



# Financial instruments for social entrepreneurship and student loans

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# Overview of some of today's topics



Selection of FoF/F.Int.	✓	✓
Selection of final recipients, eligible expenditures	✓	✓
Management Costs and Fees	✓	
Equity for social entrepreneurship		✓
Student Loans	✓	
Communication / awareness raising	✓	✓



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# Selection of bodies implementing FIs



## Selection criteria

*Art. 7(1)(a) to (f); 7(2) first par. CDR*

- Legal capacity
- Economic and financial capacity
- Organizational capacity
- Experience

## Awarding criteria

*Art. 7(2)(a) to (f) CDR*

- Investment methodology
- Ability to raise additional resources
- Additionality of investment activity
- Level of management costs and fees

## EC guidelines

*Guidance for MS on the selection of bodies implementing FIs*



# Funding Agreement



A Funding Agreement (FA) is required when:

- The MA makes a contribution into a Financial Intermediary, which will implement the FI;
- The MA entrusts the implementation of a FI to a FoF, whether EIB Group, an IFI or a national body.

Despite being under the same name, the two agreements are very different:

- The latter needs to include the elements listed under Annex IV of CPR;
- The former needs to include also all elements of the FI deployed, i.e. the commercial terms of the loan, the guarantee, the equity investment deployed in accordance with market and industry standards. We can define it as "Operational Agreement" – although this is also a FA under the CPR.



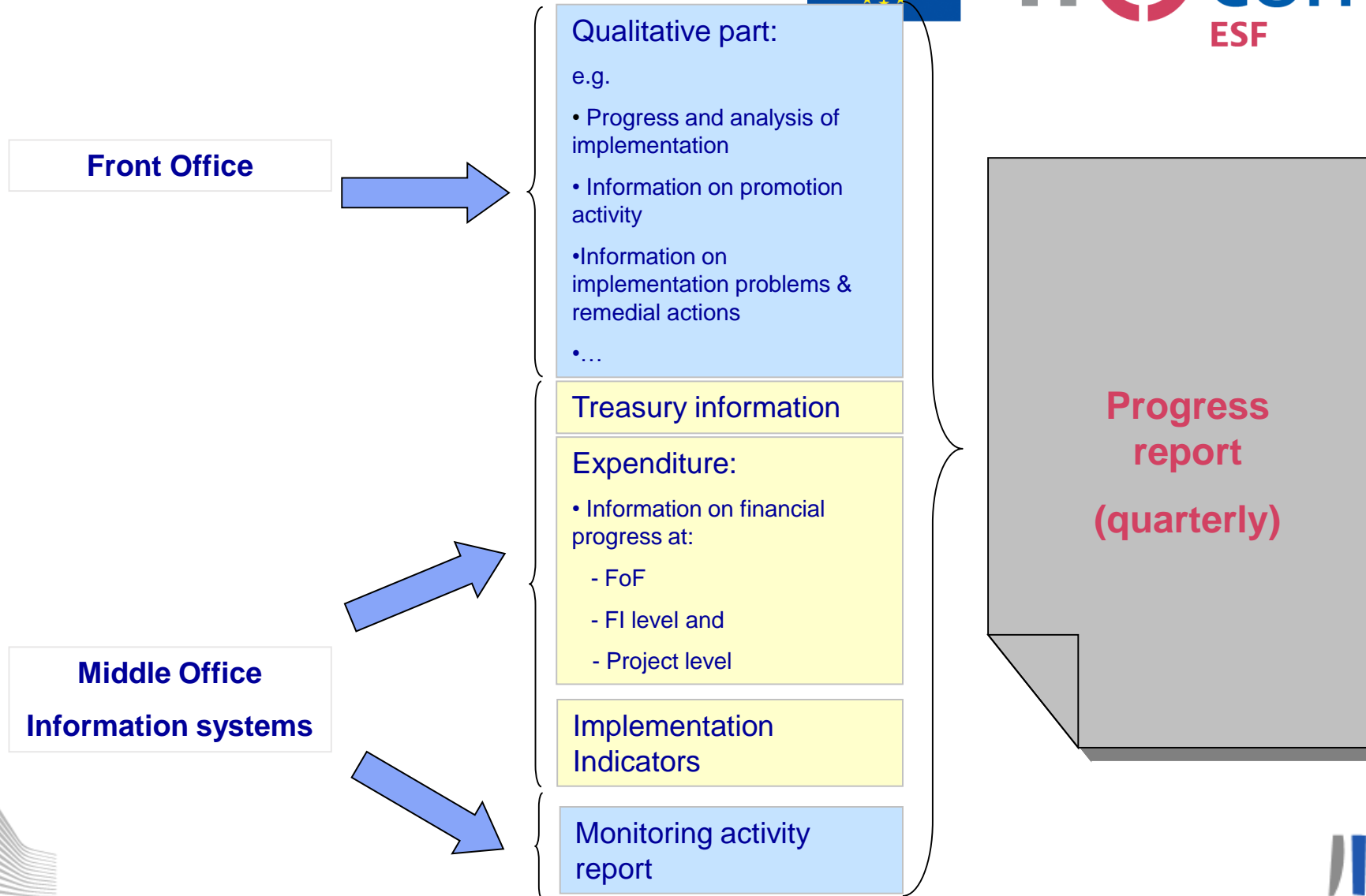
# Tips & tricks - selection of F.Int. and drafting of the FA



