fi compass ESF+

Factsheet
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Combining ESF+ financial instruments with grants

European Commission

European Investment Bank

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DISCLAIMER

Abbreviations

Abbreviation	Full name
ANPAL	National Agency for Labour Active Policies
BGK	Bank Gospodarstwa Krajowego
BOV	Bank of Valletta plc
CPR	Common Provisions Regulation
CRDM	Central Register of *De Minimis*
CZK	Czech Koruna
EIB	European Investment Bank
ENM	Ente Nazionale per il Microcredito
EQF	European Qualifications Framework
ESF	European Social Fund
ESF+	European Social Fund Plus
ESIF	European Structural and Investment Funds
EU	European Union
FARR	Fundacja Agencja Rozwoju Regionalnego in Starachowice
FRP	Fundacja Rozwoju Przedsiebiorczosci in Suwalki
FRW	Fundusz Regionu Wałbrzyskiego
FSMA	Further Studies Made Available
FSMA+	Further Studies Made Affordable Plus
GBER	General Block Exemption Regulation
MDB	Malta Development Bank
MoLSA	Ministry of Labour and Social Affairs of the Czech Republic
MQF	Malta Qualifications Framework

NDB	National Development Bank (Czech Republic)
NEET	Not in Education, Employment or Training
NESTA	National Endowment for Science, Technology and the Arts
NFSE	National Fund for Social Entrepreneurship
NGO	Non-governmental organisation
NOP	National Operational Programme
OP	Operational Programme
OPE(+)	Operational Programme Employment (Plus)
OP KED	Operational Program Knowledge, Education, Development
PPCD	Planning and Priorities Coordination Division
SEE	Social Economy Entity
SESC	Social Economy Support Centre
SIF	Social Innovation Fund
SPAO	Active Policy Systems for Employment
STEPS	Strategic Educational Pathways Scholarship
TISE	Towarzystwo Inicjatyw Społeczno-Ekonomicznych
YEI	Youth Employment Initiative

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01 Why combine financial instruments and grants?

Combining financial instruments with grants can play an important role in delivering EU policy objectives, addressing market failures as well as stimulating investment demand and a pipeline of investment-ready projects. Grants enable financial instruments to support riskier components of projects or cover the part of the investment cost unlikely to be repaid from project revenues or cost savings. These combinations can also increase interest in the use of financial instruments for final recipients (for instance, when grants decrease the costs of accessing finance, e.g. lower collateral requirements, lower interest rates, etc.).

Within the ESF+ framework, combination is particularly useful as it also contributes to the social benefit for final recipients excluded from financial support. As social challenges can vary considerably among the typical target groups of the ESF+ support, the combination of grants and financial instruments allows for the design of **flexible financial solutions tailored to final recipients' needs and expectations** and for calibration of the repayable form of support in line with expected revenues or savings. Further advantages are illustrated through three key ESF+ areas - identified and described in this report through practical examples – where the combination of financial instruments and grants appears to be particularly suitable:

- **Self-employment.** Disadvantaged individuals such as those Not in Education, Employment or Training (NEETs), inactive or unemployed individuals, and migrants, may have an entrepreneurial spirit, but at the same time lack the skills to start and manage a business. Technical support financed by grants can address this gap, by providing, for instance, ad-hoc training, guidance, and advisory services contributing to an improvement in their skills and knowledge. With enhanced managerial and entrepreneurial skills, the combination ensures **higher viability and sustainability of projects**, which is essential for the effective use and reimbursement of financial resources;
- **Social enterprises.** Entities operating in the social economy have less access to finance than other enterprises due to their activities, which normally generate lower revenues and profits compared to commercial activities. In this case, grants can reduce the cost of accessing finance (for instance, by providing interest rate subsidies). Additionally, when grants are performance-based, they can **contribute to the social impact** of social enterprises, stimulating them to be more impact-driven and improve their capacity to monitor and measure their contributions to social benefits. An example is seen in the case of capital rebates, where the transformation of a part of the loan into a grant is related to the achievement of pre-agreed social targets (for example in terms of job creation or the provision of specific social services). Additionally, the grant component can be transformed into equity (i.e., convertible grants) when the social targets are achieved, thereby contributing to **improving attractiveness to private investors** and thus the financial stability of social enterprises;
- **Education.** Grants can contribute to covering student expenditures, but also to lowering the cost of accessing finance, for instance by reducing the interest rate of the loan (by providing interest rate subsidies). This ensures better financial conditions for the final recipients, while, at the same time, allowing the bodies implementing financial instrument to lower their risk and become more open to supporting students. The combination of grants and financial instruments can therefore **incentivise support to riskier investments and final recipients**.

The **new flexibilities under the 2021-2027 CPR** extend 2014-2020 combination options in one single operation according to Article 58(5) CPR. The body implementing the financial instrument can now disburse the combined grant support directly to the final recipients, rather than solely on their behalf, which is a key advantage. A combination of financial instrument and grants can support projects that do not generate sufficient revenue or cost savings to be financially viable. The CPR also retains the option to combine financial instruments and grants under two separate operations.

Furthermore, under the 2021-2027 CPR, combined financial instruments and grants in one operation are implemented solely under the rules for financial instruments. This provides a number of advantages[1]. For instance, **payment to final recipients is possible 'upfront'**, in advance of expenditure, if the managing authority so chooses. Secondly, **national co-financing of a programme must be demonstrated for the combined instrument**, without distinguishing between the grant and financial instrument. This gives managing authorities greater flexibility to deploy resources across a programme, as they can take advantage of flexibilities under article 59(8) of the CPR. For example, national co-financing could be provided at the level of specific funds or at the level of investments in final recipients. Moreover, audit, management verifications and controls and reporting are at the level of the combined financial instrument and grant operation. Therefore, **audit requirements focus on the beneficiary level** - i.e. the body implementing the holding fund or specific fund (without holding fund structure), or the managing authority where the managing authority implements financial instrument directly - **and exclude the final recipient level**. For a guarantee instrument, management verifications and audit extend to the bodies responsible for providing the underlying loans.

1 fi-compass (2021), *'fi-compass Knowledge Hub – Combination of financial instruments with grants'*, Notes of workshop.

02

Applicable regulatory framework in the 2021-2027 programming period

This chapter provides information[2] on the possibilities offered by the combination of financial instruments and grants under the 2021-2027 Common Provision Regulation (CPR)[3].

2.1 Differences with the 2014-2020 period

The Common Provisions Regulation (CPR) for the 2021-2027 programming period does not bring changes to the type of investments under the ESF+ that are in principle eligible to support from financial instruments. Article 58(2) 2021-2027 CPR states that 'financial instruments shall provide support to final recipients only for investments in both tangible and intangible assets as well as working capital, expected to be financially viable and which do not find sufficient funding from market sources. Such support shall be in compliance with applicable Union State aid rules. Such support shall be provided only for the elements of the investments which are not physically completed or fully implemented at the date of the investment decision'.

