Comité économique
et social européen

# OPINION

European Economic and Social Committee

## Innovative financial instruments – social impact companies

Innovative financial instruments as part of the development of social impact companies
(exploratory opinion)

**INT/965**


Rapporteur: **Giuseppe GUERINI**
Co-rapporteur: **Marie-Pierre LE BRETON**


**EN**

| | |
|---|---|
| Referral | French Presidency of the Council of the European Union, 21/09/2021 |
| Legal basis | Article 304 of the Treaty on the Functioning of the European Union |
| Adopted in section | 13/12/2021 |
| Adopted at plenary | 19/01/2022 |
| Plenary session No | 566 |
| Outcome of vote (for/against/abstentions) | 231/1/3 |

1. **Conclusions and recommendations**

1.1 The EESC welcomes the decision of the French Presidency of the Council of the EU, and the specific commitment of the Ministry of Economy and Finance and of the French Government to support the implementation of the Social Economy Action Plan.

1.2 The EESC considers it important to develop innovative financial instruments capable of generating positive social impact; firstly through actions led by social economy organisations, but also through the involvement of all enterprises that have positive social impact goals. Consequently, the EESC welcomes and supports the provisions of the action plan for the social economy presented by the European Commission on 9 December 2021, in particular the proposal to encourage the setting up of markets for investment in social enterprises in Europe by supporting the creation of new instruments.

1.3 The EESC believes that recognition of the social economy and of the community as one of the 14 European industrial strategy ecosystems contributes to the promotion of social impact investments, and thus welcomes this recognition.

1.4 The EESC considers it important to introduce and support forms of investments aimed at generating social impact, creating high-quality jobs and attracting private investors and new capital, but recommends that these investments be developed in a way that generates additional and multiplier effects, while never replacing public social expenditure on essential services.

1.5 The EESC supports (i) the social impact assessment tools and indicators being co-built upstream on a project-by-project basis, thus ensuring that the specific characteristics of social economy organisations are respected and (ii) that a European definition of social impact is developed.

1.6 The EESC recommends that investments aimed at generating social impact be designed to strike a balance between the social impact (positive changes generated by the investment), the level of return (responsible and sustainable for the investor) and the level of risk to the social enterprise. They should strengthen social entrepreneurship through a new inflow of invested capital and improved transparency and social responsibility standards, and improve the capacity to include social impact and social economy enterprises in the European economic system.

1.7 The EESC appreciates the initiatives implemented by the European Commission in recent years, in particular, those related to the EaSI programme, and welcomes the fact that InvestEU has a specific allocation aimed at strengthening the European social infrastructure.

1.8 In order to encourage the Member States and the Commission to give new impetus to these initiatives, the EESC considers it important that regular analyses be carried out to map the various innovation systems in order to support social impact financing in the Member States, with the aim of building a shared knowledge base and promoting the exchange of best practices.

1.9 The EESC believes that it is essential to establish an EU-level body to steer and monitor innovative social economy financing initiatives and enterprises aiming to achieve social impact goals.

## 2. General comments

2.1 For many years, the EESC has supported the need for the European institutions and the Member States to strive to strengthen the role of the social economy in a European context.

2.2 Recently in opinion ECO/533, the EESC recommended that the Capital Markets Union (CMU) take full account of the different forms of social impact investment, particularly in the field of the social economy.

2.3 Over the past decade, awareness-raising and the recognition of the role of social economy organisations has led to an increasing focus on social impact investments, which should further develop the already significant potential of social economy enterprises regarding responsible and sustainable innovation and job creation[1].

2.4 Europe is in increasing need of inclusive and responsible financing, and the European Union needs to commit to introducing measures and guidelines not only for institutions, enterprises and financial funds, but also for universities, research centres and social and local economy stakeholders, on ways to develop social entrepreneurship potential and influence funding as agents for the development of a more inclusive and sustainable economy.

2.5 Many social economy organisations provide essential services for disadvantaged population groups. These include social, health, care and education services, and in general, all services that enable vulnerable people to live with dignity, first and foremost by guaranteeing suitable working conditions.

2.6 For this reason, social impact investments must be developed in a way that generates additional and multiplier effects in public policies – while preventing social impact investments from replacing public funds – especially for companies active in areas covered by social policies aimed at vulnerable people.

2.7 We have all been faced with social challenges brought on by the pandemic that prevent us from achieving ambitious sustainable transition goals (poverty and inequality, migrant integration difficulties, gaps in the inclusion of people with disabilities and unattainable housing for vulnerable families and young people). It is therefore time to support an economic growth model and a business process capable of promoting social objectives, among which, priority must be given to promoting high-quality employment.

## 3. Definition of innovative financial instruments

3.1 Given that the EESC concurs with the provisions of the action plan for the social economy concerning the need to introduce innovative financial instruments aimed at developing social impact enterprises and social economy enterprises, the EESC considers it very important to

1 https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/role-social-economy-creation-jobs-and-implementation-european-pillar-social-rights.

emphasise that these financial instruments include a wide range of investments based on the assumption that private capital can contribute to creating positive social effects, which should always be considered as a priority, and, at the same time, generate economic benefits.

