INVESTING *FOR* IMPACT

POLICY BRIEF

ESF+ towards a more Inclusive and Fairer Social Economy

SUPPORTING AN ECONOMY THAT WORKS FOR ALL

The European Social Fund Plus (ESF+) will support investments in the social future of Europe from 2021 to 2027, as part of the next long-term EU budget. Social economy actors, including social investors and venture philanthropists, can play a key role in achieving several of the ESF+ objectives by providing capital and innovative approaches to different social issues. This fact is acknowledged by the European Commission, and thus, the ESF+ will dedicate part of its funds to the development of the social economy and the social investment ecosystem in the member states.

ENHANCING A SOCIAL EUROPE THROUGH THE NEXT MFF

Since its inauguration in 2019, the new European Commission, chaired by Ursula von der Leyen, has shown devotion to enforce the social dimension of the Union by pledging to present an Action Plan that will deliver the **European Pillar of Social Rights**[1]. The set of twenty principles and rights encompassed in the European Pillar of Social Rights is essential for fair and well-functioning labour markets and welfare systems in 21st century Europe, addressing the challenges arising from societal, technological and economic developments.

The **Multiannual Financial Framework (MFF) 2021-2027**, the next EU long-term budget, sets the tone for a more united, stronger and democratic European Union, in line with the European Pillar of Social Rights. As such, the European Commission has updated the longstanding European Social Fund (ESF), which for over six decades has been the key financial instrument to invest in people and create quality employment opportunity for European citizens.

The new European Social Fund Plus (ESF+) will be a simpler but stronger version of its predecessor through the **merger of five existing funds**. In the framework of this merger, the ESF+ will cover 11 specific objectives and allocate **resources to three priority areas**. Covering those areas, the ESF+ will put the European Pillar of Social Rights into practice.

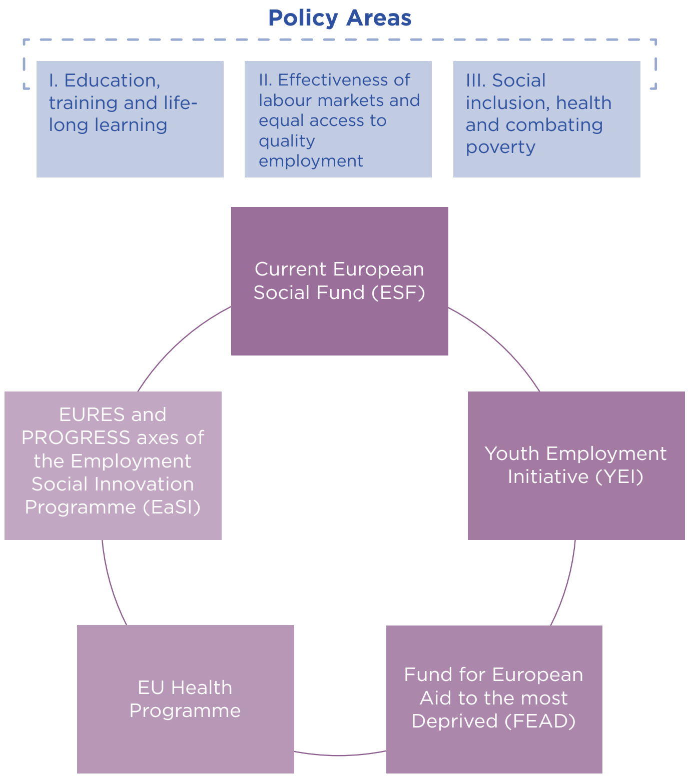

Figure 1: Funds Allocation within ESF+

Overall, the ESF+ will increase in size compared to its former version, covering 27% of the Cohesion Policy budget in the new MFF, to amount to EUR 101.2 billion for the period 2021-2027. EUR 100 billion of the fund will be under shared management with the Member States. This means that the ESF+ Managing Authorities in each country will dedicate the money to projects that are run by a range of public and private organisations, thereby ensuring to respond to the country- and region-specific needs. Out of this sum, EUR 200 milion will be under indirect management, mainly used for transnational

1 For more information on the European Pillar of Social Rights: [Booklet EU Pillar of Social Rights]

cooperation for social innovation. The remaining EUR 1.2 billion will be under direct management of the European Commission, and will be dedicated to health, employment and social innovation

The current situation and the last amendments of the EU budget 2020 adopted to free up funds for solving **the crisis caused by COVID-19 bring some delays** in finding a timely agreement for the new long-term EU budget (MFF 2021-2027)[2]. **The ESF+ financial allocation and structure might also suffer changes in the future**, in order to address the immediate consequences of the Corona emergency, in line with the positive steps already taken in terms of reorientation of existing instruments.

