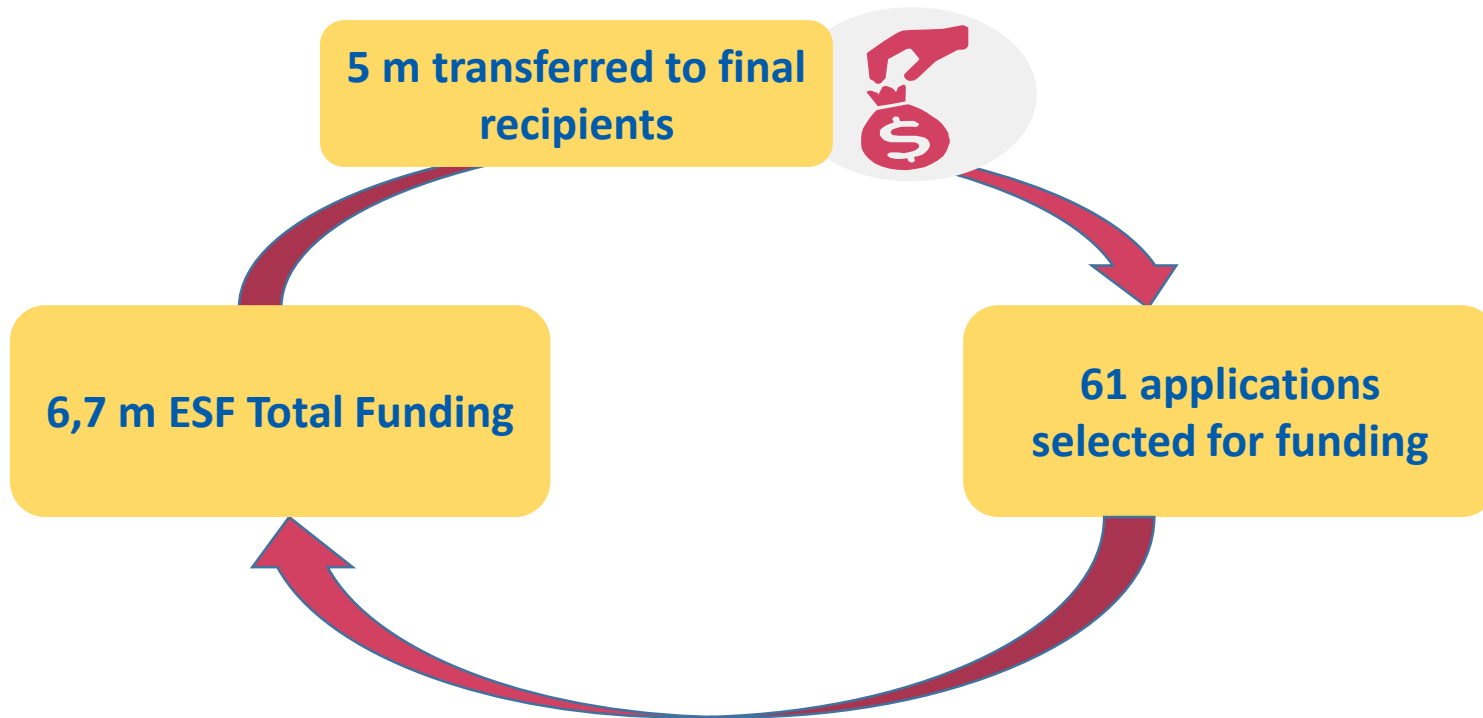
### *Description*

#### Eligible costs for funding

- **Fixed investment costs** with regard to plant and equipment, machinery, furniture, etc directly **linked to the business activity** within the limit of 50% of the amount of the loan provided.
- **Costs for the inclusion** of a temporary manager within the limit of 25% of the amount of the loan provided.
- **Costs** related to the **increase in working capital requirement**.