In the 2021-2027 programming period, the CPR continues to allow for two types of combination of financial instruments and grant, i.e. in one and in two operations. An important change is the extension of the possible options to combine financial instruments and grants in one operation. The rules on combinations of financial instruments and grants are defined in articles 58(4) to 58(7) of the 2021-2027 CPR as follows:

- Grants can be combined with financial instruments in one single operation (Article 58(5) CPR). In the 2014-2020 period, financial instruments could only be combined with grants in one operation at the financial instrument level, where the grants took the form of an **interest rate, guarantee fee or technical support subsidy**. These grants could not be paid directly to the final recipient. **The 2021-2027 CPR adds the possibilities to**:
    - use different types of grants under the condition that 'the programme support in the form of grants shall be **directly linked and necessary** for the financial instrument and shall **not exceed the value** of the investments supported by the financial product', and
    - to **make direct payment to the final recipients** (and not only to the benefit of the final recipients as in the 2014-2020 period);
- Grants can also be combined with financial instruments in two separate operations (Article 58(4) CPR) at the level of the final recipient as in the 2014-2020 period;
- In the 2021-2027 programming period, market failures and investment needs will be taken into account and forms of support (financial instruments and grants) will be justified at the programme level (Article 22(3) CPR).

2 The content is based on the fi-compass factsheet *'Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period'*, May 2021.

3 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

2.2 The combination of financial instruments and grants in one operation

Under the 2014-2020 programming period, the CPR already allowed for the combination of financial instruments and grants in a single operation, provided that grants were used for technical support or to subsidise interest rates and guarantee fees. While keeping these possibilities, **2021-2027 CPR extends the combination options and allows the disbursement of the combined support directly to final recipients**. Article 58(5) 2021-2027 CPR states: *'Financial instruments may be combined with programme support in the form of grants in a single financial instrument operation, within a single funding agreement, where both distinct forms of support shall be provided by the body implementing the financial instrument. In such case, the rules applicable to financial instruments shall apply to that single financial instrument operation'*.

Under 2021-2027 CPR, the combination of financial instruments and grants in one operation remains subject to a series of conditions as follows:

- **The programme support in the form of grants shall be directly linked and necessary for the financial instrument operation.** In the 2021-2027 programming period, the managing authority needs to demonstrate that the grant is necessary for the financial instrument to, for instance: cover the non-financially viable part of the investment; incentivise for a maximisation of the policy impact (e.g. performance related conditions); mitigate project risks; and/or enhance the coherence and efficiency of support schemes through an integrated one stop-shop-approach;
- **The programme support in the form of grants shall not exceed the value of the investments supported by the financial product.** This condition should be verified at each financial instrument level and not systematically at project level. However, most projects benefiting from this type of combination are expected to report a funding structure in which the investment amount supported by the repayable form of financing (financial instrument) is at least as high as the one covered by the non-repayable one (grant). The value of the investments supported by the financial product - and not the financial product amount itself - is taken as a point of comparison for the grant element. Indeed, in the case of a guarantee financial instrument combined with a grant, the grant amount provided by the Fund may be higher than the amount set aside for the guarantee to cover the underlying loan granted to the same project. This is because the programme contribution to a guarantee financial instrument only covers a percentage of the underlying guaranteed loans though the latter are considered fully EU-supported. Finally, the value of the investments financed by the guaranteed loans should be higher that the value of the grants on a consolidated basis at financial instrument level;
- The 2021-2027 CPR allows that, in some limited cases, final recipients **get a higher support from grants than from the financial product** provided the programme support in the form of grants does not exceed the value of the investments supported by the financial product at financial instrument level. This provision offers **flexibility to design** combined financial instruments able to address the **diversity of potential final recipients** and to ensure that the financial instrument reaches ambitious policy objectives.

  When grants for technical support are combined with a financial instrument in a single operation, there may be cases, where the technical support financed by the grant does not trigger an investment supported by the financial product. This would be eligible under 2021-2027 CPR.

Another case could be that a subset of the targeted final recipients cannot afford to repay financial instrument support. In this case, these final recipients could be mostly (or even totally) supported through grants while the remaining final recipients would receive a financing package combining grants and financial instruments;

- The rules applicable to financial instruments shall apply to the single financial instrument operation, including the grant component. The combination in one operation provides simplification thanks to the application of a single set of rules of the financial instrument to both the financial product and the grant parts. This means in practice that:
  - The grant and the financial instrument shall both be identified as one financial instrument and shall be part of the ex-ante assessment. Financial Instruments as form of support should be justified in the programmes;
  - The grant element will not be a separate operation per se, but part of the financial instrument operation;
  - The substantiation of eligible expenditure will follow financial instrument rules. Eligibility will be determined at the payment of combined support to or for the benefit of the final recipient (not necessarily based on final recipient's incurred expenditure);
  - Management costs and fees shall be calculated on the sum of financial instrument and grant amounts;
  - Payment, reporting and audit will follow financial instrument rules (separate records will be maintained);
- **Financial instruments and grants shall be covered by a single funding agreement.** The need for grants should be identified and justified as part of the market failure assessment at programme level and be analysed in detail in the investment strategy of the combined financial instrument. Managing authorities will then sign one funding agreement with the body(ies) implementing financial instrument covering both contributions to the financial instrument and the grant components. Managing authorities will follow financial instrument' rules for providing the grant funding to the body(ies) implementing financial instrument and will not need to launch a separate grant call for that purpose. The content of the funding agreement shall be in line with Annex IX of the 2021-2027 CPR. In the case of managing authority implementing the financial instrument directly, this should be done in the strategy document produced by the managing authority;
- Both forms of support shall be provided by the body implementing the financial instrument, meaning that the body implementing the financial instrument is expected to manage the financial instrument, to award the grant and to make the combined funding available. Bodies implementing financial instruments are (i) the bodies implementing the holding fund (ii) those implementing the specific funds. Therefore, in practice, a body implementing a specific fund may manage the financial product part of a combined financial instrument while the body implementing a holding fund would be in charge of managing the grant part. Such flexibility in the implementation organisation may allow a body implementing a specific fund who may be reluctant to manage grants to be a candidate for the management of financial instruments combined with grants in one operation;
- **Separate records must be maintained for each form of support.** The body implementing the financial instrument combined with the grant shall ensure a distinct accounting and reporting of the two elements of the support. The reporting for the grant is part of the financial instrument requirements;
- Applicable **State aid rules** must be respected.