- Alignment of interest between MA and FoF/F.Int. (e.g. by performance-based remuneration)
- Flexibility needed. FA need to leave room for adapting the FI to changed conditions
- Be sure that whoever is implementing the FI has sufficient skills in ESIF rules and that the FA includes the following:
  - Treasury (interests can be used to cover management fees!)
  - Clear, easy-to-implement Monitoring & Reporting procedures to be set out
  - Audit – MA can request the F.Int. to perform sample checks on FIs final recipients. AA consultation recommended



# Reporting process - example



# Some lessons learned: market test



Market test to test, inter alia:

- Likelihood of the product to be accepted/ absorbed by potential financial intermediaries
- Confirm that the financial instrument responds to the final beneficiary's needs (as a result of this adaptation to certain features of the type of financial instruments may be done)

At design level market test is needed to avoid competing with other actions (both subsidies and financing options) so to ensure complementarity in a target geography

# FIs for social entrepreneurship – what could go wrong?



Recurring pitfalls	Remedies
<b>Burdensome procedures, high rate of rejected applications</b>	Keep it smart and simple! FIs should be leaner and more user friendly than grants! TA at a project preparation level Quick appraisal and disbursement – if it takes too long, the final recipient might be gone or no more interested!
<b>Low take-up level (no appetite for F.Int. and/or final recipients)</b>	Flexibility to adapt the FI to changed market conditions. MA to lead the strategy – F.Int. to implement. Communication and awareness campaigns needed Create a conducive environment – some TA actions aiming to strengthen the





# Lessons learned – selection of final recipients



Assessment of the **creditworthiness** of ESF final recipient typically involves the project soundness and financial viability rather than the final recipient himself (they normally have no credit history – no collateral)

So, selection criteria should focus on project's financials and its ability to pay back the loan (typically evidenced by the business plan, cash flow projection, etc.), regardless final recipient's collateral

But... it's not always easy for the F.Int. (unless they're specialised in that segment, they normally check traditional creditworthiness parameters) and it takes a long time!