3.2 What makes these instruments stand out is the investor's intention to pursue social objectives by creating common assets and common values, while also ensuring a balanced economic return, which is largely dedicated to achieving social objectives.

3.3 Active stakeholders who promote and create these innovative instruments can be enterprises, organisations or funds working to produce a measurable social impact that is compatible with the economic impact.

3.4 The following elements must characterise social impact investments:

- having a clear and intentional goal to create positive social impact;
- supporting enterprises that are clearly defined as social economy enterprises, based on commonly accepted definitions and objective criteria;
- setting expectation levels based on fair, sustainable and transparent economic returns, even where return rates could be lower than average market returns;
- the willingness to reinvest part of the assets to fuel other investments that pursue social objectives;
- a measurable impact, which is essential for ensuring transparency, and an adequate knowledge of the goals and objectives of the investment;
- where investments are intended for enterprises in the social economy, consistency with statutory principles and values must be a priority.

3.5 Social impact investments should, in particular, support enterprises engaged in innovation and community development, which would otherwise not be able to grow. They should also ensure residents have an adequate level of service. They should be able to produce potential drivers of inclusive economic growth.

3.6 Investments in enterprises and organisations that aim to generate social impact are in a position to improve the efficiency and effectiveness of public spending on social, education, health and cultural promotion services and support employment through increased investor participation in order to support an entrepreneurial ecosystem that combines economic sustainability and social responsibility.

## 4. The complex issue of defining social economy enterprises

4.1 While there is an increasing focus on analysing and understanding social economy enterprises and the innovative financial instruments that can best support them, numerous obstacles still need to be overcome to ensure that alongside social economy enterprises, an equally innovative, responsible and sustainable financial ecosystem can be built, to develop the effective implementation of a truly European economic model which benefits citizens and enterprises.

4.2 Many social economy organisations face obstacles in terms of full access to innovative financial instruments, such as holdings in private equity funds, quasi-equity instruments, as well as collateralised and long-term loans, and lastly earmarking solidarity-based financing in the context of employee savings schemes for social enterprises. Among these obstacles, we can identify four areas where the gap needs to be addressed:

- filling information gaps and correcting credit providers' perceptions as well as legal definitions, and the recognition of their specific economic nature;
- improving the skills of financial sector actors by assessing the functioning of social economy organisations from a financial point of view;
- supporting the training of social economy organisations to improve their economic and financial skills;
- improving the provision of information for social economy organisations, enabling financial arrangements to be used, thus combating levels of non-take-up.

4.3 On the first point, the EESC hopes that the social economy action plan will be an opportunity to encourage European institutions and Member States to reach an agreement on a definition valid for both public institutions and financial institutions in the European Union, which is increasingly necessary to ensure full access to the capital market, including through non-financial support measures geared towards strengthening the skills of the actors involved in social impact investments.

4.4 In this respect, the EESC considers that the capital markets action plan for people and businesses should focus more on the social economy's role in attracting social impact investments in Europe[2].

4.5 With regard to improving the capacity to assess innovative social investments, we believe that financial operators apply, in far too many cases, a high-risk level to social economy organisations simply because they use tools commonly used to assess other kinds of enterprises. This creates a misclassification that tends to underestimate the more specific dimensions of the social economy such as social and human capital, reputation, social function, social consensus, a focus on general-interest objectives, and the ability to generate common assets. It is what could be described as an excessive measure of resources due to the lack of instruments to properly measure the purpose.

4.6 Social economy organisations make implementing social, educational and environmental goals their main priority. This social aim must be fully reconciled with economic and financial requirements, one of the levers for the sustainability of these organisations, which requires support for training and skills for staff in economic and financial matters.

## 5. Innovative financial instruments and social taxonomies

5.1 Financial instruments dedicated to social enterprises have developed[3] considerably over the past decade, however there is still room to develop further and better address the needs of social enterprises, as well as supporting their growth in the internal market. The EESC considers that this growth needs to go hand in hand with the development of a culture of evaluation across all these organisations, in particular in academia, and of specific social economy evaluation tools.

---

2 A Capital Markets Union for people and businesses – new action plan, COM(2020) 590 final.

3 A general analysis can be found in the EC publication *A recipe book for social finance* https://op.europa.eu/en/publication-detail/-/publication/f1b8099b-fd4c-11e5-b713-01aa75ed71a1/language-en/format-PDF/source-234506515.

5.2 Between 12 June and 27 August 2021, the European Commission launched a consultation on social and environmental taxonomy. In this regard, the EESC draws attention to the need to avoid creating competition or even more serious conflict between environmental and social taxonomies.

5.3 The development of a single taxonomy model (social and environmental) is an ideal solution, precisely because of the close link between social and environmental objectives, but in order to be feasible and flexible, it should not impose heavy burdens on businesses.