03

Types of combined financial instruments

This chapter details different combinations of financial instruments and grants[4]. The four main types of combination that can be used under ESF+ include:

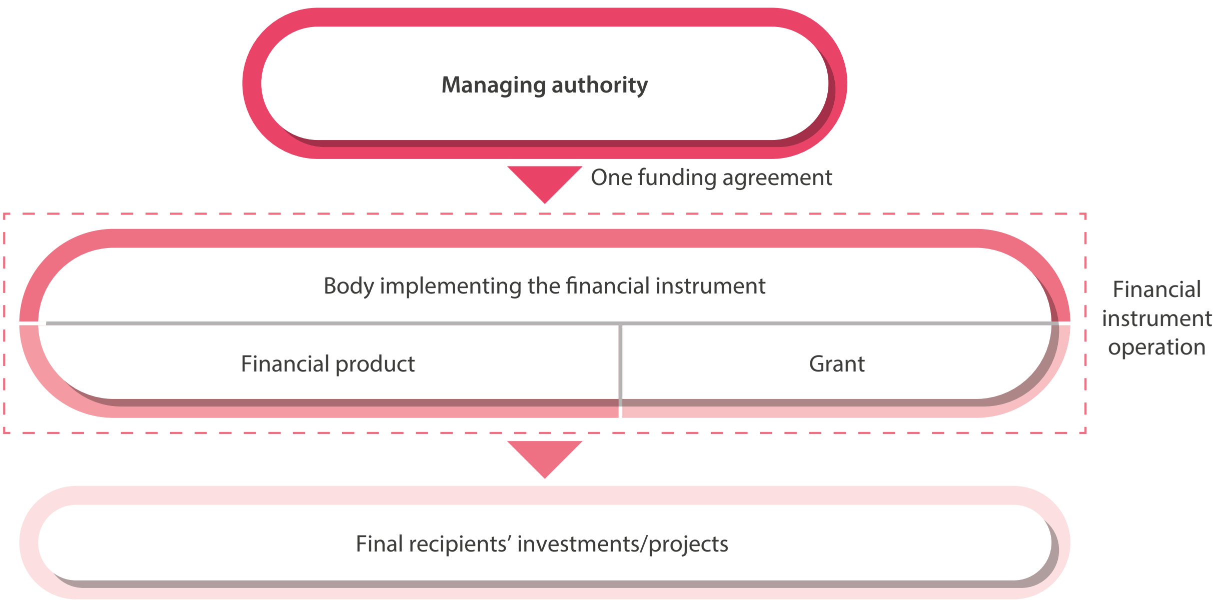
- the combination of financial instruments and grants for interest rate and guarantee fee subsidies;
- the combination of financial instruments and grants for technical support;
- the combination of financial instruments and performance-based grants;
- the combination of financial instruments and capital grants.

Financial instruments and grants can be combined in one operation (section 3.1) or in two operations (section 3.2).

3.1 Combination of financial instruments and grants in one operation

When financial instruments and grants are combined in **one single operation**, the managing authority entrusts directly or selects one or more bodies implementing financial instrument able and willing to manage the financial instruments combined with grants. A single funding agreement is then signed with each body implementing financial instrument covering both the financial instrument and the grant component. Final recipients submit a single application for financing to a body implementing financial instrument.

Figure 1: Financial instrument and grant combined in one single operation



Source: Own elaboration based on European Commission (2015), Guidance for Member States on CPR 37_7_8_9 Combination of support from a financial instrument with other forms of support.

4 This content is based on fi-compass (2021) *'Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period'*, and fi-compass (2021) *'fi-compass Knowledge Hub – Combination of financial instruments with grants, Notes of workshop*.

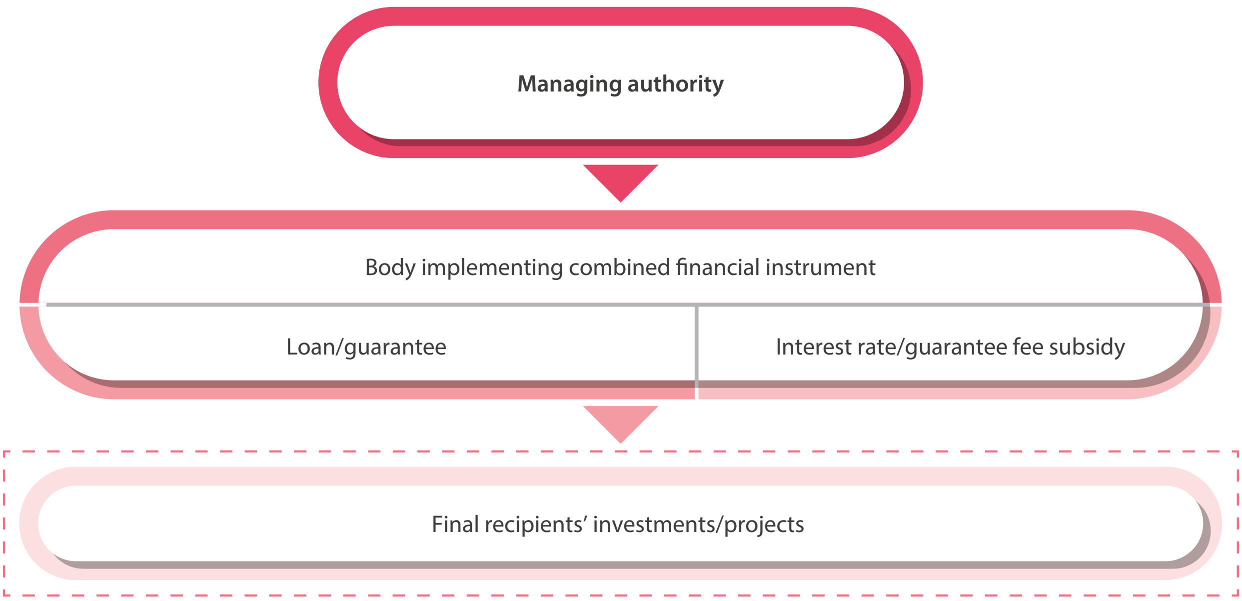
The combination of financial instruments and grants in one operation may follow one of the schemes described below. Practical examples, mainly inspired from the case studies, are provided in specific boxes These examples are not exhaustive. Depending on the observed market failures and on the programme objectives, a managing authority may decide to implement other options.

3.1.1 The combination of financial instruments and grants for interest rate and guarantee fee subsidies

In the 2014-2020 period, the grant component had to be paid directly to the body implementing financial instrument providing the loan or to the guarantee provider in order to subsidise the lower interest rate or guarantee fee charged. In addition to the option of 2014-2020, in the 2021-2027 period, it is possible to disburse the grant to the final recipient to cover part of the interest rate or guarantee fee. The grants should only be used to improve access to private capital and not to improve the conditions of support already received from EU funds or from national public co-financing through the financial instruments.

Moreover, if interest rate or guarantee fee subsidies are combined with financial products deployed over successive programming periods, the use of escrow accounts to pay subsidies in the subsequent period in respect of financial products paid (e.g. loans granted) in the previous one will not be possible under 2021-2027 CPR. Interest rate subsidies may be further paid in the following programming period if they are in line with the new period's rules and using the new period's resources.

Figure 2: Financial instrument combined with grants for interest rate and guarantee fee subsidies



Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

Two practical examples of the financial instrument and interest rate subsidy combination are illustrated in the two boxes below. The first is the **Further Studies Made Available (FSMA)**, Malta, and the second is the **National Fund for Social Entrepreneurship (NFSE)**, Poland. More detailed info is provided in the case studies in Annex I.

