

POLICY BRIEF

InvestEU: How to Actively Engage in the Process?

INTRODUCTION

As of 2021, InvestEU will be brought to life in order to further stimulate investments and innovation in the European Union. The **InvestEU Fund**¹ will bring under one roof a range of EU financial instruments that are currently available, by providing a **€38 billion guarantee** that is expected to mobilise an additional €650 billion. The Fund targets investments across **four different policy windows**:

- (i) Sustainable Infrastructure (€11.5 billion),
- (ii) Research, Innovation & Digitisation (€11.25 billion),
- (iii) Small and Medium Businesses (€11.25 billion), and
- (iv) Social Investments and Skills (€4 billion).

As part of the next Multiannual Financial Framework 2021-2027, and as the successor to the Investment Plan for Europe, the so-called Juncker Plan, InvestEU builds on previous successes, and also aims to incorporate some innovative aspects.

First of all, with its dedicated window for Social Investments and Skills, the EU budget allocated to investments in social enterprises, social housing, microfinance, universities, long-term care, etc. will increase from €2.2 billion under the current EU budget (2014-2020) to €4 billion under the next one (2021-2027).

Moreover, the **governance** of the InvestEU Fund will differ from that of the European Fund for Strategic Investments (EFSI)², the beating heart of the Juncker Plan, by entrusting the implementation of the EU guarantee not only to the European Investment Bank (EIB) Group, but by also opening it up to other implementing partners, such as International Financial Institutions (IFIs) and National Promotional Banks and Institutions (NPBIs). This entails significant advantages for the European social economy, related to geographical and sectorial expertise of those new actors.

1 For more information on the InvestEU Programme: European Commission, '[The InvestEU Programme. Questions and Answers](#)', April 2019.

2 For more information on the European Fund for Strategic Investments (EFSI): <https://www.eib.org/en/efsi/index.htm>

How will InvestEU boost the social impact investment sector in Europe? Which financial tools will be available to social finance providers? In what way might different stakeholders be involved in the programmes' roll-out?

Through this policy brief, EVPA wants to shed light on the above questions, to inform on what to expect next and to provide guidance on how to actively engage in the process.

THE THEORETICAL FRAMEWORK: THE INVESTEU IMPLEMENTATION CHAIN

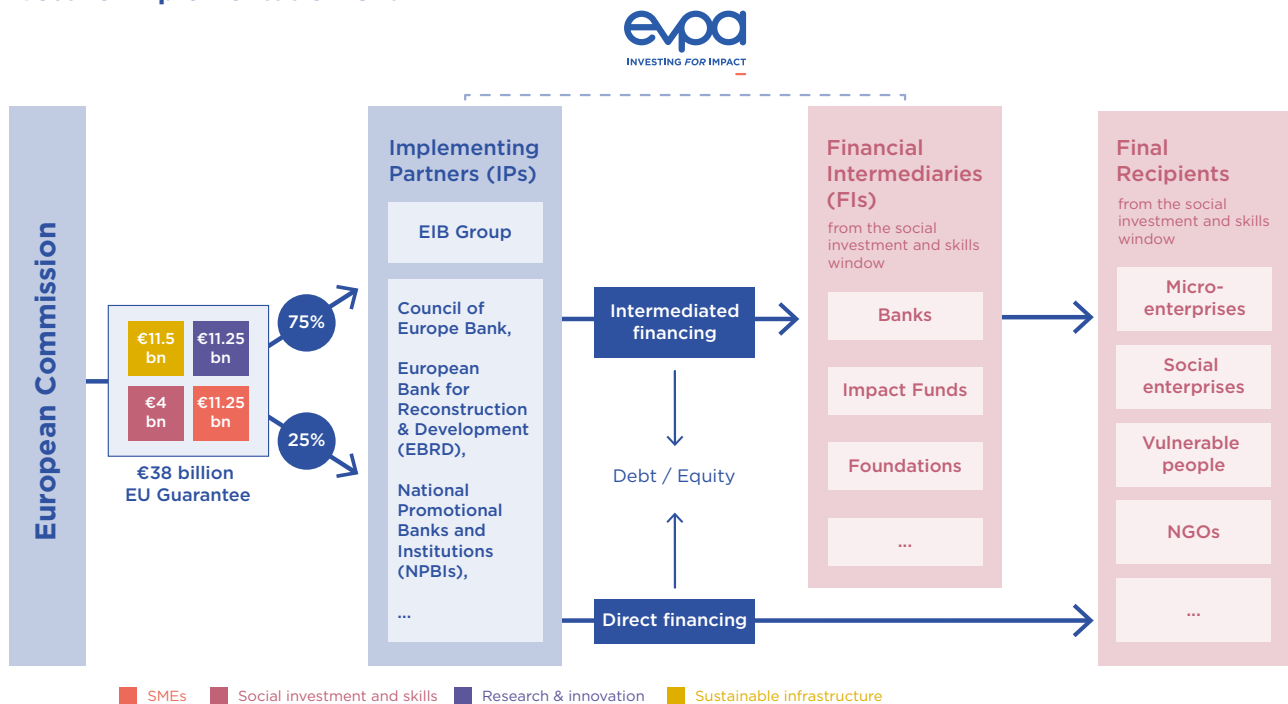
Through the InvestEU Fund, the European Commission aims to support projects that provide EU added value and that are coherent with the EU policy objectives, as understood by the programme's four policy windows. Particularly of interest for the VP/SI space, the "**Social Investment and Skills**" window supports investments in **three policy areas**:

- (i) microfinance and social enterprises; social impact and innovation,
- (ii) education, training and skills (ETS); and
- (iii) social infrastructure and services.

InvestEU is not developed to act as a funding instrument; instead, it consists of a €38 billion budgetary guarantee that will **cover the risk of investment and financing operations**. Investments in social projects are often perceived as having an increased risk. By providing the additional security of a guarantee, the InvestEU Fund hence boosts investments in areas currently characterised by a **market gap**, such as the social sphere through the Social Investments and Skills window. The investors *for impact*³, those who take risks that no one else can or is willing to take, putting the business model of the social organisation at the centre, are in this way stimulated to carry their mission forward. At the same time, it might also give a **boost to investors with impact**, who want to put their money to a good cause but need to guarantee a certain financial return, by encouraging them to invest in projects with an innovative solution to a social issue.

3 EVPA (2019) [The Charter of Investors for impact](#)

InvestEU Implementation Chain



IMPLEMENTING PARTNERS

The InvestEU Fund will be deployed through implementing partners. The EIB Group will remain the main implementing partner, given its experience under the current financial instruments and its capacity to operate in all EU member states. Additionally and differently from the current programming period, **25 per cent of the €38 billion guarantee will now be managed by other counterparts**, such as the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB), and National Promotional Banks and Institutions (NPBIs). EVPA welcomes the access of these additional actors to the InvestEU Fund. Being specialised in a specific market, either geographically or sectorially, these actors have the ability to adapt the financing to the respective unique needs.

These new implementing partners need to comply with certain criteria, such as having the capacity to contribute own resources, to crowd-in private investors and to provide adequate sectorial and geographic coverage. Before the start of the InvestEU programme, guarantee agreements will be concluded by the European Commission with each implementing partner to support its financing and investment operations that meet the InvestEU Fund objectives.

The implementing partners can provide financing in the form of loans, (counter-) guarantees, capital market instruments and any other form of funding or credit enhancement (e.g. subordinated debt, quasi-equity). Overall, the financial instruments of the current programming period will be continued if they were proven to work, or be adapted in case of shortcomings. These financial tools can be offered directly to final recipients, or indirectly through financial intermediaries. In the case of indirect operations, the implementing partners establish agreements with financial intermediaries for the roll-out of the EU guarantee.