**Tip:** don't add unnecessary eligibility requirements for final recipients!

- Fine to set “preferential lanes” for particular target groups, but strict exclusion criteria (tightening too much the final recipient cohort) could hinder the deployment of the FI
- FIs' and grant's eligible expenditures are the same

# Management costs and fees - applicable thresholds



Body implementing	"General – cap rate"- Thresholds Article 13(3) CDR	Article 13(1) and (2) CDR	
		Base remuneration: rates <i>p.a./pro rata temporis</i>	Performance remuneration: rates <i>p.a./pro rata temporis</i>
Fund of Funds	7.00%	For first 12 months* 3.00%	0.50%
		For next 12 months* 1.00%	0.50%
		Following years 0.50%	0.50%
Loans	8.00%	0.50%	1.00%
Guarantees	10.00%	0.50%	1.50%***
Equity	20.00%	For first 24 months* 2.50%**	2.50%
		Following years 1.00%**	2.50%
Micro credit	10.00%	0.50%	1.50%
Other	6.00%	0.50%	0.50%

Thresholds of Article 13(1) and (2) CDR were designed to reward quick disbursements towards final recipients.

The "general- cap rate" - thresholds of Article 13(3) CDR were introduced to mitigate the risk that quick disbursement becomes the main/only incentive

the part exceeding the ceilings will be treated as ineligible under the ESIF!



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# Management costs and fees - example from the ground (Poland)



## BGK – Fund of funds management costs:

- Will be set on the basis of **actual expenses incurred**
- **Need to meet the milestones**
- Thresholds for BGK in the implementation of loans:
  - 1st year: 3% of the contribution paid from the OP + 0.5% of the contribution paid to F.Int.
  - 2nd year: 1% of the contribution paid from the OP + 0.5% of the contribution paid to F.Int.
  - 3rd year and over: 0.5% of the contribution paid from the OP + 0.5% of the contribution paid to F.Int.
  - Max 7% of the contribution paid from the OP during the eligibility period
- Limits for BGK in the implementation of counter-guarantees:
  - For all years: 0.5% of the contribution paid from the OP + 1.5% of the contribution paid from the OP involved under outstanding guarantee agreements
  - Max 10% of the contribution paid from the OP during the eligibility period