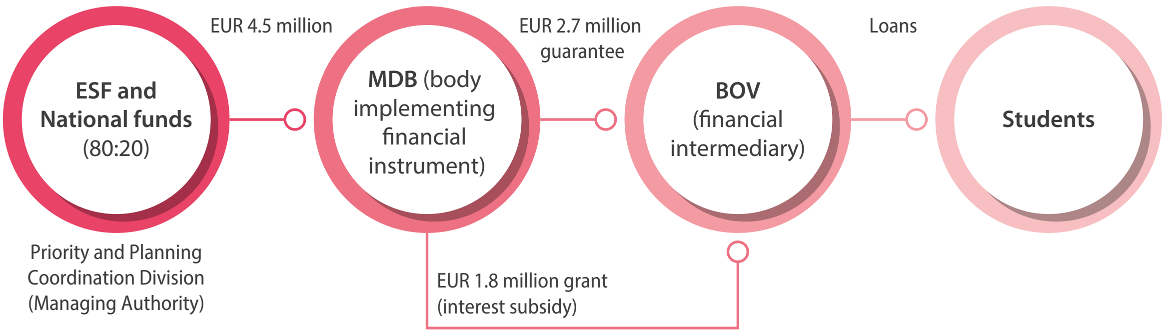
Box 1: Example of financial instrument and interest rate subsidy combination: Further Studies Made Available (FSMA) and Further Studies Made Affordable Plus (FSMA+), Malta

Further Studies Made Affordable (FSMA) is an ESF financial instrument developed in Malta during the 2014-2020 programming period and continued in the 2021-2027 programming period with ESF+ resources as FSMA+ (Further Studies Made Affordable Plus). **It combines loans covered by a guarantee with an interest rate subsidy financed by grants in one operation.**

Designed for students, the financial instrument is a **portfolio capped financial guarantee** with loan-by-loan credit risk coverage (80% of each loan capped at 25% of the portfolio) **combined with an interest rate subsidy** for all interest incurred during the moratorium period plus one year for each eligible loan.

The **managing authority** is the Priority and Planning Coordination Division, the **body implementing the financial instrument** is the Malta Development Bank (MDB) and the Bank of Valletta plc (BOV) is providing the guaranteed loans to students.

Figure 3: Structure of the FSMA



Source: Own elaboration.

In the 2014-2020 programming period, FSMA **resources allocated** amounted to EUR 2.7 million for the guarantee and EUR 1.8 million for the grant element. The successor scheme for the 2021-2027 period (FSMA+) maintains the same governance structure, but the ESF+ resources have increased to EUR 3 million and EUR 2 million respectively. FSMA and FSMA+ are 80% funded through ESF/ESF+ and 20% through national funds.

The instrument provides a **grace period with zero repayment** during the students' studies, with a **full subsidy of the 2.75% interest rate** for up to 5 years. Combining the financial instrument with the interest rate subsidy in one operation significantly reduces the cost of finance for students. It eliminates the need to provide collateral or life insurance cover, significantly reduces the interest rate and makes the loan more affordable for students through lower monthly repayments. Also, MDB is positive about the combined support mechanism of FSMA, reducing its risk of financing students. In total, 268 loans corresponding to EUR 8.6 million had been issued to students under FSMA from October 2019 to December 2021 (with 100% of programme resources committed) and 219 loans corresponding to EUR 9.6 million under FSMA+ by August 2023 (64% of programme resources committed). The average value of the loans is EUR 32 700 and EUR 43 800 under FSMA and FSMA+ respectively.

Final recipient	Financial instrument		Grant		Aim of the grant
	Type	Amount (EUR)	Type	Amount (EUR)	
Student	Portfolio capped guarantee with loan-by-loan credit risk coverage	2.7 million (FSMA)	Interest rate subsidy in one operation	1.8 million (FSMA)	• Lower cost of finance
		3 million (FSMA+)		2 million (FSMA+)	

Both FSMA and FSMA+ are considered a **success** by stakeholders in Malta and across Europe. Despite the fact that it was the first financial instrument in Malta managed by MDB, the ability to combine different forms of support into one financial instrument made the offering to students more attractive. **The instruments also remained successful during and after the COVID-19 pandemic**, which led to the expanded budget for the FSMA+. Without combining the different forms of support, FSMA and FSMA+ would not be able to offer such appealing criteria and conditions for target users. Similarly, no commercial bank could provide a financial instrument with the same conditions as the FSMA and FSMA+. **The combined support has enabled the BOV to lower its risk rating and become more open to supporting students.**

The intention for the future is to continue investing ESF+ funds to support students with this product to avoid a gap in the market.

Box 2: Example of financial instrument and interest rate subsidy combination: National Fund for Social Entrepreneurship (NFSE), Poland

The National Fund for Social Entrepreneurship (NFSE) was developed in Poland during the 2014-2020 programming period and offers a combination of loans with interest rate subsidies. The NFSE is set to continue in the 2021-2027 programming period, using capital rebates instead of interest rate subsidies (see box 6 for detail).

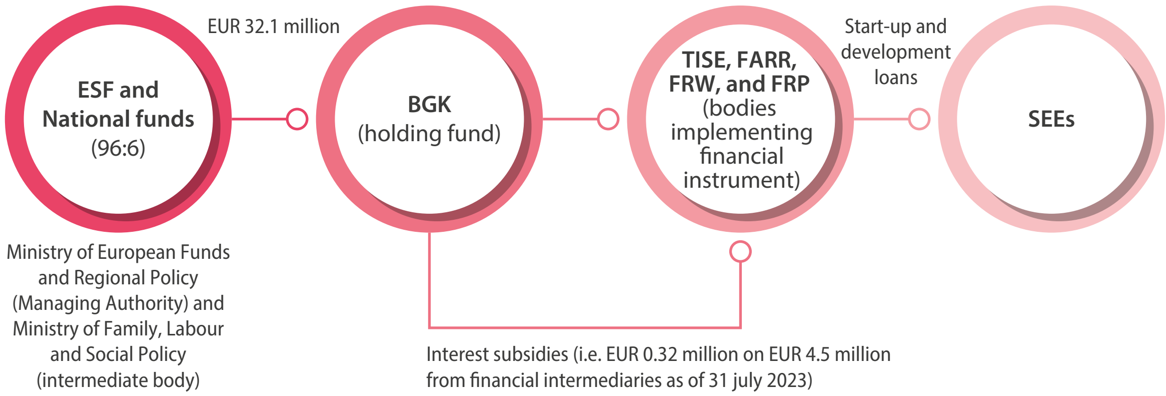
With a **total budget** of EUR 32.1 million of which EUR 30.1 million is from the ESF, the NFSE is financed by the 2014-2020 ESF OP Knowledge, Education, Development under Thematic Objective 9[5]. Its primary goal is to provide social economy entities (SEEs) with affordable finance through **loans in combination with interest rate subsidies financed by grants in one operation**. There are two types of loan: a start-up loan up to EUR 22 500 for SEEs operating for less than a year and a development loan up to EUR 112 400 for SEEs operating for more than a year. The repayment period is 5 years for the start-up loan, and 7 years for the development loan, with a grace period not exceeding 6 months for both types.

The subsidies are paid by Bank Gospodarstwa Krajowego (BGK), designed by the Ministry of European Funds and Regional Policy (the **managing authority**) as **the holding fund manager**, to four selected **bodies implementing financial instrument**[6] who co-invest providing additional capital of their own.

5 ‘Promoting social inclusion, combating poverty and any discrimination’.
6 Towarzystwo Inicjatyw Społeczno-Ekonomicznych (TISE), Fundacja Agencja Rozwoju Regionalnego in Starachowice (FARR), Fundusz Regionu Wałbrzyskiego (FRW) and Fundacja Rozwoju Przedsiebiorczosci in Suwalki (FRP).

