Financial instruments working with social entrepreneurship
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Introduction

‘A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.’\(^1\)

The importance of social enterprises in tackling social challenges and fostering inclusive growth has been increasingly recognised in recent years across the European Union (EU). Austerity measures resulting from the economic crisis had a negative effect especially on those social enterprises which rely more on public finance. Nonetheless, evidence indicates that social enterprises have weathered the crisis better than mainstream enterprises. Moreover, in response to the crisis, the emergence and expansion of new market-based business models seeking ways to contribute to economic and societal value, together with the rise of social innovators and entrepreneurs looking to improve the quality of life, have created new opportunities for social entrepreneurship.\(^2\)

To promote a ‘highly competitive social market economy’, the European Commission (EC) has placed the social economy and social innovation at the heart of enhancing territorial cohesion and the search for new solutions to social problems, in particular the fight against poverty and exclusion.\(^3\) Social cohesion has been a guiding principle in most EU economic policy choices, laying the foundation for an integrated vision of European growth.

However, given their specific characteristics, accessing finance from traditional sources can be particularly problematic for social enterprises. Creditors and potential investors often think they are higher-risk and less profitable than other businesses due to constraints on their redistribution of profits or their employment of vulnerable workers. More than other businesses, social enterprises are faced with gaps in the financial markets. They also lack a specific policy and a regulatory framework in most EU Member States, which makes it hard to access public funds.

This document therefore will explain how to distinguish social enterprise financial needs from those of other enterprises and how to address these needs using European Social Fund (ESF) funded financial instruments under five topics:

This brochure is closely related to other fi-compass products, including the use of financial instruments in the ESF framework and the implementation of financial instruments in microfinance.

Some concepts that are common to all financial instruments such as their life cycle or the key features of financial products, are described in further detail in other fi-compass advisory publications.

<table>
<thead>
<tr>
<th>fi-compass product</th>
<th>Content relevant for social enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introducing financial instruments for the European Social Fund</td>
<td>Why use financial instruments in the ESF programme; social impact investment; final recipients and financial intermediaries; how to manage and implement financial instruments; financial products</td>
</tr>
<tr>
<td>Financial instruments working with microfinance</td>
<td>The microfinance ecosystem and the use of microcredit in the ESF; financial intermediaries and financial products in microfinance; the role of non-financial services</td>
</tr>
<tr>
<td>Case studies</td>
<td>Insights from past and current experience in implementing financial instruments under the ESF</td>
</tr>
<tr>
<td>Developing an action plan – design, set-up, implementation and winding-up of financial instruments</td>
<td>The four phases of the financial instrument life cycle; regulation provisions; how to design an action plan</td>
</tr>
<tr>
<td>Financial Instruments products – loans, guarantees, equity and quasi-equity</td>
<td>Key features and differences of financial products</td>
</tr>
</tbody>
</table>

Note: ■ ESF related product; ■ ESIF related product.
1 What are social enterprises and how can they contribute to ESF objectives?

The EC uses the term ‘social enterprise’ to cover the following types of business:

- those with a **social or societal objective**, often in the form of a social innovation;
- those where **profits are mainly reinvested** to help achieve this social objective, and
- where the organisation or ownership reflects the mission, under **democratic or participatory principles** or is focused on social justice.

The definition incorporates the three key dimensions of a social enterprise:

- an **entrepreneurial dimension**: differently from traditional non-profit organisations/social economy entities (pursuing a social aim and generating some form of self-financing, but not necessarily engaged in regular trading activity), social enterprises are engaged in continuous economic activity;
- a **social dimension**: social enterprises have a primary and explicit social purpose, which distinguishes them from mainstream (for-profit) enterprises;
- a **governance dimension**: social enterprises have mechanisms to ‘lock in’ the social goals of the organisation, which distinguish them even more sharply from mainstream enterprises and traditional non-profit organisations/social economy entities.

![Figure 1.1: The three dimensions of social enterprises](image-url)

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Social enterprises are businesses:

- that provide social services and/or goods and services to vulnerable persons; and/or
- use a method of production of goods or services with a social objective but whose activity may be outside the realm of the provision of social goods or services.

With their participatory nature, social enterprises involve a broader range of stakeholders in the design and delivery of welfare services/goods to specific groups of individuals or within a spatially defined community. They also contribute non-monetary resources, identify gaps in service provision and pioneer new services leading to social cohesion. Social enterprises facilitate social inclusion through integrating marginalised people in their workforce, supporting the development of society, mobilising community resources, fostering active citizenship and developing partnerships for social innovation.