FINANCIAL INTERMEDIARIES

When financing indirectly, the implementing partners will provide funding or guarantees to financial intermediaries, who can then provide support to the final recipients. For these actors, the added value of their intermediation is that they get funding for their investment and financing operations that fall under one of the four policy windows, or that those operations are backed by a guarantee. For the overall InvestEU Fund, this intermediated model has the advantage of triggering a leverage effect by crowding in additional capital. The financial intermediaries will be selected by the implementing partners through open, transparent, proportionate and non-discriminatory procedures, such as through a call for expression of interest.

Different financial intermediaries will be targeted according to the policy windows and depending on the different financial instruments designed by the implementing partners. For instance, under the “Social Investments and Skills” window, several types of organisations present in the EVPA membership can qualify as financial intermediary. For example there are cooperative banks in the case of debt financing, and venture capital funds in the case of equity financing. Furthermore, under the same window, **social investment market enablers are eligible as financial intermediary, including investment readiness and capacity-building intermediaries active in the social enterprise finance space, as well as social impact investors, and venture philanthropists.**

FINAL RECIPIENTS

The final recipients that will benefit from the EU budgetary guarantee can be private entities (e.g. companies, SMEs), public sector entities, mixed entities (e.g. public-private partnerships), and non-for-profit organisations. Furthermore, each of the four policy windows targets specific final recipients. For example, the Social Investments and Skills window focuses its support to, inter alia, people in vulnerable situations (e.g. people who are homeless, unemployed), students and learners, social enterprises, training providers, NGOs, etc. Importantly for the venture philanthropy and social investment sector, **the investment and financing operations under this window can also provide support to projects from public and private organisations that are active in the social investment space, such as venture philanthropists and impact-driven enterprises.**

TIME FOR ACTION: THE ROLE OF SOCIAL INVESTORS AND VENTURE PHILANTHROPISTS

From this regulatory framework, we can see that InvestEU has many opportunities in store to improve the access to finance for the social economy: (i) a dedicated Social Investments and Skills window, (ii) implementing partners at national level, and (iii) the capital-mobilising power of an EU budgetary guarantee. These elements indicate that InvestEU would finance not only traditionally large projects, but will take a step further to support high-value-adding, community-based, smaller and innovative activities.

Moreover, the increased budget for advisory services under InvestEU stresses the ambition to create an instrument that serves the real and **local needs** of the final recipients by providing support along the whole chain and along three axes: (i) market development, (ii) financial advice, and (iii) project delivery and implementation. Here lies the opportunity for the VP/SI actors to leverage their knowledge of the sector and the local market, and to promote adequate financial instruments and the supporting services for the social economy.

However, to reach its full potential, there needs to be open and constructive engagement between the European Commission, the implementing partners and the various practitioners on the ground, playing a role as both financial intermediaries and final recipients. At this point in time (i.e. first half of 2020), the potential implementing partners are having exchanges with the European Commission to discuss their guarantee agreements, which include the financial instruments. Moreover, EVPA members can be situated across the whole InvestEU implementation chain, ranging from being an implementing partner, to acting as a financial intermediary, and to being eligible as a final recipient. Therefore, EVPA wants to help in facilitating the dialogue between the different parties, to ensure that the financing tools are fit for the social investment sector⁴.

4 If you want to learn more about our efforts in this respect, or if you think your organisation can play an active role in InvestEU, please don't hesitate to send an email to Bianca Polidoro, EVPA Policy Manager, at bpolidoro@evpa.eu.com

CONCRETE EXAMPLE

EaSI guarantee agreement between European Social Innovation and Impact Fund (ESIIF) and EIF for an innovative co-investment fund

In December 2019, the ESIIF signed a guarantee agreement with the European Investment Fund (EIF). The main purpose of the fund is to provide subordinated growth capital to social enterprises across Europe. The fund has a target volume of €20 million. The guarantee agreement allows the ESIIF to provide subordinated loans to around 60 early-stage social enterprises. In general, these social enterprises have difficulties in accessing growth capital, mainly due to risk considerations and rather small ticket sizes of up to EUR 500k. Hence, the fund creates true social impact meeting capital requirements from social enterprises that cannot be met by other market participants.