The subsidies cover the difference between the market interest rate applied by the banks providing loans to final recipients and the interest rate applied to a loan granted from ESF funds. In this way, the SEEs pay the same interest rate regardless of the source of financing (i.e. whether the loan is funded by ESF, the state budget or the body implementing the loan funds). Moreover, the interest rate can be further reduced for high social impact in terms of job creation.

Figure 4: Structure of the NFSE



Source: Own elaboration.

By the end of July 2023, almost EUR 33 million (92% of the allocated resources, including EUR 4.5 million from the bodies implementing loan financial instrument) had been disbursed, of which EUR 32.6 million for the financial instrument (including EUR 4.5 from the bodies implementing loan financial instrument) and EUR 0.32 million for the grant component. 1 171 SEEs (almost 98% of the target) had been financed and 1 272 new jobs created (115% of the target).

Final recipient	Financial instrument		Grant		Aim of the grant
	Type	Amount (EUR)	Type	Amount (EUR)	
Social economy entities	Loans	32.1 million	Interest rate subsidy (2014-2020) in one operation	0.32 million (as of 31 July 2023)	• Lower cost of finance

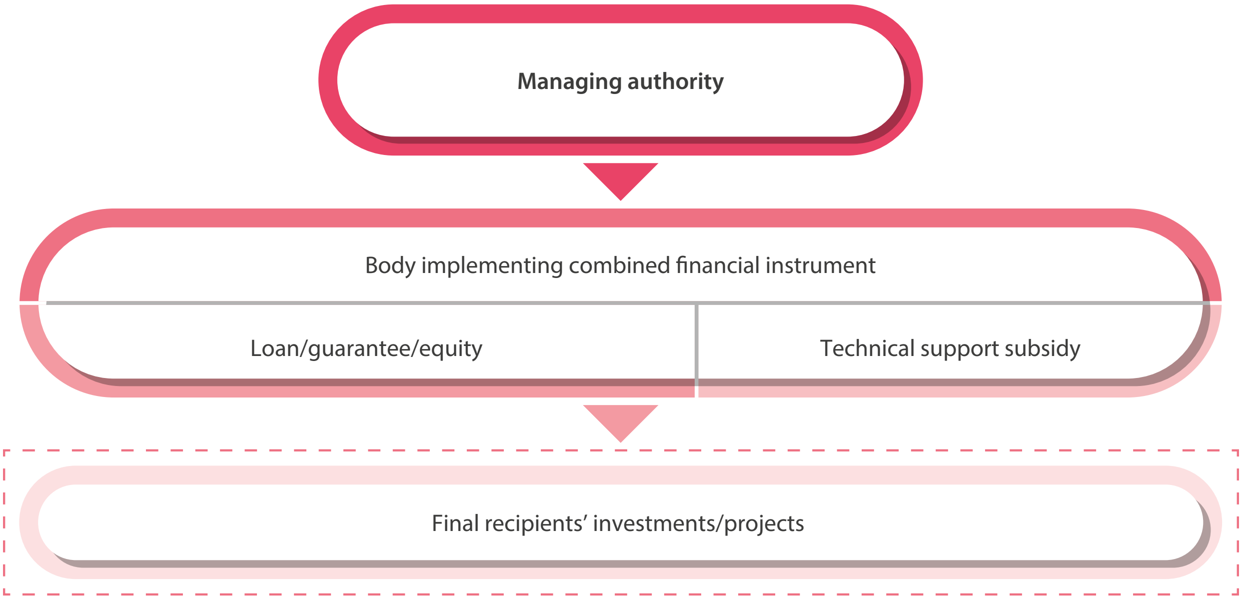
The interest rate subsidy contributed to **reducing the cost of the loans** for SEEs and to **attracting additional resources** from the selected the bodies implementing loan financial instrument. However, the continuous calculation of subsidies for the bodies implementing loan financial instrument using their own capital for all financial flows was considered technically and administratively burdensome for the institutions responsible for implementation of the financial instrument. Therefore, it was decided to substitute interest rate subsidies with capital rebates (see Box 6) for the 2021-2027 programming period financial instrument.

3.1.2 The combination of financial instruments and grants for technical support

As with the previous option (the combination of financial instruments and grants for interest rate and guarantee fee subsidies), in addition to disbursing the technical support for the benefit of the final recipients, the key difference compared to the 2014-2020 programming period is the possibility of disbursing the grants directly to final recipients.

Technical support may be, for instance, financed by a grant for the preparation and/or the implementation of the project. At the project level, in some exceptional cases, the technical support grant may not result in the receipt of financing from the financial product but remains an eligible expenditure.

Figure 5: Financial instrument combined with grants for technical support



Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

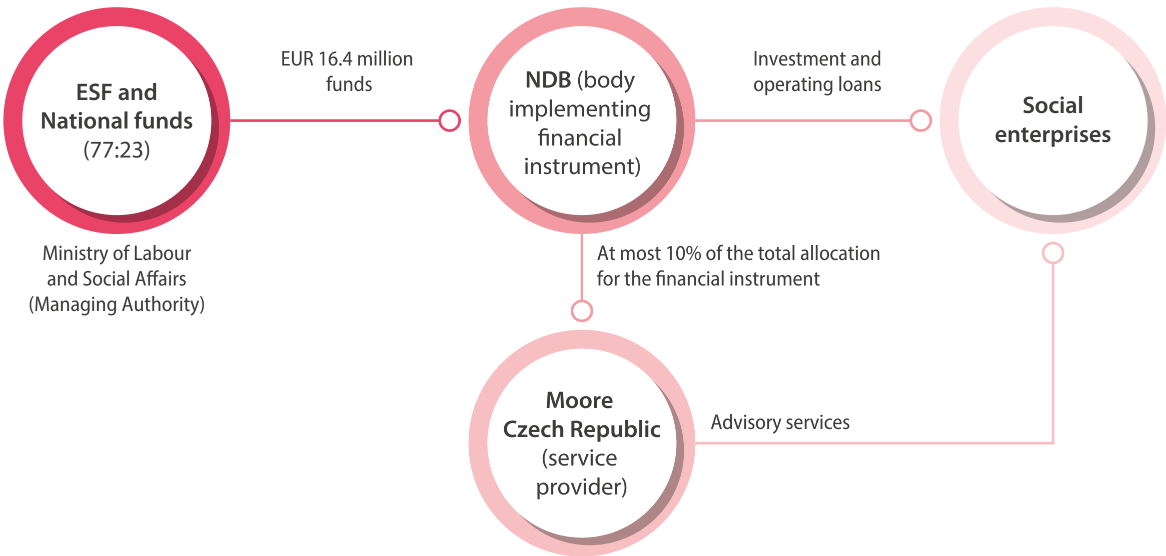
A practical example of the combination of financial instruments and grants for technical support, from the **S-enterprise Programme**, **Czech Republic**, is illustrated in the box below. Detailed information is provided in Annex I.

