



European Economic and Social Committee

# Building a financial ecosystem for social enterprises

*The European Economic and Social Committee  
Exploratory Opinion INT/770*

Boosting Social Enterprises in Europe  
December 3-4, 2015



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## The European Economic and Social Committee (EESC)

- Treaty based consultative body gathering civil society representatives from the Member States
- Enables civil society organisations from the Member States to express their views at European level
- Connecting local realities to EU policy level → opinions, meetings, communication etc.



“The European Parliament, the Council and the Commission shall be **assisted by an Economic and Social Committee** and a Committee of the Regions acting in **an advisory capacity**.”

Treaty on European Union, Art. 13



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## The EESC and Social Economy Enterprise

- **Key policy expertise**
  - Opinion work → social enterprise and social economy, social impact measurement, social impact investment etc.
  - Social enterprise project → policy recommendations, policy support and capacity building
- Close **cooperation** with EU Institutions, European and Member State stakeholders, Observer in GECES and UN TFSSE
- **Permanent structures** and continued **policy priority**
  - Permanent Study Group for Social Economy Enterprises, Social Economy Category Group



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## EESC opinion financial ecosystem for social economy enterprises (SEE)

- **Request from Luxembourg EU Presidency** for an exploratory opinion on “Building a financial ecosystem for social enterprises”
- Aims to **explore the concept of a financial ecosystem from the perspective of social enterprises**, the **main characteristics and necessary conditions** needed to fully build an adequate and effective European framework for the financing and investment into social economy
- **EESC opinion adopted** by the EESC September 2015, published in the Official Journal of the European Union



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## The backdrop

- A **new social landscape** is emerging in Europe as a result of the crisis and our society facing new complex challenges
- An urgent need to **mobilise** all sectors and resources in society
- The **social economy is a vital sector** providing solutions for e.g. employment creation and social inclusion contributing to smart, sustainable and inclusive growth
- Sector still **underdeveloped** in many Member States → to unleash its full potential an enabling ecosystem must be developed



## Access for finance - a challenge for SEE

- SEE business **models are insufficiently recognised and understood**
  - Mainstream financial market logic not designed to support SEE development
    - does not capture and reward the social value created of the general interest mission
    - return on investment for SEEs entails delivering primarily social impact and limited financial returns
    - the logic of mainstream financial instruments does not fit SEE models
  - Since social mission overrides the maximisation of profit, there is a false impression that SEEs are higher risk and less reliable than other businesses → in fact they are proven the opposite
- **This incompatibility** in the existing financing framework calls for:
  - **Cultural adaptation** of financial, legal, policy framework to design and support appropriate tools
  - Specifically **tailored financial instruments**



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## Elements of a supportive and sustainable financial ecosystem

- SEE rely on a **mixed revenue stream** and several funding sources:
  - Public funding, private finance, individuals interest, SE sector's own capital, specialised financial institutions etc.
- The **ideal financial ecosystem** for SEE includes features such as
  - A **multi-stakeholder** approach
  - **Hybrid** and **patient** capital solutions
  - **Guarantee** schemes and co-investment mechanisms
  - **Guidance** and **business development support**
  - Applying **social impact measurement** in parallel with financial returns
  - A **lifecycle** approach
  - Specific support to **social economy social finance providers**



## Opinion recommendations 1(2)

### To the European Institutions

- To play a **supportive, catalytic, enabling and mobilising role** → support the emergence, experimentation and innovation of new instruments
- Must continue to demonstrate commitment by **renewing the SBI agenda**
- Promote research on the **societal added-value of investing** in SEE
- Should make full use of the fact that the social economy is an **investment priority in the current Investment Plan for Europe**
- Should review **if/how social impact investment can be a component** of the financial ecosystem and if the policies behind support SEE development
  - The EU must equally recognise SEEs by **providing a supporting factor in the CRR regulation.**
  - Should **gather and share** innovative instruments and solutions to provide evidence for policy decisions
- Financial support must be coupled with **providing guidance, training and capacity building** for governments and key stakeholders
- Consider **peer-reviews** on financing SEE activities and structures
- Review the benefits and challenges of providing **tax incentives**





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## Opinion recommendations 2(2)

### To Member States, Local and Regional Authorities

- Develop and implement **national support systems** for the social economy
- Be **co-investors** to establish of ethical funds, social innovation funds and social venture capital funds
- **Evaluate state owned guarantee funds** to improve access to traditional finance
- **Encourage emergence of social finance intermediaries**
- Local and regional authorities are ideal to **provide local infrastructure** and take initiative for multi-stakeholder cooperation

### To SEE

- **Must themselves take initiatives** in developing instruments, gathering their own resources and initiating partnerships.
- **Should consider more cooperation** with external partners such as private commercial banks and various intermediaries.



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## In conclusion

- Do not lose the momentum → **renew the Social Business Initiative agenda now**
- Access to **finance is one component** in the full ecosystem
- Financial instruments must be **tailored to the specific business models** of the social economy
- **Solutions exist and can be replicated** → despite diversity in societal models
- **Key features are mutual** → multi-stakeholder approach, hybrid, patient, guarantee schemes, lifecycle approach, social impact measurement
- **Support** for sector is **needed at all levels** → EU, national, regional and local
- **EESC** will **continue** its work promoting the social economy enterprise agenda



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Thank you for your attention