*Fund for financial support for the cooperative system OP 2007-2013 - Numbers*



# Where are we going with EFS OP 2014-2020?



**COMING  
SOON**



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financial instruments  
 revolving capacity building  
 added value **ERDF** funding agreement  
 governance **ESF** EU guidance  
 technical support seminars leverage financial intermediaries ex-ante assessment  
 co-financing **ESIF** microfinance case studies  
 investments **fi-compass** final recipients  
 business plan **Thank you** thematic objectives  
 advisory services guarantees banks loans **EaSI** equity  
 private investors life cycle combination of support  
**EAFRD** conferences factsheets  
 fund of funds **EMFF** investment strategy **CF**  
 managing authorities manuals



## Social Impact Investing (SII)

**Gabriele Pazzola**, Managing authority  
of the ESF Regional OP, Sardinia, Italy



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## Why has Sardinia decided to implement SII



Social and environmental issues are too complex to be solved only by government and the social sector with the traditional methods. Indeed, very often the solutions put in place are not able to adequately address the social problems.

**Implementing “Social Impact Investing Fund”** Sardinia Region wants to find innovative ways to solve social and environmental issues

### Regional Council Deliberation n. 6/13 February 2<sup>nd</sup> 2016

The **main social and environmental issues** addresses by **SII Fund** are:

- ***access to employment of workers expelled from the labor market*** (such as aluminum, chemical, textile, etc.);
- ***professional and social inclusion of young people*** through the implementation of training and job placement initiatives;
- ***Recidivism ex – prisoners*** through the provision of family orientation, training, retraining and accompanying measure;
- ***early school-leaving***;
- ***pollution.***



# What is Social Impact Investing

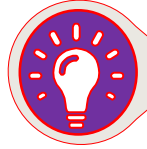


**Social Impact investing** is based on the idea that both public and private capitals can intentionally **create positive and measurable social impacts**, while, at the same time, generating financial returns for the investors.

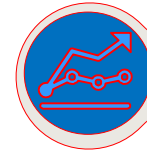
## *What makes them innovative ....?*



The **proactive intention** with which an investor pursues a social purpose together with economic returns;



It is designed around **social impact targets**;



it is built on a model that allows to **measure** the link between the social impact and the **return on invested capital**

*\* Inclusive Finance: social impact investments for a new economy. Italian Report of the Social Impact Investment Task force established by the G8*



## Key Actors



**PA**

**Public Administration** defines the social issues to solve and repays the investment if the Fund reaches the expected social outcomes



**FM**

**Fund Manager** facilitates the conclusion of contracts between the parties, monitors the programs to ensure the achievement of the set goals and manages the instrument



**Investors**

**Investors** provide the capital for managing the social programs in order to obtain the financial returns guaranteed by the PA in case of success



**Enterprises**

**Enterprises** implement social services and programs relevant to the community and are required to achieve pre-defined social targets