Social enterprises focus on **value creation** – increasing society’s net value after resources used in that activity and contributing to the social impact – as opposed to commercial entrepreneurship’s predominant focus on **value appropriation**.

Figure 1.2: The contribution of social enterprises to the creation of value

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7 European Commission COM (2011) 682 final, ‘Social Business Initiative – Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation’, p.3.


Social enterprises can have a broad range of activities or social missions including 10:

- Social and economic **integration of disadvantaged and excluded people**, such as work integration and sheltered employment. Social enterprises are also an important vehicle for training and skills development for marginalised and unskilled people;
- Social **services** such as long-term care for the elderly and for people with disabilities, education and child care, employment and training, social housing, health care and medical services;
- **Other public services** such as community transport, or the maintenance of public spaces;
- **Strengthening democracy**, including civil rights and digital participation;
- **Environmental activities** such as reducing emissions and waste, or promoting renewable energy;
- **Practising solidarity** with developing countries.

In the EU there are significant differences across Member States in terms of the sectors in which social enterprises are active. These are mainly social services, employment, training and education, the environment, and economic, social and community development. 11 Less prevalent are health, housing, business associations, law and advocacy.

In some EU Member States social enterprises are moving the prevailing business model towards one with a stronger focus on entrepreneurial activity as a means to achieve social missions. The aim is to achieve a social mission through the supply of services at a market price (for example, new sustainable consumer products and services such as ‘fair trade’ products, environment friendly products, renewable energy, etc.) rather than through the provision of employment opportunities of various types for disadvantaged people. 12

However, social investment markets are still under-developed in most EU Member States, which lack a specific policy and a regulatory framework for supporting social enterprises. The term ‘social enterprise’, therefore, cannot be referred to a concrete legal form, rather to a wide array of legal entities (constituted under a variety of legal forms according to each national legal system) but which share entrepreneurial, social and governance dimensions.

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Financial instruments working with social entrepreneurship

The regulatory environment for social enterprises in the EU

The majority of EU Member States do not have a specific policy framework for supporting the development of social enterprises. Sixteen Member States have a weak form of legislation that recognises and regulates social enterprise activity. There are three broad approaches to social enterprise legislation:\footnote{Ibidem pp. XV-XVI.}

- **adaptation of existing legal forms** to account for the specific features of social enterprises. This can be a separate, new legal form for social enterprise adapting the legal form of a cooperative, or a company;
- **creation of a social enterprise legal status**, which can cut across various legal forms and be adopted by organisations that meet defined criteria;
- **recognition of specific types of non-profit organisations** that allow for economic activity – although not labelled as such, these organisations are de-facto social enterprises.

In COM (2011) 682\footnote{European Commission COM (2011) 682 final, ‘Social Business Initiative – Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation.’} the EC expressed the need for specific and effective action to: create a favourable environment for social enterprises and key stakeholders in the social economy; facilitate their access to financial markets by consolidating a regulatory framework for social investment funds; and improve analysis, promotion and development of a legal and institutional environment for microcredits.

Financial instruments designed under the ESF can therefore assist social enterprise access to finance and support the creation of value, to promote the social economy through employment and social integration for the disadvantaged, and also to fulfil the obligations deriving from a financial transaction, such as the repayment of a loan.
Social enterprises can play an active role in addressing ESF goals. In particular, thematic objective 9 ‘Promoting social inclusion and combating poverty’ for the 2014-2020 programming period includes an investment priority specifically designed for social enterprises:

Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment

Under thematic objective 9 therefore, social enterprises can be final recipients of financial support under the specific investment priority. However, under thematic objective 9 social enterprises can also contribute to active inclusion, the integration of marginalised communities, as well as to enhancing access to affordable, sustainable and high-quality services, including health care and social services.

ESF financial support for social enterprises can also achieve goals under two other thematic objectives, 8 and 10. Social enterprises, in fact, are not the direct target of an investment priority in thematic objective 8 and thematic objective 10, but are vehicles to address social needs of other target groups, such as migrants, the unemployed and young persons not in employment, education or training (NEET), disadvantaged people, women and students.

Under thematic objective 8, for example, social enterprises can increase job opportunities especially for the long-term unemployed, people excluded from the labour market, those at risk of social exclusion or belonging to marginalised social groups. Social enterprises can also promote equality between men and women as well as active and healthy ageing.