ESF+ MANAGING AUTHORITIES BRIDGING THE PARTNERSHIP WITH SOCIAL INVESTORS

The European Union has highlighted **the importance of the partnership with member states and social partners, both social investors and final beneficiaries of the funds**, "to facilitate and speed up delivery of the reforms needed to boost growth and employment."[3] Within this framework, each member state prepares an agreement, in cooperation with the European Commission, deciding how the funds will be used during the future funding period 2021-27. **Partnership agreements lead to multiple investment programmes** which channel the funding to different regions and projects.

Managing Authorities are national public bodies designated to promote and support partnership in Operational Programmes[4]. Their main responsibility is to provide information on the programme for potential investors, select projects and monitor implementation of the funds. Considering these roles, under the ESF+, managing authorities will **have three specific focal points directly linked to social investors' action**: identifying challenges faced by social investors, prioritising social innovation at the national level, and supporting European transnational social innovation.

Firstly, it is extremely necessary that **the process of collaboration between managing authorities and social investors** started during the current period continues in 2021-27. This cooperation has been primarily based on identifying difficulties in implementation of the funds by the social investors and it has signaled potential future challenges to the European Commission. Under the current EU Budget (2014-2020), one of the main difficulties was **the lack of clarity of social investors to align the complex EU regulations of the ESF to the national guidelines** and then, correctly apply them. A second challenge was respresented by the l**imited interest of financial intermediaries to offer products for ESF target groups** (e.g. people at risk of social exclusion, teachers and school children, young and older job-seekers, potential entrepreneurs from all backgrounds etc). These two obstacles are addressed in the new ESF+, representing a concrete output of this collaboration.

Secondly, the role of national ESF+ managing authorities **to engage social investors** is getting more and more important. In a decentralised manner, through shared management, managing authorities will have to plan how to use the funding under ESF+ in a way to dedicate at least one priority to social innovations and social investors. Specifically, national managing authorities have to (i) support actions of social innovation and experimentations, or strengthen bottom-up approaches through innovative multi-sector partnerships, and/or (ii) endorse the upscaling of innovative approaches that were tested under other European programmes (e.g. EaSI).

Ultimately, within ESF+ indirect management, the managing authorities will be able to express their interest in **supporting transnational social innovation initiatives** by implementing partnerships and mutual learning networks. This have the ultimate goal to accelerate the transfer of and facilitate the scaling of innovative solutions in the areas of employment, skills and social inclusion across Europe. To enable European regions to achieve better outcomes in the transnational projects they will perform, **managing authorities are instrumental in enhancing a basic coordination at the national level**. With an efficient internal cooperation within a members state, moderated by managing authorities, social investors might achieve access to wider European initiatives.

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2 European Commission (2020). "Europe's moment: Repair and prepare for the next generation"

3 Commission of the European Communities, Working Together for Growth and Jobs, A New Start for the Lisbon Strategy, Brussels, 2005, p.14.

4 European commission (2020). "Glossary – Operational Programmes"

INVESTORS *FOR* IMPACT UNDER THE ESF+

The European Commission recognises the important role the social economy and social innovation have to play in living up to the European Pillar of Social Rights. For the next programming period, the **ESF+ will have a strengthened focus on social innovation**. This framework creates many opportunities for collaboration between different national public entities and private actors such as **investors *for* impact, which have embedded in their mission[5] to support and scale-up social innovations.**

The European socio-economic environment is transforming on various levels due to technological, climate and socio-demographic changes. With a view to rendering employment, educational and social policies more responsive to these changes, support for social innovation is fundamental. In particular, (i) **testing innovative solutions before scaling them**, (ii) **finding new ways of collaboration between the public, private and third sector**, and (iii) **supporting the transfer of learnings** and innovations across borders, are the three principal areas to be addressed by the ESF+[6].

These main topics are perfectly matched with the natural characteristics of and objectives set by social investors for impact. **Investing *for* impact** means supporting and co-developing innovative solutions to pressing social issues, taking on risks that other funders in the market cannot or are unwilling to take. Investors for impact cover multiple types of actors and have a role to play in testing such solutions and bringing them to the market.

The European Commission intends to assist the emergence of a social investment market, **facilitating** both directly and indirectly (through managing authorities), **public and private interactions under ESF+**. These collaborations, might be **a good channel for investors *for* impact** to exchange good practices within a national or European network, and accelerate the creation of social impact.

Moreover, the Commission will directly manage the support given to **the eco-system for microfinance and micro-entreprises,** as well as to **networking and capacity building for social enterprises and social investors**. On top of this, the Commission will be responsible for providing guidance for the development of social infrastructure, such as housing, child care, education and training, and health care, which is needed for the implementation of the European Pillar of Social Rights. EVPA finds **this technical support very useful for investors *for* impact** to **increase their knowledge and expertise** in using more intensively the public funding and scale-up their approach within social economy.