The ESIIF was initiated by the **Financing Agency for Social Entrepreneurship (FASE)** and is managed by **avesco management GmbH**, a subsidiary of **avesco Financial Services AG (avesco)**. The agreement is supported by the EU Programme for Employment and Social Innovation (EaSI), one of the programmes of the current MFF 2014-2020, which has a dedicated Microfinance and Social Entrepreneurship axis (this axis will fall under InvestEU as of 2021).

The ESIIF will always invest alongside experienced direct investors (e.g. business angels, foundations and social venture funds). Due to its multi-layered structure, the fund caters to the needs of different investor types, with a senior tranche for more risk-adverse investors and a junior tranche aiming towards higher financial returns. The fund is only available for semi-professional and professional investors in Germany.

of the social economy actors in their country, and to explore the possibilities in terms of financial instruments and advisory services.

Despite the focus in this policy brief on the Social Investment and Skills window, EVPA would nevertheless like to acknowledge the opportunities the other windows under InvestEU offer to the Union, and which might also be of interest to some actors in the VP/SI space. For instance, the current development of the European Green Deal and the accompanying Just Transition Mechanism, both relevant to the social economy sector, also tap into the InvestEU Programme. In the framework of the Green Deal, sustainability must be mainstreamed in all EU policies, and InvestEU specifically will dedicate at least 30 per cent of its Fund to fighting climate change⁶. For instance, there will be a dedicated just transition scheme under InvestEU, which is expected to mobilise €45 billion to enable investments in, inter alia, sustainable energy and businesses developing innovative products⁷. The Sustainable Infrastructure window will be the one focused the most on the Just Transition, but the other windows will also play a part.

In the meantime, we are looking forward to the agreement on the MFF 2021-2027 and the adoption of the InvestEU regulation, which were postponed to the first half of this year. Moreover, we are also awaiting the call for expression of interest that the European Commission will open in the first six months of the new year, and which will lead up to the guarantee agreements with the implementing partners. This all leads up to the official launch of the MFF in January 2021. From then on, the InvestEU Programme will support investment and innovation in the EU for seven years to come, bringing opportunities to both the investors for and with impact, and benefiting the development of the social economy overall.

EVPA'S REMARKS

What's next? Right now is the time for potential financial intermediaries, as listed above (e.g. cooperative banks, impact funds), to approach potential implementing partners⁵, in order to enter into conversation about the needs

⁵ At the time of writing this (January 2020), the European Commission has not yet launched the call for expression

of interest for implementing partners. Therefore it remains uncertain which international financial institutions or NPBIs will apply. Nevertheless, EVPA suggests social finance providers to approach the potential implementing partners in their network and to test the ground for their intentions related to InvestEU.

⁶ European Commission, '[Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The European Green Deal](#)', December 2019.

⁷ European Commission, '[The Just Transition Mechanism: Making Sure No One Is Left Behind](#)', January 2020.

MORE INFORMATION

In December 2019, EVPA organised a **webinar** titled “Towards InvestEU: Financial Instruments for the Social Impact Ecosystem”. The webinar started with an introduction of InvestEU and an update on the legislative process by Filippo Munisteri, Team Leader for Social Investments within the Treasury and Financial Directorate of the Directorate-General Economic and Financial Affairs (European Commission). Afterwards, Polyvios Eliofotou, Policy Officer at DG Employment, Social Affairs and Inclusion (European Commission) shed light on the financial products under the “Social Investments and Skills” window under InvestEU. Silvia Manca, Head of Social Impact Programmes at the European Investment Fund (EIF) followed with an overview of the role of implementing partners in the roll-out of the programme, with a detailed focus on the EIF. Finally, Olivier de Guerre, Founder and President of the French management company Phitrust, gave a presentation on the needs and expectations from a practitioner’s point of view. 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 policy@evpa.eu.com.

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