Finally, under thematic objective 10, social enterprises can improve the quality and efficiency of education and training, including enhancing access to lifelong learning.

15 ESF Regulation (EU) No 1304/2013 Article 3.1(b)(v).
Financial instruments working with social entrepreneurship

Figure 1.3: The contribution of social enterprises to ESF thematic objectives

Social enterprises

Thematic objective 8
- self-employment through entrepreneurship
- integration into the labour market of young people at risk of social exclusion and from marginalised communities
- equality between men and women
- active and healthy ageing

Thematic objective 9
"Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment"

FINANCIAL INSTRUMENTS

Social enterprises

Thematic objective 10
- social investment research
- improve quality and efficiency of education and training
- enhance equal access to lifelong learning
2. The social enterprise financial ecosystem

Social enterprises often have more difficulties in obtaining finance than other enterprises. Each of the three key dimensions which contribute to the creation of value in social enterprises has repercussions on their access to finance, or on the financial return for investors. In particular, limitations on the distribution of profit, a higher-risk profile, lower expected returns connected with the social mission and the specificities of the governance structure need to be considered in the design and implementation of financial instruments aimed at social enterprises.

Table 2.1: From social enterprise dimensions to financial constraints

<table>
<thead>
<tr>
<th>Social enterprise dimensions</th>
<th>Main implications</th>
<th>Financial constraint</th>
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<tbody>
<tr>
<td><strong>Entrepreneurial</strong></td>
<td>social enterprises are engaged in continuous economic activity such as the production and/or exchange of goods and/or services. This distinguishes them from traditional non-profit organisations/social economy entities that generate income, but are not necessarily engaged in regular economic activities.</td>
<td>Economic activities may generate profits, but social enterprises have limits on the distribution of profits and/or assets.</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td>social enterprises pursue an explicit and primary social aim that contributes to society. To achieve social goals, social enterprises must have a long-term vision.</td>
<td>The social long-term mission is one of the factors that can give potential traditional investors the impression that social enterprises are higher-risk and less profitable than other businesses.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>social enterprises have inclusive governance with participatory, democratic decision-making processes, mechanisms to 'lock in' social goals of the organisation and the involvement of a range of stakeholders, including those directly involved in the enterprise, such as employees, end-users or volunteers.</td>
<td>Social enterprises often adopt the 'one member-one vote' principle (decision-making power is therefore not based on capital ownership).</td>
</tr>
</tbody>
</table>

Social impact investment can provide a framework to understand the design and provision of financial instruments for social enterprises, as well as the social context in which they operate.

The concept of social impact investment is a well-known paradigm in international organisations and political forums such as the Organisation for Economic Co-operation and Development (OECD) and G8. In many EU Member States the concept may help re-think the use of financial instruments. Social impact investment is very relevant for social enterprises since it is ‘the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial return’.

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17 This term is used to distinguish social impact investors, who are normally not affected by the specificities of the social enterprises and their related potential financial constraints.

**Social**: the primary objective and starting point is to tackle social needs such as ageing, health care, child care, affordable housing, assistance for disadvantaged people, unemployed people and people with disabilities.

**Impact**: the intention to produce social change and improvement in final recipient life conditions. The impact has to be **measurable and monitored** during the entire life of the investment.

**Investment**: by addressing social goals, the investment is expected to return the money invested or lent and, if relevant, to generate a **financial return**.

Social impact investment has five dimensions described below and illustrated in Figure 2.1. These can fit in the ESF framework and be adapted to social enterprise financial needs.

| Social needs | • For the ESF the social impact investment needs match those in the operational programme, strategy, priority axis and thematic and specific objectives. |
| Demand | • By supporting social enterprises, the ESF can also meet other target group needs such as the unemployed and NEET, women, students, the disadvantaged and migrants. |
| Supply | • Social impact investors can be government and public institutions, banks, foundations, high net worth individuals or philanthropists; • ESF resources can be provided through the operational programme and complement other measures (including technical support and business development services), other EU programmes, as well as national and regional resources. |
| Intermediaries | • Financial intermediaries can be commercial banks, venture philanthropy funds, charitable foundations, crowdfunding platforms, or community development finance institutions. Financial intermediaries can also provide non-financial services. |
| Enabling environment | • This includes social systems, administrative capabilities and those policy and regulatory frameworks aimed at increasing the visibility and recognition of social enterprises. In the ESF context the key enabling conditions are included in the ex-ante conditionality. |
Financial instruments working with social entrepreneurship