Box 3: Example of financial instrument and technical support subsidy combination: S-enterprise Programme, Czech Republic

The S-enterprise Programme was created during the 2014-2020 programming period to support social entrepreneurship by **providing, in one operation, soft loans in combination with grants for technical support in the form of advisory services.**

The programme has a **total budget** of EUR 16.4 million, of which EUR 12.7 million is from ESF and the rest from national co-financing. The advisory services are provided by Moore Czech Republic, the external service provider selected by the National Development Bank (NDB), the **body implementing** financial instrument. The Ministry of Labour and Social Affairs is the managing authority. The S-enterprise programme provides **investment and operating loans**, both types ranging from EUR 16 000 to EUR 1 million. There is no interest rate and no fees, and the maturity period is up to 10 years for investment loans and 2 years for operating loans. The grace period is up to 3 years and 1 year respectively. By the end of 2023, 42 loans had been signed totalling EUR 8.3 million of which EUR 6.9 million had been disbursed to 33 social enterprises.

Figure 6: Structure of the S-enterprise Programme



Source: Own elaboration.

The **technical support targets individuals involved in the management and operation of social enterprises**, who can benefit from advisory services ranging from 20 hours per project to 50% of the loan amount. If the advisory services exceed 100 hours per project, they should be approved by the NDB. The advisory services are provided for management, organisation and production, marketing and public relations or financial management. The application for advisory services can be done at the same time as the loan application, specifying the scope of advisory services and the thematic focus. The application for additional advisory services when drawing down the loan, or any changes to the extent of the advisory services and preferred topics, are also possible. Whether the final recipient applies for advisory services at the same time as the soft loan or at a later date, two separate agreements between the NDB and the final recipient are concluded, one relating to the soft loan and one relating to the advisory service.

Final recipient	Financial instrument		Grant		Aim of the grant
	Type	Amount (EUR)	Type	Amount (EUR)	
Social enterprises	Loans	16.4 million	Technical support in one operation	Maximum 10% of the total allocation for the financial instrument	• Business skills development • Enterprise and financial management

Overall, the number of disbursed loans and the applications for advisory services were below expectations. However, it should be noted that the S-enterprise Programme was launched less than six months before the declaration of the state of emergency due to the Covid-19 pandemic. This led to social enterprises limiting their planned investments or directly restricting, suspending or closing business activities. The high level of uncertainty significantly reduced the interest of potential applicants for the Programme. Other macroeconomic and political developments, such as the war in Ukraine, the energy crisis and rapidly rising inflation also imposed additional burdens on potential applicants through increased costs for their business activities and development plans. However, despite the challenges the **financial instrument proved to be correctly designed** and under more favourable macroeconomic conditions interest would have been higher. **Final recipients are also positive about the programme, expressing appreciation of its set-up.**

For the 2021-2027 programming period, the managing authority plans to continue the Programme, with an allocation of EUR 16.4 million (EUR 8.5 million from the ESF+, EUR 2.6 million from national co-financing and EUR 5.3 million from repaid loans). The new programme should be designed and set up in a very similar way to S-enterprise, providing investment and operational loans in combination with grants for technical support.

3.1.3 The combination of financial instruments and performance-based grants

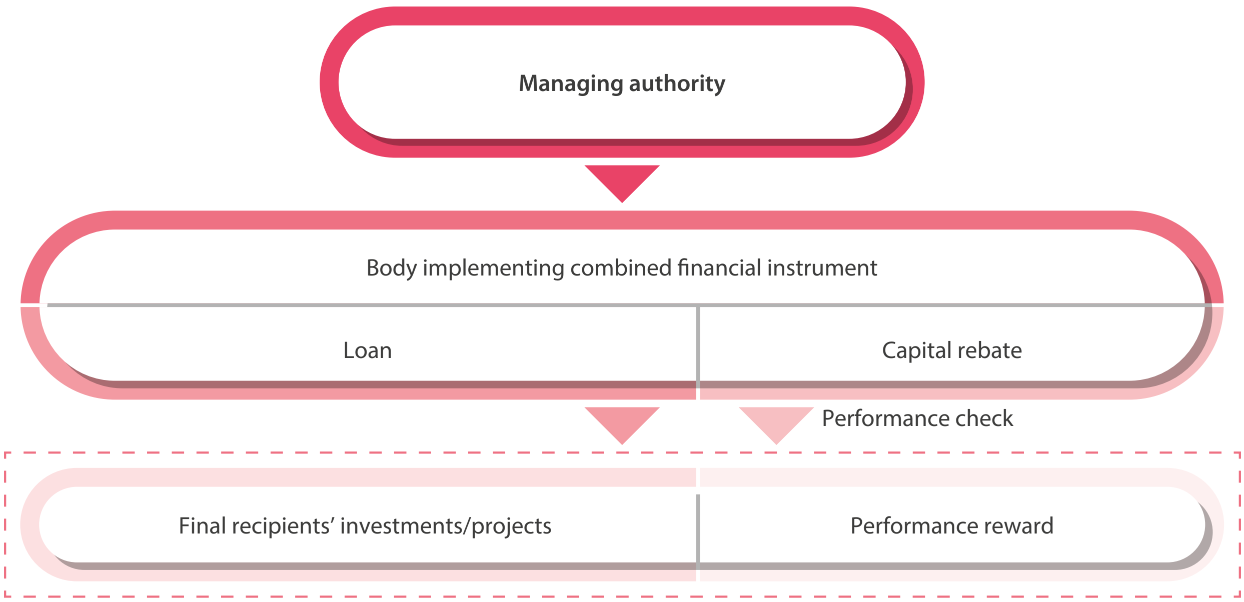
This type of combination is used to incentivise more project promoters to submit investment projects with a higher policy impact. Performance-based grants can be particularly appropriate to support social enterprises in achieving social goals and increasing the social impact of their activities. For instance, they can be used to promote job creation in the social enterprises, as illustrated by the Polish case described in Box 6. Another example is illustrated in Box 7, from an initiative in the UK supporting a crowdfunding start-up, where the grant component is transformed into an equity when performance objectives are met.

Performance-based grants can take different forms when performance objectives are met, such as:

- **Capital rebates.** Part of the loan is converted into a grant, so the final recipient benefits from a reduction in capital due and repays the outstanding loan following a revised amortisation plan. The loan contract signed with final recipients should specify the triggers and the possible capital rebate amount. Depending on the targets achieved, monitored by, for example, an independent audit (performed by a commercial bank providing underlying loans in case of guarantees, the body implementing financial instrument or by a selected external evaluator) the capital rebate clause in the loan contract is triggered.

  The corresponding part of the capital due to the body implementing financial instrument is treated as a write-off/ an early repayment in the financial instrument's accounts. In case of a risk-sharing loan with private co-financing from the body implementing financial instrument, the latter is entitled to a share of the grants corresponding to its share in the capital rebate. It may also receive early repayment fees on this part. In the case that the capital rebate is applied to a subordinated loan, the consent of the senior debt holders may need to be secured as the capital rebate would entail a reimbursement of the subordinated debt, which may be prohibited by senior debt documentation (in particular if the latter was granted as part of an unrelated, previous financial transaction).