5.4 Social economy enterprises are rooted in local communities where the participatory dimension predominates, and are also characterised by their social commitments such as job creation, job support and retention, fair remuneration policy and equal rights in the workplace. This is also explained by the fact that social economy enterprises generally have a participatory governance structure based on democracy, openness and transparency. These aspects should be taken into account and especially encouraged in the social taxonomy.

5.5 Social taxonomy should help to influence financing in order to complement public resources, which often provide inadequate support for social inclusion policies. However, social financing should never replace the role of the institutions, laws and public policies in pursuing the enforcement of social rights, balancing inequalities and combating discrimination.

5.6 With regard to services of general interest specifically, these must be financed through public funds, and can only be complemented with private capital. Enterprises which generate social impact play a crucial role in society, which is why investments in them must rely, as far as possible, on stable financial funds and patient capital. It must be borne in mind that social objectives are set over a long period of time.

5.7 Measurements and measurement methods could favour sectors which are more easily measurable, where there are more resources or more data available, to the detriment of areas where the objective measurement is more complex or where data are more difficult to obtain; steps must be taken to ensure that this does not happen. Collaboration between the public, private and the social sectors is necessary in order to achieve success in the social investment. The collaboration of the social sector is essential in order to prioritise the necessities, since they are the ones who work on the ground and know the needs.

## 6. Proposals based on good practices on the ground

6.1 In recent years, on the impetus of the Social Business Initiative of 2011, the European Commission has adopted various initiatives, both directly and through the European Investment Fund, to support social innovation and increase access to financing for social economy organisations. The EaSI Funded programmes, EaSI Debt, EaSI Guarantee, EaSI Capacity Building, and EFSI Equity Social Impact are particularly interesting. For future programming, the social initiatives envisaged by the InvestEU programme are also promising, especially if, as announced in the action plan for the social economy, specific innovations promoting social investment are introduced.

6.2 In order to promote a social-investment-friendly ecosystem, the EESC considers it important, when implementing the NRRPs that the Member States are preparing to implement with Next Generation EU financing to take a certain number of actions, such as those set out below.

6.3 Experiments to introduce and validate "pay by result" financing mechanisms have been developed in many countries. In France for example, through social outcomes contracting, paying particular attention to outcome-based financial models which involve private investors willing to mobilise resources for policies that have been agreed with the government (in particular in the area of social policies), payment for which is linked to achieving the expected results. The promotion of these practices must be based on prior assessments aimed at identifying potential negative trends such as capacity transfers to enterprises outside the scope of the social economy, or Member States pulling back from their commitments.

6.4 The "Centre of Expertise for Impact Investment", created by the Finnish government, is one of the most interesting best practices. Through this centre, technical and professional support is provided to enhance the skills of those who intend to make investments with a social impact.

6.5 These initiatives confirm the importance of supporting the creation, development and accessibility of impact funds, funds of funds or other financial instruments that finance social economy enterprise initiatives. This should be done, in particular, by channelling funds such as InvestEU or the just transition fund to also promote forms of co-investments (equity), co-financing (credit) and credit guarantees for market operations.

6.6 There needs to be improvement in the European institutions' and Member States' capacity to collect and analyse the data needed to demonstrate that social enterprises and infrastructures are less likely to default than the average for bank credit loans. This would promote recognition of capital absorption ratios that take into account the social value of this type of financing.

6.7 The EESC has already called for supporting factors in the Capital Requirements Regulation (CRR), particularly ecological and social ones, to reduce the absorption of capital set aside by banks to cover loans to finance social economy enterprises.

6.8 It is of course important to note the role played by alternative and ethical banks in many European countries in promoting finance geared to social and environmental objectives, which in some cases have also resulted in investment funds and managed savings companies aimed at investing in the social and environmental sector.

6.9 Tax arrangements facilitating investments in the social economy and able to highlight the social impact actually generated could be useful to encourage both issuers and subscribers.

6.10 It would also be crucial to encourage and promote patient capital, such as association and participation bonds aimed at strengthening the equity of associations and cooperatives. Moreover, in order to encourage investment in social economy enterprises, incentive rules facilitating the use of these innovative tools would also be useful for pension fund managers.

6.11 It is important, following the French experience with the legally-regulated earmarking of outstanding regulated bank savings and of solidarity-based employee savings funds respectively for social economy enterprises, certified social impact enterprises, and solidarity funds, to expand the regulation of solidarity-based finance funds in order to optimise earmarking levels for social enterprises and to unlock additional equity or quasi-equity investment capacity.

6.12 Among the good practices implemented by social economy enterprises (in particular cooperatives) are those which transform companies in crisis into workers organised as cooperatives. Known as "worker buy-outs" (WBOs)[4], these have been implemented in France, Italy and Spain, through financing arrangements by creating specific mutualised capital funds (which involve a holding in the capital) that co-finance commercial activities with workers through the creation of a cooperative.

Brussels, 19 January 2022

Christa SCHWENG
The president of the European Economic and Social Committee

_____________

4 *Business transfers to employees under the form of a cooperative in Europe: opportunities and challenges*, CECOP, 2013.