Figure 2.1: The social impact investment framework

**SOCIAL NEEDS**
The social needs are the same as those in the ESF programme strategy, priority axis and specific objectives

- Unemployed people including NEET
- Women
- Students
- Disadvantaged people
- Migrants

**DEMAND SIDE**
Social enterprises
- generate both social and economic outcomes
- reduce the need for public resources towards social inclusion
- contribute to the expansion of the social economy

**INTERMEDIARIES**
- Venture philanthropy funds
- Banks
- Crowdfunding platforms
- Charitable foundations
- Community development finance institutions

**SUPPLY SIDE**
ESF programme priority axis in combination with additional resources from public institutions, foundations, banks and other financial institutions

**BUSINESS DEVELOPMENT SERVICES**

**ENABLING ENVIRONMENT**
In the context of ESF, the key enabling conditions are included in the ex-ante conditionality
3. Financial intermediaries working with social enterprises

In the social impact investment framework there are different financial institutions as well as investors, operating either as financial intermediaries or on the supply side. They focus on a social mission or include a social mission among other commercial activities.

In the EU most financial intermediaries working with social enterprises are:

| **Venture philanthropy funds** | • Applying venture capital techniques to financing social enterprises, a tailored financing strategy is combined with non-financial services, organisational capacity-building and performance measurement;  
• A multi-stage selection process;  
• Providing grants, equity, or debt requiring a financial return in addition to the expected social return. |
| **Banks** | • Social-ethical banks, providing loans to companies or organisations which fit their mission;  
• Commercial banks that also have a philanthropic agenda or specific product lines for social enterprises. |
| **Crowdfunding platforms** | • Classified by type of financial instrument on the platform (equity, loans, rewards or donations);  
• Confidentiality agreements are rare given the number of individual investors;  
• Control and voting rights need to be pooled and structured to simplify interaction with shareholders. |
| **Charitable foundations** | • Invest assets in traditional equity and bond markets and use dividends and interest payments for a social mission;  
• Have significant assets. |
| **Community development finance institutions** | • Assist social enterprises to develop affordable housing, build community facilities, and launch or expand community programmes and community wealth building;  
• Provide capital and financial services to people and communities that typically are not served by traditional financial institutions. |

However, in dealing with social enterprises, financial intermediaries need to overcome many factors that constrain social enterprise development and growth as well as the development of social finance markets in Europe.

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19 The financial intermediaries and key features are based on W. Spiess-Knalf and S.A.Jansen ‘Imperfections in the social investment market and options on how to address them’ on behalf of the European Commission (2013).

20 Only institutions that do not pursue any religious purpose are discussed in this document.

Figure 3.1: From constraints on social impact investment to financial intermediary requirements

<table>
<thead>
<tr>
<th>Constraints on social impact investment</th>
<th>Financial intermediary requirements</th>
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</thead>
<tbody>
<tr>
<td>Poor understanding of concept of social enterprises</td>
<td>The term ‘social’ is often associated with charities and social sector entities rather than entrepreneurship. A lack of policy and legislative framework does not help clarify the concept of social enterprises.</td>
</tr>
<tr>
<td></td>
<td>Capacity to understand and share the social mission and to comprehend that financial return may require more time with a higher level of risk.</td>
</tr>
<tr>
<td>Lack of investment readiness and management capabilities</td>
<td>Absence of viable business models can limit sustainability and growth prospects for social enterprises. These can lack commercial orientation and entrepreneurial spirit, long-term strategic organisation structures or a professional management team.</td>
</tr>
<tr>
<td></td>
<td>Qualified expertise for providing business development services for: start-ups, business planning, development of the right legal structure, establishment of financial/accounting system, networks connecting investors, mentors and sponsors with social entrepreneurs, business skill training.</td>
</tr>
<tr>
<td>Difficulties in evaluating social impact</td>
<td>Absence of a common and clear mechanism for evaluating social impact can limit investor interest.</td>
</tr>
<tr>
<td></td>
<td>A structure and scheme to constantly evaluate and monitor social impact and compare it against financial returns.</td>
</tr>
<tr>
<td>Social enterprises reliance on public support or private donations or charitable contributions</td>
<td>Most social enterprise finance relies on public subsidies, grants and donations. There is limited experience with financial instruments.</td>
</tr>
<tr>
<td></td>
<td>Financial products tailored and adapted for social enterprise needs and expectations.</td>
</tr>
<tr>
<td>Public spending cuts and difficult economic conditions</td>
<td>Cuts in public spending limit resources for social services, constrain expansion and the ability of social enterprises to compete and survive.</td>
</tr>
<tr>
<td></td>
<td>Transform the negative effects of the crisis into new market opportunities and encourage new social enterprises in sectors where social services were previously provided by the State.</td>
</tr>
</tbody>
</table>
Figure 3.2: Requirements for financial intermediaries working with social enterprises