Figure 7: Financial instrument combined with performance-based grants



Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

Box 6: Example of financial instrument and capital rebate combination: National Fund for Social Entrepreneurship, Poland

For the 2021-2027 programming period, the managing authority is planning to implement a combination of loans and capital rebates using ESF+ resources. This is in place of the interest rate subsidies used in the 2014-2020 programming period, which, as explained in Box 2, were perceived to be burdensome from an administrative standpoint according to the interviews. The NFSE will continue to finance both the start-up and development loans, and capital rebates will apply to both with the same conditions.

A capital rebate of 25% will be applied when a SEE achieves measurable social effects, such as: 1) new job creation for people with disabilities or mental disorders; 2) new health or social services in the local community; 3) special access services; 4) green economy results. The rebate will be due if the borrower has achieved one of the social benefits listed under conditions 1-4 above: specifically, for condition 1, it has maintained the job/activity for at least 12 months, while for conditions 2-4, the entire loan is used for these purposes.

The rebate value may not exceed the total limit of 25% of the loan amount even if several types of social benefits are achieved simultaneously. The maximum rebate of 25% can be granted provided that at least one condition is met. The rebate is implemented to reduce the outstanding capital. If the outstanding capital falls below 25% of the initial loan (i.e. the eligible capital rebate), only the outstanding capital will be written off meaning the rebate will be less than 25%.

The governance structure is planned to be simplified, with the Ministry of Family, Labour and Social Policy no longer acting as the intermediate body, as this role will be played by BGK, the holding fund.

Final recipient	Financial instrument		Grant		Aim of the grant
	Type	Amount (EUR)	Type	Amount	
Social economy entities	Loans	41 764 422[7]	Capital rebate	up to 25%[8]	Improve social impact Improve measurability of social benefits

Capital rebates are also planned in other financial instruments in Poland under ESF+ 2021-2027, with funds for self-employment, accessibility and lifelong learning. These are expected to bring a major benefit for final recipients, encouraging them to seek repayable assistance and addressing the resistance to loans.

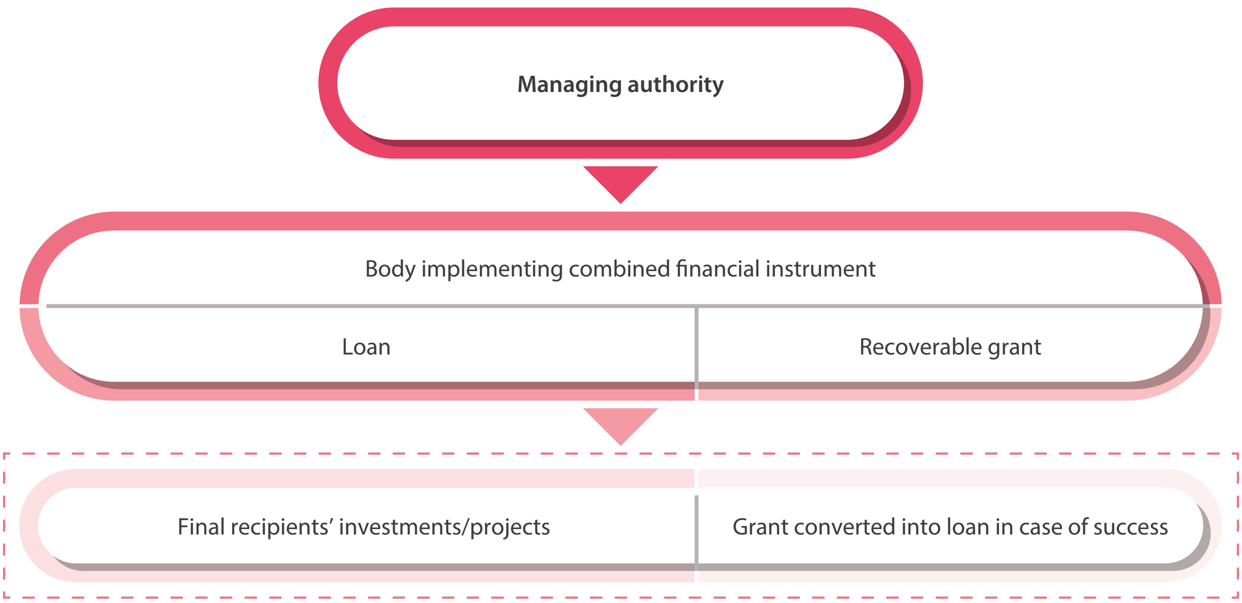
7 Total budget (at 4.284 EUR/PLN exchange rate) of which ESF+ 82.5%, state budget 5%, own resources 12.5%.
8 For loans to expand existing business.

- **Recoverable grants.** Part of a grant is converted into a loan if performance objectives are reached. Project objectives and grant repayment triggers are agreed to in the financing contract and are monitored. If the objectives are reached, the performance-based grant element is triggered. In case of recoverable grants, the grant element (or part of it) is converted into debt and is repaid with the initial loan part following a revised amortisation plan. If the objectives are not reached, the recoverable grant part does not need to be repaid

  The potential transformation of the grant portion into debt may have an impact on the loan security structure. Should additional collateral be required for the new debt portion by the body implementing financial instrument or a commercial bank providing the underlying guaranteed loans (bearing in mind though that debt financial instruments usually distinguish themselves from market loans by a lower level of collateral required), the initial collateral documents would need to be drafted in such way to allow for possible adjustments during the project lifetime. The capacity of the final recipient to provide additional collateral would also need to be assessed when the financing is initially granted, if the debt financial instrument requires any collateral provision.

  Additionally, should the grant be transformed into subordinated debt, the agreement of the senior debt holders may be required as senior debt documentation may prohibit an increase in debt especially if the senior debt was granted as part of a previous unrelated financial transaction.

Figure 8: Financial instrument combined with recoverable grant

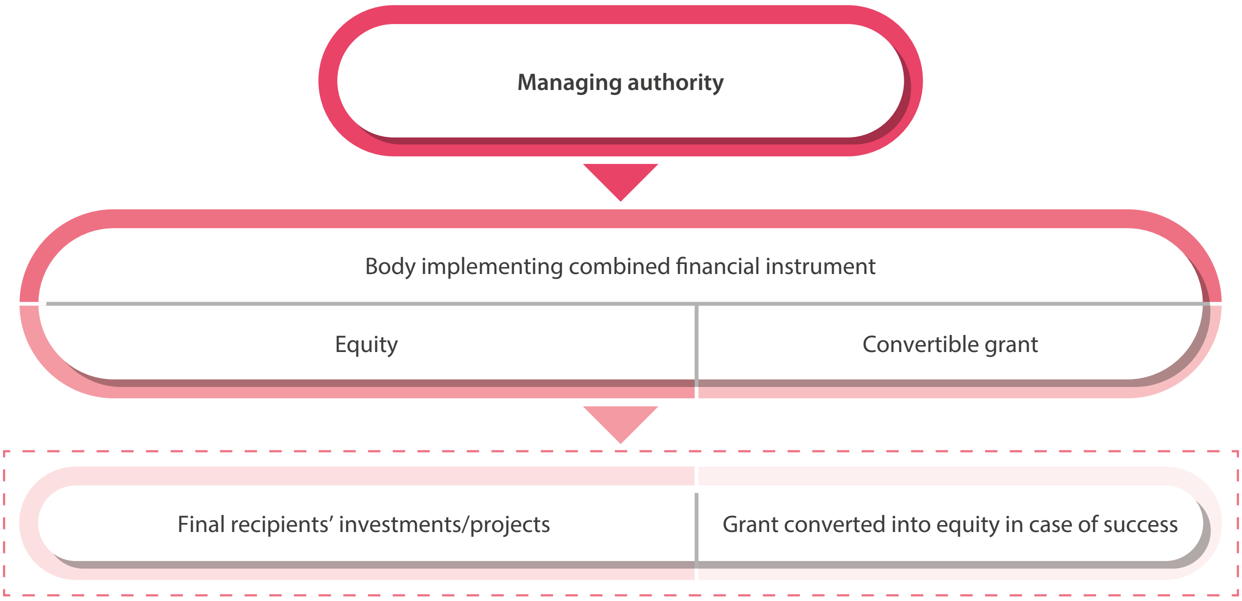


Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

- **Convertible grants.** Generally, convertible grants are used in combination with a financial instrument in the form of an equity. In this case, part of the grant is converted into equity, thus increasing the shares held by the financial instrument.