# Management costs and fees - example from the ground (Poland) (2)



## Management costs of Financial Intermediaries:

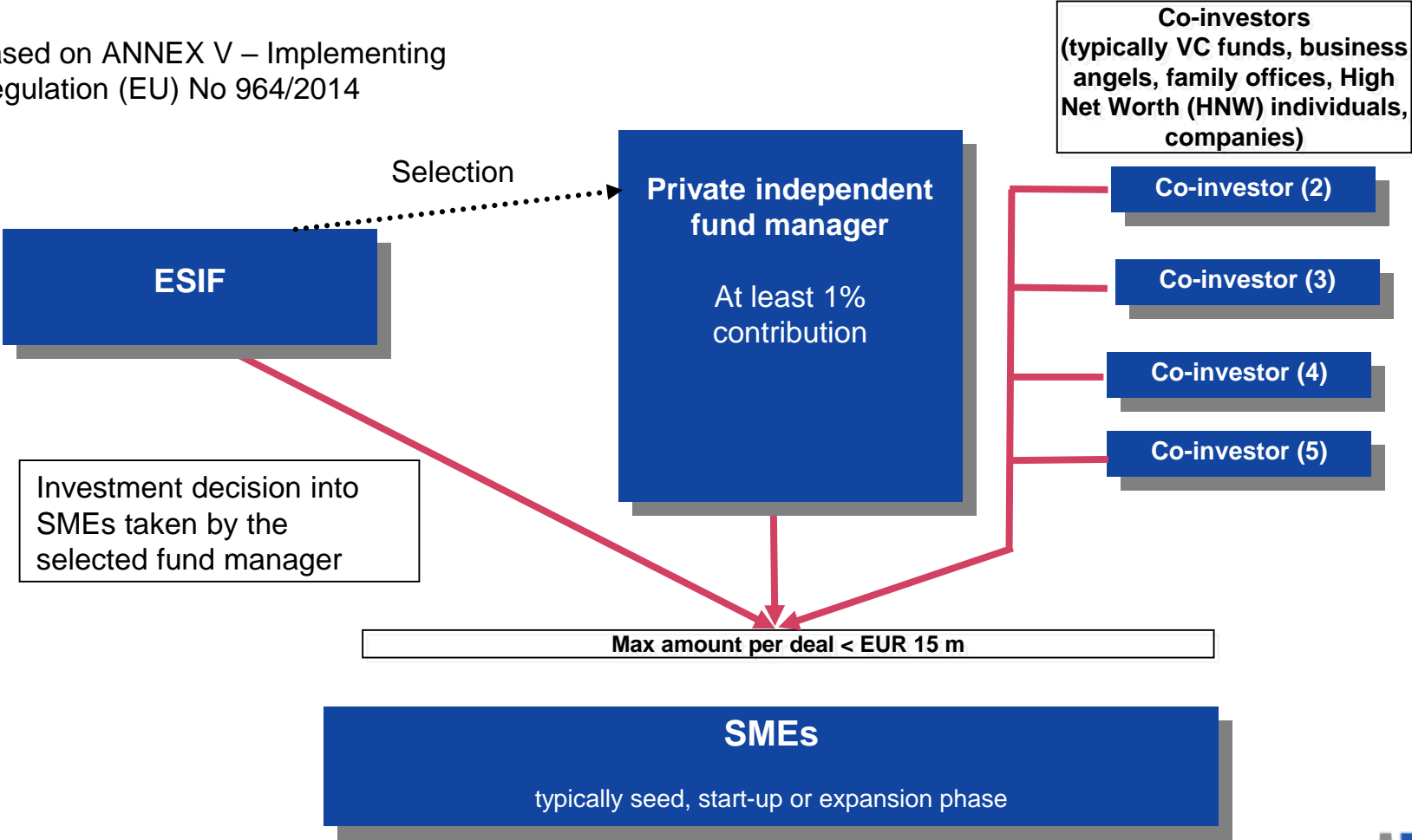
- On the levels from the offers from Financial Intermediaries in the public procurement selection process
- Up to 14-20%, depending on the macroregion
- Related to performance in lending activity – paid out in two tranches:
  - 70% of the entitled amount on disbursement of a loan
  - 30% of the entitled amount on the basis of repayment of a loan



