

European Social Entrepreneurship Funds - Frequently Asked Questions

1. What are social businesses?

Social businesses are companies that have a positive social impact and address social objectives as their corporate aim rather than only maximising profit. They are not to be confused with charities for example. Today, the social economy represents 10% of all European businesses and employs over 11 million paid employees.

Examples of social businesses:

In France, a business launched an innovative concept of water-free car washing services in 2004 using biodegradable products and employing unqualified or marginalised staff in order to reintegrate them in the labour market.

In the Netherlands, a company teaches reading using innovative digital tools and a method based on play. This method is particularly suitable for hyperactive or autistic children.

In Poland, a social cooperative comprising two associations employs long-term unemployed and disabled staff and provides a variety of services: catering and food services, small construction and handicraft services and training for disadvantaged people to help them find new jobs.

In Romania, a company with five members of staff and five volunteers has been working since 1996 to provide cultural services in the Romanian language to blind people by adapting media (especially audio books and adapted films) for an estimated 90 000 people.

2. What issues are social businesses facing?

The main issue in one word is: funding. While social businesses can access private finance, they still find it hard getting the finance they need to grow. Because of their unique mix of social goals and business techniques, banks and other financial intermediaries are often unfamiliar with the needs of social businesses or have difficulty in assessing the risk of investment. Responding to the Commission consultation last July (see [MEX/11/0713](#)), social businesses indicated that it is difficult for them to access loans from banks - except against collateral - as their business model is generally not supported. Investment funds are key to filling this gap. The European asset management sector is vast and strong, holding over €8 000 billion in assets under management. However, investment funds currently face challenges in supporting social business. **Two** problems have emerged.

The **first** problem is that funds dedicated to investing in social business can be costly and difficult to set up and gather investments, particularly from investors in Member States other than one in which they are based. This limits the size and efficiency of the funds, and reduces the options for investors across Europe.

The **second** problem is to do with information: funds which concentrate on investing in social businesses are not always easy to identify or distinguish from other funds, and it can be confusing for investors to compare the advantages of different funds or working out how effective a particular investment might be in supporting social businesses. Currently lots of different ways of presenting the aims and achievements of such funds exist.

3. What are the main elements of today's proposal?

A recognised EU brand for social entrepreneurship funds: In today's Regulation, the Commission is proposing the setting up of a new brand: European Social Entrepreneurship Funds. Funds that market themselves using this brand would have to invest at least 70% of their money in social businesses. With this label, investors will know that the majority of their investment is going into social businesses. In addition, the common EU-wide brand will make it much easier for investors throughout the EU to locate these funds.

Improved investor information: Each European Social Entrepreneurship Fund would have to provide key information to investors in a standardised way. This would cover such areas as the social objectives of the fund, the social businesses it invests in, and how the fund will assess how well these businesses achieve their social goals.

Break down barriers to fundraising across Europe: European Social Entrepreneurship Funds will also act as a passport. Once a fund has provided the required information and follows some key requirements on how to organise and conduct themselves, it would have the right to gather investments from investors across the whole EU without incurring major costs. They would be supervised – to ensure they follow the rules – by the authorities in the Member State where they are based. These funds would provide new opportunities for private individuals and professional financial services investors to help fund social businesses, adding to support already available from funds, banks and public bodies.

4. What would the benefits of this approach be?

Social businesses will get easier access to private finance, helping support their growth. This will benefit many ordinary citizens: creating inclusive and sustainable jobs and growth across Europe.

Professional investors will find it easier to identify and choose funds that are targeting investments in social businesses (European Social Entrepreneurship Funds).

Investment fund managers will find it less costly and complex to raise funds, including cross-border, and will find it easier to distinguish their social entrepreneurship funds from other kinds of funds.

5. How will social businesses be able to gain access to investments from the new funds?

Fund managers would operate as middle men – gathering capital from investors, and investing this into social business. They would also help the social businesses develop, providing advice or contacts and support for the entrepreneurs. By spurring on the work of the fund managers and other financial intermediaries, the new rules will help develop a stronger eco-system to support social businesses throughout the EU.

6. What does a European social entrepreneurship fund manager have to do in order to use the new label and passport?

To use the new label and passport for fundraising, the fund manager will need to comply with the rules set out in the Regulation. These are designed to ensure:

- that the fund is focused on investments in social businesses (at least 70%);
- good conduct of the manager's business;
- the suitability of organisational arrangements (such as effective systems and controls, ensuring adequate resources, effective record-keeping etc)
- that there are no conflicts of interest.

In addition, the fund manager will need to make key information available to investors. The fund manager will also need to register with the competent authorities of his home Member State.

7. Why has the Commission chosen 70% of capital contributions as the threshold for the eligible funds portfolio?

In preparing the proposal, the Commission analysed various thresholds. A lower threshold, for example 50%, would mean that about half of investors' money would be going into social business. The Commission believes this would not be very attractive for dedicated investors in this market.

On the other hand, a 90% threshold would give the funds manager very little scope for prudent risk spreading – i.e. putting all eggs in one basket – or liquidity management. The 70% threshold is therefore a balanced approach between investor confidence and risk spreading.

8. Can the passport be withdrawn?

Yes, the home Member State authorities can withdraw the passport if the European social entrepreneurship fund manager does not fulfil any of the above essential requirements.

9. What happens if a manager manages both European social entrepreneurship funds and other types of investment funds at the same time?

As long as the aggregate value of the assets managed in the European Social Entrepreneurship Funds does not exceed €500 million, the manager can use the new label for these funds and market them throughout the EU. The fact that he might also manage other investment funds does not count against the calculation of the threshold. The manager might need to seek authorisation under the Alternative Investment Fund Managers Directive (AIFMD) if the assets he manages exceed €500 million (see [MEMO/10/572](#)).

10. Can everybody commit capital to a European social enterprise fund?

At this stage only professional investors and a group of traditional investors in social entrepreneurship funds (family offices¹, angel investors², wealthy individuals, finance experts or philanthropic entrepreneurs) are eligible to invest in the funds that operate under the new rules. At a later stage, the rules may be reviewed in order to open these investments more widely to the general public.

11. When will the new rules enter into force?

Today's proposals now pass to the European Parliament and the Council (Member States) for negotiation and adoption. Once adopted, a regulation enters into force upon publication in the official journal.

More information:

http://ec.europa.eu/internal_market/investment/social_investment_funds_en.htm

¹ A [private company](#) that manages [investments](#) and [trusts](#) for a single wealthy family or multiple ones and provides services ranging from investment management and advice, accounting, tax and financial advice to educational planning or concierge services

² A private investor who provides both finance and business expertise to an investee company.