fi compass ESF

advancing with ESIF financial instruments

The European Social Fund

Financial instruments

European Commission

European Investment Bank

The EU bank

Financial instruments co-funded by the European Social Fund are a sustainable and efficient way to invest in the growth and development of people and their skills in order to promote employment and social inclusion goals across the EU. They can support a broad range of development objectives to the benefit of a wide range of recipients with the potential for funds to be reused for further investments.

The European Social Fund (ESF), one of the European Structural and Investment Funds, aims at enhancing employment and fairer life opportunities for all. It is the European Union's main tool for helping people get a job (or a better job), integrating disadvantaged people into society and ensuring fairer life opportunities for all. It does this by investing in Europe's people and their skills – employed and jobless, young and old.

The ESF has an overall budget of €86 billion for 2014-2020. This support is targeted towards ~15 million people each year to enter into the job market or to improve their skills to find work in future or for better social integration of certain disadvantaged individuals.

The ESF support can be provided through grants and, increasingly, through financial instruments.

In 2007-13, a total of 49 financial instruments, primarily limited to supporting SMEs, have been implemented across 7 Member States to finance ESF interventions. This modest take up indicated that ESF stakeholders lack experience using these instruments and are less used to dealing with market mechanisms, but this also implies a great potential in effectively tackling social issues using recyclable funds.

Financial instruments

- are expected to be repaid;
- are revolving, i.e. with funds repaid being used again in the same area;
- are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received;
- are designed to attract co-investment from other sources, including private investment, to increase the amount of funds available in particular in sectors/areas where there are problems with access to finance;
- can take the form of loans, guarantees, or equity;
- can also support supply-side development, by contributing to development of the market;
- may be used in a complementary way with grants; and
- may be managed by national or regional banks, international organisations such as the European Investment Bank or the European Investment Fund, by financial intermediaries, and (for loans and guarantees only) by managing authorities.

In 2014-2020, recognising the advantages of financial instruments, their use is extended to **all thematic objectives** and is expected to further intensify due to the improved and more flexible implementation options.

Financial instruments can be co-funded by the ESF to **support the investment priorities outlined in the ESF operational programmes** by Member States and regions, provided that they address **an identified market gap**, i.e. areas of activity where banks are unwilling to lend and/or where the private sector is unwilling to invest. For instance, where there is not enough funding available for individuals to embark on non-business ventures, where the market is not supplying enough capital to SMEs/ start-ups or where groups of displaced individuals/ communities are in need of funds for successful reintegration back into education or the labour markets.

Financial instruments can thus contribute to the achievement of the following thematic objectives of the ESF:

- promoting employment and supporting labour mobility;
- investing in education, skills and life-long learning;
- promoting social inclusion and combating poverty; and
- enhancing institutional capacity and efficient public administration.

A **broad range of ESF-supported financial instruments** can be potentially implemented:

- **Loans**, which may be available where none are offered commercially (e.g. from banks), or may be on better terms commercially (e.g. with lower interest rates, longer repayment periods, or with less collateral required). For instance, loans may be provided to individuals for setting up their own enterprises or embarking on further training, to social enterprises, or to institutions working with marginalised communities – e.g. displaced nationals of third countries – in order to better integrate them in the European social structure.

- **Microcredits**, which are smaller loans made to people sometimes excluded from financial services, often provided over a short term and with no or low collateral required. Examples may include provision of loans to social enterprises or to young entrepreneurs or to unemployed individuals for obtaining specialised vocational training thereby enhancing their employment prospects.

- **Guarantees**, where assurance is given to a lender that their capital will be repaid if a borrower defaults on a loan. For instance, young entrepreneurs or social enterprises targeting the aged/long term unemployed people but lacking the necessary financial backing may be supported through guarantees co-funded by the ESF, thereby creating further jobs in the economy.

- **Equity**, where capital is invested in return for total or partial ownership of a firm; the equity investor may assume some management control of the firm and may share the firm's profits. Equity can be invested at different stages in the lifecycle of a business, but publicly-backed equity is most used as early-stage capital for seed and start-up funding (including venture capital). Equity is most likely to be relevant for higher risk and potentially higher growth firms, as well as smaller local organisations, for example those creating new, sustainable jobs or those piloting financial innovation in order to reward social organisations that deliver valued social outcomes or those focused on innovative technologies for solving existing social problems.