# Equity FIs Co-investment facility



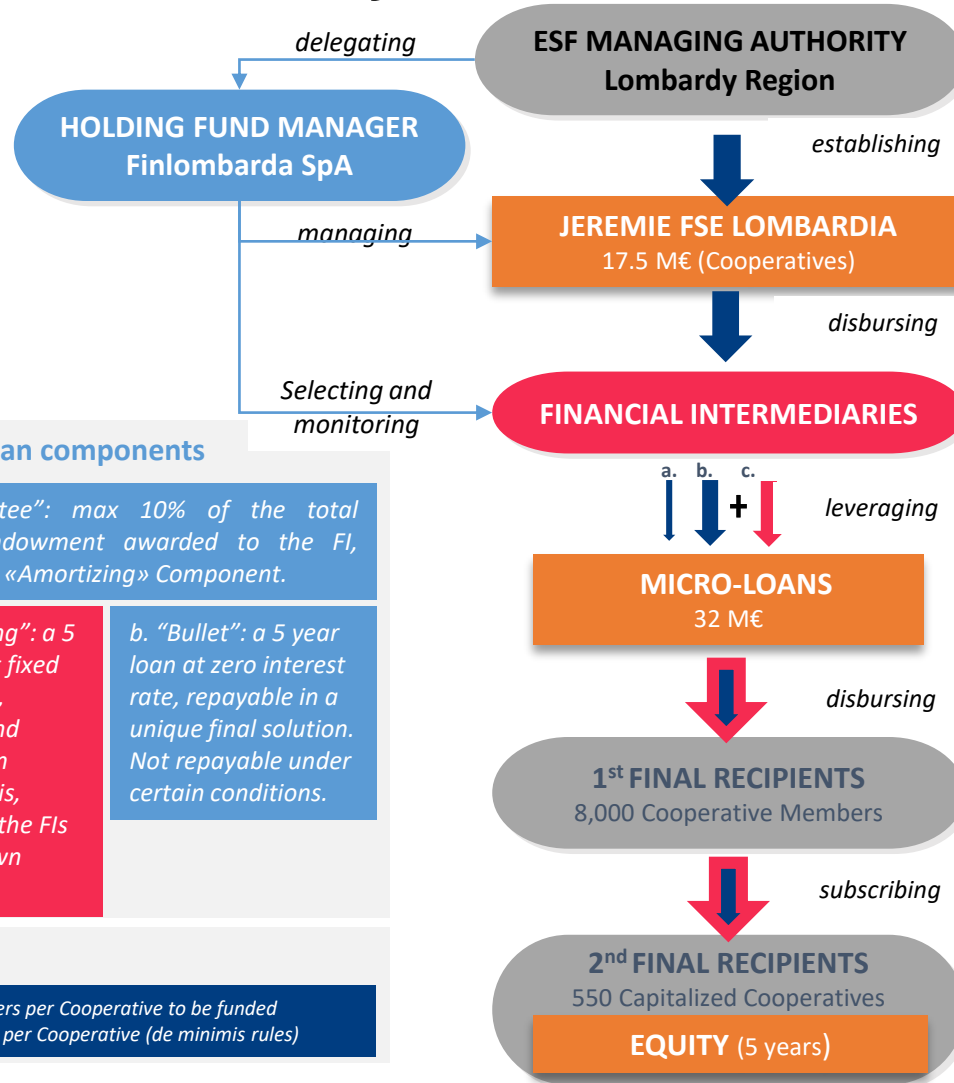
Based on ANNEX V – Implementing Regulation (EU) No 964/2014



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# Equity FIs JEREMIE ESF Lombardy



**Micro-loan components**

a. "Guarantee": max 10% of the total financial endowment awarded to the FI, covering the «Amortizing» Component.

b. "Bullet": a 5 year loan at zero interest rate, repayable in a unique final solution. Not repayable under certain conditions.

c. "Amortizing": a 5 year loan, at fixed interest rate, repayable and amortized on monthly basis, provided by the FIs with their own resources.

**Equity**

Max 50 members per Cooperative to be funded  
Max 200,000€ per Cooperative (de minimis rules)

**Activities & Remuneration**

- GAP ANALYSIS of the market
- DESIGN of JEREMIE ESF LOMBARDIA
- INVESTMENT STRATEGY
- MANAGEMENT OF THE FUND from an administrative and accounting point of view (as a separate block of finance)
- SELECTION OF FIs (Publication the call on EC OJ and signature of the contracts)
- MONITOR AND REPORT PERIODICALLY TO MA
- CARRY OUT COMMUNICATION activities

- FINLOMBARDA SpA remuneration: **ALMOST EQUAL TO THE ACCRUED INTERESTS**. Managing Authority reimburses the sustained and certified costs by Finlombarda through the Fund.
- FINANCIAL INTERMEDIARIES: «ZERO FEE» (no remuneration from JEREMIE FSE LOMBARDIA). **Fixed interest rate** applied on the "Amortizing" component of the loan.