In summary, the new and improved ESF+, will offer promising opportunities to **the Social Investment and Venture Philanthropy sector**. In the ESF+ regulation, lack of access to finance for social economy and social enterprises is presented as one of the main obstacles to businesss creation. Moreover, social investment market players, including philanthropic actors, are acknowledged to play a key role in achieving several ESF+ objectives, since they offer financing, innovative and complementary approaches to face social exclusion and poverty, and reduce unemployment. It is therefore desirable to involve philanthropic actors in ESF+ actions, especially in those activities aimed at developing the social investment market ecosystem.

A SUCCESS STORY

Portugal Inovação Social (Portugal Social Innovation – PSI) is a Portuguese government initiative created in 2014 to develop the social investment market and promote social innovation and social entrepreneurship in Portugal, through the mobilization of around EUR 150 million from the European Social Fund (ESF) within the Portugal 2020 Partnership Agreement (2014-2020).

Portugal was a pioneer in the use of ESF, financing the full life cycle of social innovation and social entrepreneurship. It supports projects that offer alternative and innovative social solutions by channeling funds through a blended finance approach consisting of four innovative instruments:

- **Capacity-Building for Social Investment**, a capacity-building grant scheme;
- **Partnerships for Impact**, a matching-fund for leveraging venture philanthropy;
- **Social Impact Bonds (SIBs)**, an outcome payment instrument for contracting;
- **Social Innovation Fund**, comprising a debt instrument that provides loan guarantees and an equity instrument that coinvests in a deal-by-deal approach

5 For more information on investors for impact: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-evpa-impact-strategy-paper

6 European Commission, Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Social Fund Plus (ESF+) COM/2018/382 final, May 2018.

During the set up of PSI, and over the course of the initiative, several takeaways were identified that are important to share for future endeavour, such as the replication of the same model in other member states:

1. **Political consensus** on the importance of Social Innovation;
2. **Central management** of Social Innovation policies and financing;
3. Importance of an **Activation Team** collaborating with the PSI's direct beneficieries mainly on the fine tuning on financing instruments;
4. Develop **wide range** of financing instruments, tailored to specific programmes: "one size does not fit all";
5. Existence of a **tax relief** policy in order to attract private capital to the sector;
6. Network of **Social Innovation Incubators** (more than 20 stakehoders in 3 years);
7. **Academic interest** in impact and in social innovation.

Besides the 7 principles which helped to the PSI set-up, the **time alignment between the beginning of the initiative and the economic-political context** played a key role. PSI started to be shaped in 2013, one year prior to the eligible period 2014-2020. Similarily, in the current year the national governments are planning and thinking about the generic design of the ESF+ funds deployment for the following eligible period that will start in 2021. Similar to the year 2013, the 2020 is a turning point for the EU planning and a good time for social investors to **challenge national governments and managing authorities to set up different initiatives for social economy.**

If everything goes as planned, the ESF+ regulation should be adopted by the end of 2020, and enter into force as of January 2021. However, due to the ongoing corona crisis, and the corresponding investments needed in public health care and short term unemployment schemes, the ESF+ budget, as well as its foreseen timeline might be altered. EVPA keeps monitoring the latest updates and will inform you in due time about any significant changes.

MORE INFORMATION

In April 2020, EVPA organised a webinar titled "A Strong Social Europe: ESF+ and the Social Investment Ecosystem". The webinar started with an introduction of the European Social Fund Plus and its focus on social innovation by Andrea Ieruste, Head of Unit within the Directorate-General Employment, Social Affairs & Inclusion (DG EMPL, European Commission). Afterwards, Aleksandra Dmitruk, Deputy Director in the ESF Department within the Polish Ministry of Investment and Economic Development, shed light on the past experiences, financial instruments, and future expectations from the Polish Managing Authority perspective.

João Machado from Portugal Social Innovation followed with the practical blessings and burdens the ESF funding brought to the Portuguese social economy. The session ended with many questions asked and a fruitful discussion by the speakers. A recording of the webinar is available on EVPA's website - here. EVPA's Policy team is also available to provide more information on these or other policy-related topics. Do not hesitate to contact the EVPA Policy team at bpolidoro@evpa.eu.com.

EVPA CONCLUSION

The ESF+ will aim to address the lack of access to finance for social economy actors as well as to meet the demand from those who need it most, such as the unemployed, women and vulnerable people wishing to start up a micro- or social enterprise. These objectives will also be addressed by the "Social Investment and Skills" policy window under InvestEU through a budgetary guarantee and financial instruments. Together, ESF+ and InvestEU are promising opportunities to look forward to for the social investment sector and the social economy overall.

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European Commission