- Understanding of the social enterprises' social purpose
- Capacity to offer specialised business development services
- Capacity to evaluate and monitor social impact
- Capacity to offer tailored and adaptable financial products
- Ability to foresee new market opportunities in the social economy
4. Financial products for social enterprises

**Loan**

‘Agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time and under which the borrower is obliged to repay that amount within the agreed time’

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**Example**

**Financial Engineering Support for Social Economy Development, Poland**

Created under Poland’s Human Capital Operational Programme 2007-2013 as a pilot project to improve social enterprise access to finance and to tackle unemployment and social exclusion, final recipients are NGOs conducting trade activity, social cooperatives, religious organisations, and public companies and non-profit companies with limited liability, transferring all income to statutory social goals. With a budget of EUR 7.5 million (PLN 30 million), loans of up to EUR 25 000 are given for 60 months with a repayment grace period of up to 6 months and with no additional costs nor fees. Loans are combined with free non-financial services to improve final recipient business skills. By June 2015, EUR 6.88 million were disbursed to 288 social enterprises through 357 loans, creating 250 jobs and safeguarding an additional 1 000. The financial instrument is implemented through a fund of funds, the Bank Gospodarstwa Krajowego – State Development Bank.

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Guarantee

‘Written commitment to assume responsibility for all or part of a third party’s debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default’.

**Key Features**

1. Guarantees can preserve the equity of final recipients as there is normally no claim on the ownership of the enterprise.
2. Potential benefits for final recipients could include *inter alia*, lower or no guarantee fees, lower or no collateral requirements as well as lower risk premiums.
3. Since programme contributions cover only certain parts of loans (appropriate multiplier ratio), there is a high leverage effect.
4. The investment risk for third party lenders is reduced (because they only bear part of the risk of default).
5. Unfunded products such as guarantees require less initial support than funded products such as loans.

**Example**

**Employment and Social Innovation (EaSI) programme’s Guarantee Financial Instrument**

The Guarantee Financial Instrument built on the success of the European Progress Microfinance Facility (Progress Microfinance) which was an EU programme launched in 2010, managed and implemented by the European Investment Fund (EIF). It provides capped guarantees and counter-guarantees covering loan portfolios in the microfinance and social entrepreneurship segments. Eligible social enterprises must have an annual turnover not exceeding EUR 30 million, or an annual balance sheet total not exceeding EUR 30 million and which are not themselves a collective investment undertaking.

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Equity

‘Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits’

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**KEY FEATURES**

1. There are higher potential returns compared to pure debt instruments.
2. There is an active role in project management and access to shareholder information for the investor.
3. Stimulates investment by local private equity industry also in riskier areas not previously serviced.
4. The need for equity investment might prompt changes in regulatory framework to encourage a private equity market.
5. The company can benefit from investor’s management expertise.
6. Public investors can influence the configuration and mission of a company.

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**Example**

**Social Impact Accelerator (SIA).** The SIA is the first pan-European public-private partnership addressing the growing need for equity and quasi-equity finance to support social enterprises. This fund of funds is managed by the EIF and invests in social impact funds which target social enterprises across Europe. The SIA closed at the end of July 2015 having invested EUR 243 million, combining resources from the EIB Group and external investors, including Crédit Coopératif, Deutsche Bank, the Finnish group SITRA and the Bulgarian Development Bank. Social impact funds are asked to define between one and five social impact indicators per company in their portfolio and set objectives for each of the indicators. The EIF and co-investors monitor portfolio company progress towards achieving those objectives.

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Financial instruments working with social entrepreneurship

Quasi-equity

‘A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity.26

The different forms of quasi-equity (also known as mezzanine capital or mezzanine finance) are classified as closer to equity or debt capital according to the level of ownership acquired and the exposure to loss in the event of insolvency. The risk profile will also change with the duration of capital commitment and the remuneration conditions.