# Student loans – tips from on-the ground experience



- Who does the assessment of the financial needs of the student? MA or F.Int.?
- Terms of financial product for students shall take into consideration
  - Future capacity to repay the loan (by assessing the presumable future revenue, which will depend on the career path, localisation, etc.)
  - Costs to be incurred by the recipient along his study career, including tuition fees, cost of life, transportation, etc. (national exchange or mobility programmes/ Erasmus+ as a reference?)
  - Need for a grace period
- Is there any F. Int. dealing with this topic in your Country and whose selection procedures you can rely on?
- Tranched disbursement to final recipient and continuous monitoring



# Student loan – comparison table



	XXX Member State Student Loan	Italy MIUR Student Loan	Portugal Student Loan	Erasmus+ Master SLGF	Estonian Student Loan
<b>Resources</b>	ESF	ESF	ESF	EU	State budget
<b>Implementation mechanism</b>	TBD	FoF (EIB) + commercial banks	National Guarantee Institution + commercial banks	FoF (EIF) + commercial banks	NA
<b>Product</b>	Guarantee + interest rate subsidy	Loan	Guarantee	Guarantee	Guarantee
<b>Max Loan amount</b>	QF6 - EUR 12,000 QF7 - EUR 32,000 QF8 - EUR 40,000	Tuition fees + EUR 10,000 p.a. for living costs (max 20K/50K)	EUR 1,000-5,000 p.a. (max 30K for 6 years courses)	1y Master's EUR 12,000 1+y Master's EUR 18,000	EUR 2,000 p.a.
<b>Grace period</b>	QF6 – 5y; QF7 – 3y; QF8 – 4y + possible conditional additional 12 months but no more than 5 years Full interest rate subsidy during it	Study period + up to 2 more years	Up to 2 years after the completion of the course	Option to defer the payment of interest during the studies; Repayment starts at the earliest 12 months after the end of the studies	Repayment starts at the latest 12 months after the end of the studies (unless the student continues studying)
<b>Maturity</b>	Max 10 years, otherwise not clearly regulated	Up to 25 years	2x the duration of the course (between 6-10 years)	Min 6 years after the end of the Master's Degree Up to 15 years	2x the duration of the course (max 20 years)
<b>Guarantee fee</b>	No	NA		No	No
<b>Interest rate</b>	1% (rest will be covered by subsidy)	No interest charged	EURIBOR + 1.25%	F. Int. discretion (e.g. 5.15% Spain, 5% Italy, 3,17% Croatia)	12 months EURIBOR + 2% but not less than 5% in total
<b>Eligible expenditures</b>	Fees, living expenses	Fees, living expenses		Not regulated	Not regulated
<b>Eligible courses</b>	Bachelor's, Master's, Doctoral (abroad only)	Master's and 5 years long studies (in Italy)	Bachelor's, Master's, Doctoral (in Portugal)	Master's (abroad only)	All levels (in Estonia and abroad)
<b>Own contribution</b>	Yes, 20%	No		No	No
<b>Collaterals</b>	Life policy	No		No	2 additional third party guarantees or real estate
<b>Guarantee Cap Rate</b>	25%	NA	15%	Up to 18%	No
<b>Guarantee Rate</b>	80%	NA	80%	90%	100%
<b>Other</b>				Possibility to request, at least once, a payment hold of a minimum of 12 months	Additional grace period for military service, parents raising young children etc.





# Communication and dissemination



- FIs with a broad target spectrum vs FIs addressing particular target
- The latter may require ad-hoc awareness raising campaign to reach out to final recipients (roadshows, mailings, advertising, etc.), even more if the F.Int. doesn't have a local presence/branches
- MA and F.Int. could benefit from synergies with local PAs and other stakeholders



# fi-compass engaging ESF community

- Web-based survey on the use of FIs under ESF – challenges and needs for support

**Online now!**



Survey on financial instruments under European Social Fund (ESF). Reflections at present and ideas for future



Survey on financial instruments under European Social Fund (ESF). Reflections at present and ideas for future

The European Commission, Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) and the European Investment Bank (*fi-compass*) are carrying out a **survey on ESF Managing Authorities and stakeholders**, aiming to receive their feedbacks on present experiences on financial instruments (FIs) under European Social Fund (ESF), in addition to collecting future views and suggestions.

In this context, we share with you a short **online questionnaire**:

[Go to questionnaire](#)



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