**Community/  
target pop.**

**The community/target population** benefits of an increase in social services in terms of higher quality and efficiency



**Evaluator**

**Independent Evaluator** measures the social impact of the Fund and the achievement of the social objectives

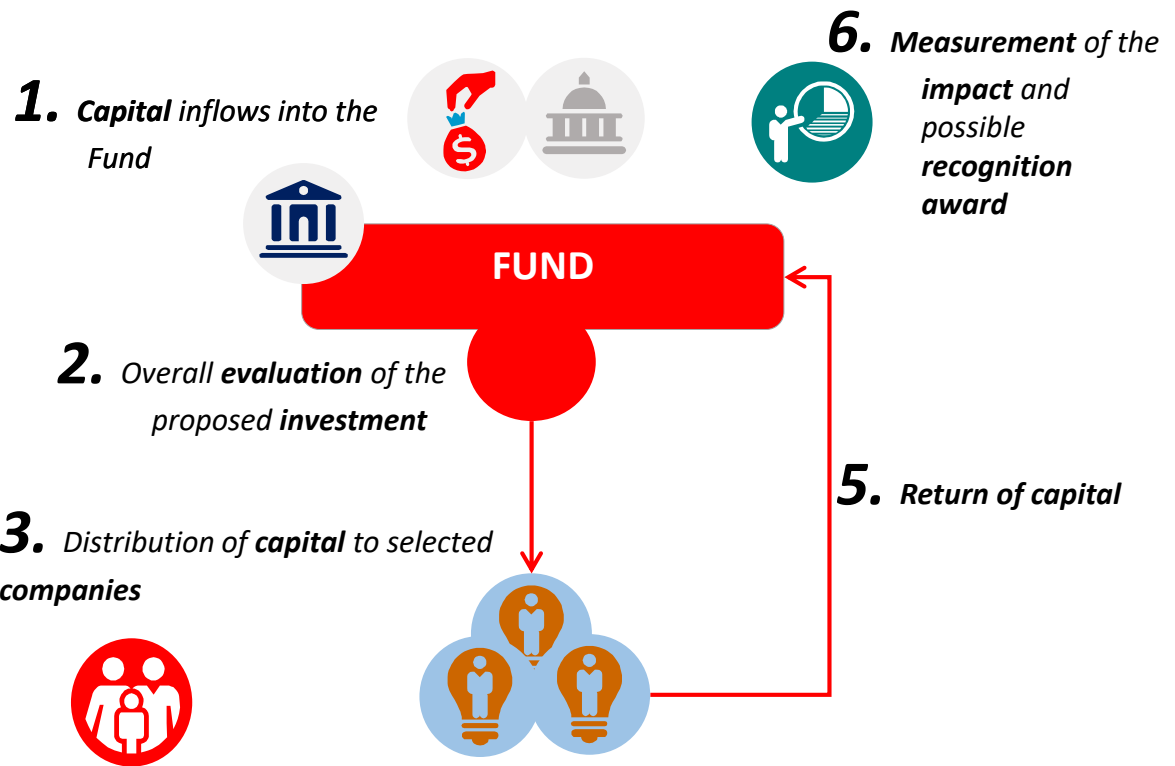


## How does a Social Impact Investing Fund work? (1/2)



The SII Fund invests **risk capital** in enterprises or organizations that **can generate a measurable social and environmental impact** together **with a financial return**.

The **capital return** is **directly linked to the achievement of a social impact**, as well as to the **economic and financial return for investors**.

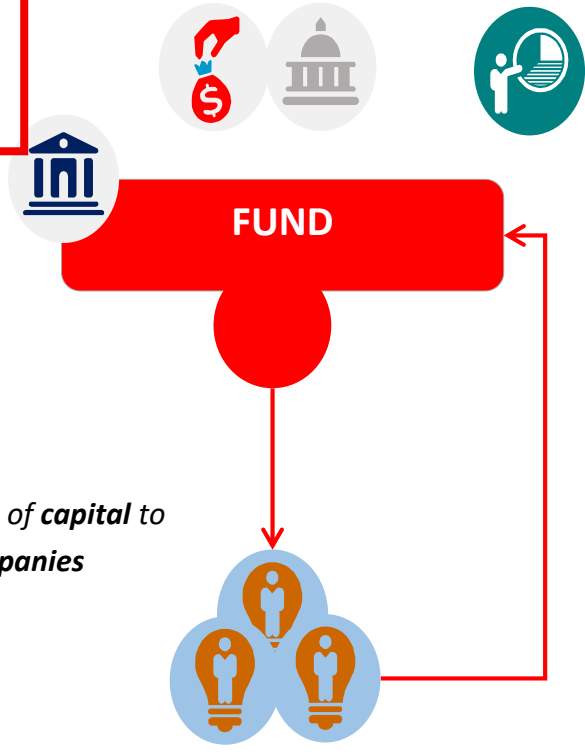


## How does a Social Impact Investing Fund work? (2/2)



Support provided for the establishment of new enterprises, early stage-capital, i.e. seed capital and start-up capital, expansion capital, capital for the strengthening of the general activities of an enterprise, or the realisation of new projects, penetration of new markets or new developments by existing enterprises, without prejudice to applicable Union State aid rules (art. 37,4 Reg (UE) 1303/2013)

Compliance with Reg (UE) 651/2014 – GBER



**3.** Distribution of capital to selected companies

The support of SII Fund will be provided to final recipients in the form of **equity** or **quasi-equity investments, loans**





€ 6.000.000 AXIS II ESF OP 2014-2020  
"Social Inclusion"

**Azione 9.1.4:** "Sperimentazione di alcuni progetti di innovazione sociale sottoposti a valutazione di impatto nel settore delle politiche sociali"

*[the experimentation of social innovation projects, subjected to impact evaluation in the social policy field]*

**Azione 9.2.2** "Interventi di presa in carico multi Professionale finalizzati all'inclusione lavorativa di persone maggiormente vulnerabili e a rischio di discriminazione(...)