Financial instruments may also be offered in combination with grants and other forms of assistance. It is often necessary to improve the investment readiness as a pre-requisite for attracting investment funds. Advisory and other support can be grant-aided through the ESF.

It is also possible to contribute ESF resources to financial instruments managed at the EU level, such as those promoting microfinance and social entrepreneurship under the programme for Employment and Social Innovation (EaSI).

Financial instruments co-funded by the ESF contribute to the long-term development and diversification of investment opportunities by supporting activities in areas where levels of investment have often been suboptimal and stimulating the development of commercially-viable projects thus opening up new market opportunities. They can also create opportunities for investors and financial intermediaries. Access to financing has typically been costly and difficult for firms in the social sector and in many Member States, the sector is considered by banks and other financial institutions as high risk in terms of lending and access to credit. However, some projects can become more attractive investments due to public sector backed financial instruments and related risk-sharing.

For more information

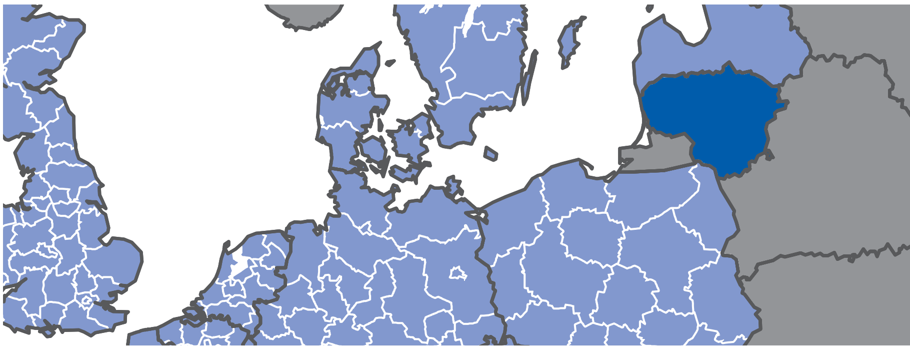
For a reference guide for managing authorities on financial instruments in ESIF programmes:
ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

For information on the ex-ante assessment methodology for financial instruments:
http://ec.europa.eu/regional_policy/en/funding/financial-instruments/

For the European Structural and Investment Funds legislation:
http://ec.europa.eu/regional_policy/index.cfm/en/information/legislation/regulations/

For the 'fi-compass' website, the platform for advisory services on financial instruments under the ESIF:
http://www.fi-compass.eu/

For more information on the European Social Funds Regulation, including Implementing and Delegated Acts:
http://ec.europa.eu/esf/main.jsp?catId=33



Entrepreneurship Promotion Fund

EUR 14.5 million ESF
Loan + training
SME
Lithuania

... supporting entrepreneurs to develop a sustainable business ...

The Entrepreneurship Promotion Fund in Lithuania offers loans in combination with free training for business start-ups, individual entrepreneurs and social enterprises. Priority is given to disadvantaged groups, i.e. unemployed and disabled people, and those under 29 or over 50.

Since 2009, the EPF has promoted self-employment and entrepreneurship to keep people active in business and the labour market, resulting in the creation of almost 2 000 jobs. It illustrates how a combination of free training and loans can address market gaps in the support available to start-ups.

Start-up and micro loan guarantees

EUR 6.01 million ESF
Guarantee
SMEs and start-ups
Estonia

... addressing the financing gap faced by start-ups with insufficient collateral ...

The Start-up and micro loan guarantee instrument in Estonia is aimed at firms in their first three years of operation. The fund guarantees start-up and expansion capital. In addition, free consultancy advice is available to prepare business plans required as part of the application for a start-up loan, and training is provided by Enterprise Estonia's county development centres.

This financial instrument has operated since 2008 and by December 2013 had offered 304 guarantees.

Microcredit Fund ESF Campania

EUR 120 million,
incl. EUR 65.5 million ESF
Microcredit
SMEs, individuals,
micro-enterprises
Italy

... supporting individuals and micro-enterprises unable to access finance ...

The Microcredit Fund ESF Campania in Italy supports business start-ups and spin-offs with loans of up to EUR 25,000 at zero interest. This stimulates investment, employment and growth in the region by helping individuals who do not otherwise have access to credit.

Since 2012, Sviluppo Campania, the regional economic development agency, has established offices throughout the region. It provides comprehensive information and advice and free support to businesses in the start-up phase. To date, 1845 final recipients have been supported, of which 1400 are SMEs and micro-enterprises and 445 are individuals, creating 1145 jobs in the region.

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