KEY FEATURES

1. For co-investors there are higher returns compared to pure debt instruments.
2. Addresses specific risk capacity constraints in a particular market segment.
3. Stimulates investment by local private equity industry, also in riskier areas not previously serviced.
4. Might prompt changes in the regulatory framework to encourage a private equity market.

5. Combination of support and synergies

The legislative framework for the 2014-2020 programming period contains conditions for combining financial instruments with other forms of support such as grants or other financial instruments in the same programme or from other EU programmes.

5.1 Combination of financial instruments with other forms of support

There are two types of combination that can be also applied to finance social enterprises:

a) Combination of support within a financial instrument operation (a single operation)

Other forms of support (including technical support, interest rate subsidies and guarantee fee subsidies) and the financial instrument are part of the same operation, co-financed by a European Structural and Investment (ESI) Fund under a priority axis of an ESI Fund programme. The other forms of support are provided either by the fund manager or, in specific cases, by the managing authority. The support is for the benefit of final recipients but is not directly paid to the final recipient.

Ex-ante assessment covers both financial instrument and grant

Managing authority

Financial instrument

Risk sharing loan

Interest rate subsidy, guarantee fee subsidy, technical support

Loans

Social enterprises

Note: figure adapted from European Commission (2015), ‘Guidance for Member States on CPR 37_7_8_9 Combination of support from a financial instrument with other forms of support’, p. 6.

27 CPR Article 37(7), (8), (9), Article 42(1), Article 65(11).
28 European Commission (2015), ‘Guidance for Member States on CPR 37_7_8_9 Combination of support from a financial instrument with other forms of support’.
29 Financial instruments implemented pursuant to Article 38(4)(c).
b) Combination of support at the level of final recipient (combining two separate operations)

Support from a financial instrument may be combined at the level of final recipient with support from another ESI Fund priority or programme, or another EU financed instrument. In this case the grant or other form of assistance does not constitute part of the financial instrument operation. This combination of support with a grant (or other forms of support) coming from another priority, programme or instrument takes place within two separate operations, each having distinct eligible expenditure.

Ex-ante assessment

Managing authority

- Funding agreement
  Art 38(7)
- Agreement
  Art 123(6)(7)

Body implementing financial instruments and awarding grants

- Acting as beneficiary for financial instrument operations
- Acting as intermediate body for grant operations

Separation of functions

Art 125(7)

Loan

- Is part of the financial instrument operation
- Financial instrument eligibility

Grant

- Is a distinct operation
- Eligible expenditure "incurred by grant beneficiary"
- Eligibility rules of grants

Final recipient / grant beneficiary

Note: figure adapted from European Commission (2015), ‘Guidance for Member States on CPR 37_7_8_9 Combination of support from a financial instrument with other forms of support’, p. 11.
5.2 Synergies between the ESF and financial instruments set up at EU level

One synergy of financial products for social enterprises with financial support under other EU programmes is the EaSI third axis, Microfinance and Social Entrepreneurship, which increases investment for developing and expanding social enterprises. With at least EUR 86 million allocated the EaSI programme facilitates social enterprise access to finance for up to EUR 500 000. A guarantee scheme aimed at microenterprises and social enterprises was launched in 2015. This can provide guarantees for loans of up to EUR 500 000 per social enterprise, while respecting State aid rules. Programme support is limited to eligible social enterprises not listed on the stock market that have a turnover or balance sheet not exceeding EUR 30 million and which comply with the social enterprise definition established in the EaSI Regulation.30

Organisations that can apply for the Microfinance and Social Entrepreneurship axis of EaSI include those established in:

- EU Member States;
- EEA countries, in accordance with the EEA Agreement, and EFTA Member States;
- EU candidate countries and potential candidate countries, in line with the framework agreements concluded for their participation in EU programmes;
- public and private bodies at national, regional or local level providing microfinance for individuals and microenterprises and/or financing for social enterprises in the above countries.

Microfinance and Social Entrepreneurship axis of EaSI offers two financial products for public and private institutions that provide social finance for social enterprises:

- **Funded instruments**, which include loans and equity. The pricing will reflect individual transaction risks as well as the local market. Financing for social enterprises may include investments up to EUR 500 000.
- **Guarantees (EaSI Guarantee Financial Instrument)**31, which provides capped guarantees and counter-guarantees covering loans in the microfinance and social entrepreneurship sector. The instrument is designed for financial intermediaries to expand their range of final recipients and increase the availability and accessibility of microfinance for vulnerable groups, microenterprise and social enterprises.