*[initiatives for the professional inclusion of disadvantaged groups]*

**TO 9:** promoting social inclusion, combating poverty and any discrimination

€ 2.000.000 AXIS III ERDF OP 2014-2020  
"Competitiveness of the production system"

**Azione 3.7.1** "Sostegno all'avvio e rafforzamento di attività imprenditoriali che producono effetti socialmente desiderabili e beni pubblici non prodotti dal mercato "

*[support to the starting and strenghtening of entrepreneurial activities having social desirable effects]*

**TO 3:** enhancing the competitiveness of SMEs



## Choice of the Fund Manager – SFIRS SpA



Sardinia Region have selected **SFIRS S.p.A** as **Fund Manager** of the **SII Fund**, in **coherence** with EU Regulation 1303/2013. SFIRS S.p.A is a **financial institution**, in house provider, **acting for 45 years** in the **development** and **support** of Sardinian enterprises.


### Coherence with in house providing principles

- **Public owned company**
- **Control** similar to that which Sardinian Region **exercises over its own Departments**
- **Essential part** of its activities carried out with the **controlling authority**



### Experience in similar activities

SFIRS S.p.A balances prove the acquired **experience in management financial Fund in Sardinian context** and the availability of high skilled professionals.



*SFIRS S.p.A is responsible for defining the Fund Investment strategy, publishing calls for proposals and notices on funds availabilities, receiving and evaluating requests for funds, distributing resources to selected beneficiaries, identifying external evaluators, monitoring the programmes progress and the fund spending, reporting to the Sardinia Region.*



## The expectations for the investors



The investors of the SII Fund **get a double dividend**: one **fixed**, determined as a remuneration of invested capital, and one **variable**, related to the achievement of the social/environmental impact which is tangible and measurable.



The remuneration of the variable component is financed by the Region through the savings resulting from the choice of activating the Fund instead of alternative instruments



In this scenario the social impact assessment is essential; only starting from a proper measurement it is possible to estimate the cost avoided for the public sector and calculate the profitability of the Fund for the investors





# IMPACT MEASUREMENT



# Social Impact Evaluation



For this activity it **will be identified**, through a tender, an ***external evaluator*** who defines **the methodology** that will be used during the evaluation process in order to ***measure the impact of SI initiatives/projects.***





# MAIN STEPS OF FUND IMPLEMENTATION



## Main steps of Fund implementation



Funding Agreement

The **investment and planning strategy**, as well as the **rules for managing financial operations** (implementation control, eligibility of expenditures, ways to access the financial instruments, resources returned to the operation from investments undertaken by funds and rules for payment, treasury guide lines, the measurement and evaluation of the impact of SI initiatives/projects), have been **established in the Funding Agreements** undersigned by **Sardinia Region and Sfirs S.p.A.**

Operational Plan

The **strategy** has been further **detailed** in the **Operative Plan** defining **criteria** for **allocation of resources** and also defining some **economic areas of priority** to be **financed**.

Call for Private investor

Tender to select an evaluator

Call for projects





financial instruments  
 revolving capacity building  
 added value **ERDF** funding agreement  
 governance **ESF** EU guidance  
 technical support seminars **leverage** ex-ante assessment  
 co-financing **ESIF** financial intermediaries **microfinance**  
 case studies  
**investments** **fi-compass** final recipients  
 business plan **Thank you** thematic objectives  
 advisory services **guarantees** banks **loans** **EaSI** equity  
 life cycle  
**EAFRD** private investors **EMFF** factsheets combination of support  
 conferences  
**fund of funds** investment strategy **CF**  
 managing authorities manuals