  The conditions to convert the grant into equity are clearly set out in the investment documentation and the decision is made by the fund manager on both the equity and the convertible grant part. If the objectives are reached, the performance-based grant element is triggered and the grant is (partially) transformed into equity; if the objectives are not reached, the convertible grant part does not need to be repaid.

Figure 9: Financial instrument combined with convertible grant



Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

Box 7: Financial instrument combined with convertible grant: NESTA and Crowdfunder, United Kingdom (no EU funds involved)[9].

Crowdfunder is a UK rewards–based crowdfunding platform that enables people with commercially sustainable business ideas with a social innovation dimension, to raise funds and gain support from the public[10]. The platform offers anybody the opportunity to grant/reward fund a project, charity or social enterprises. Funding can be pledged to start–up businesses or new projects in return for rewards. Up to now, the platform has raised over GBP 250 million for more than 175 000 projects[11].

Crowdfunder was initially supported by the social impact investor NESTA (National Endowment for Science, Technology and the Arts)[12] using an amount of GBP 150 000 from the Innovation in Giving Fund[13]. This Fund was set-up in 2011 through GBP 10 million from the UK Cabinet Office in partnership with the UK Office for Civil Society, to support social innovators, charities and public services. It ended in 2014. The Innovation in Giving Fund initially funded four crowdfunding platforms and one small match–crowdfunding experiment, all with different models of engagement. Crowdfunder is considered one of the most successful of these[14].

An amount of GBP 150 000 was delivered to Crowdfunder as a convertible grant combined with equity crowd investment and stage-gated funding (i.e. funds are disbursed based on the achievement of specific milestones, or 'gates'). The sum was then converted to equity with the successful development of the platform in 2012 and the UK Cabinet Office handed over ownership of the equity to NESTA, although any financial returns that flow from this part of the investment must be used to support projects which align with the original aims of the Innovation in Giving fund. Additional resources in the form of equity were invested by NESTA in the platform in 2014 (GDP 150 000) and in 2017 (GDP 20 000).

According to NESTA, uncertainty about the long-term viability of the financial model at the time of the initial investment made a convertible grant the most appropriate model. This would balance the risk of failure with the ability to gain from profitability and to influence Crowdfunder's development by taking a board role. Initially, the grant provided more flexibility for Crowdfunder to focus on delivering its platform than a loan or equity investment. Thanks to the initial financial support provided by NESTA, Crowdfunder has grown year-on-year in terms of revenues, money raised by projects and the number of projects. NESTA has an ongoing role through a board seat which enables sharper focus on social innovations.

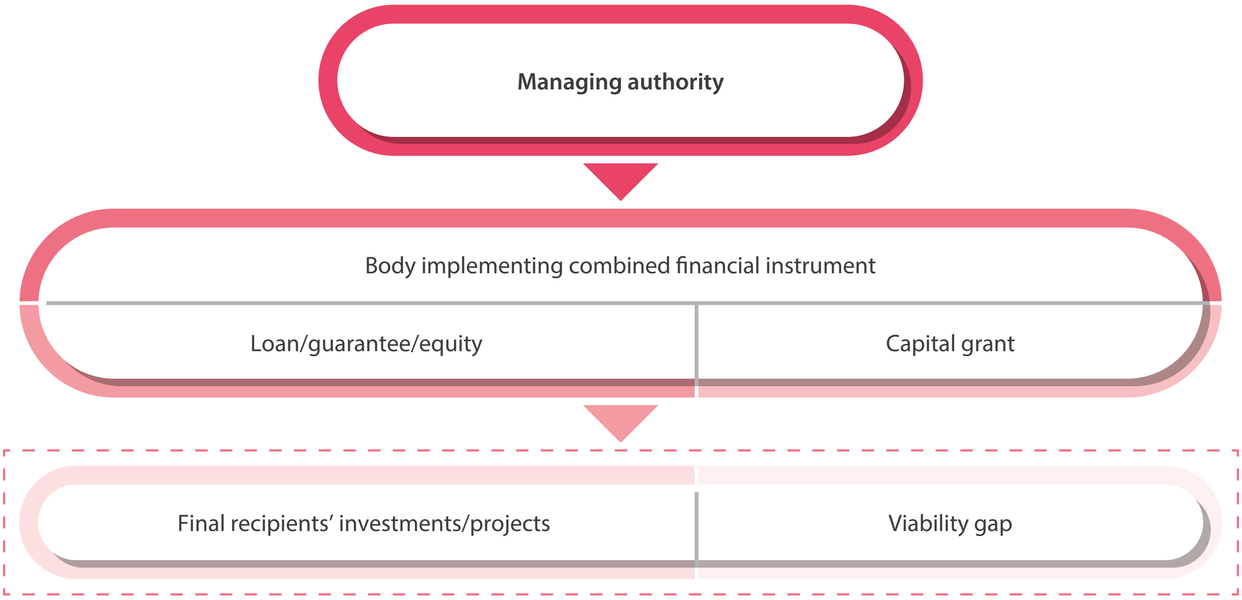
9 Content based on NESTA (2018) *'Funding innovation: A practice guide – Making money work harder'*.
10 Further information available at: https://www.crowdfunder.co.uk/.
11 Based on data extracted in January 2024 from https://www.crowdfunder.co.uk/about-crowdfunder-and-crowdfunding.
12 NESTA was founded in 1998 as a non-departmental public body and became an independent charity foundation in 2012. Following its new 2030 strategy, it primarily operates in the three areas: A Sustainable Future, focusing on reducing household emissions; A Healthy Life, focusing on increasing long-term health whilst narrowing health inequalities; and A Fairer Start, focusing on improving outcomes for low-income children. See https://www.nesta.org.uk/.
13 See https://www.nesta.org.uk/project/innovation-giving-fund/.
14 NESTA (2014) *'Innovation to grow giving'*.

3.1.4 The combination of financial instruments and capital grants

In this type of combination, not foreseen in the 2014-2020 CPR, a capital grant can cover the non-revenue generating/ cost-saving part of the investment. This combination can finance investments with financial viability gaps. Therefore, the body implementing financial instrument evaluates a proposal, and, where a financial viability gap is identified, could potentially use a grant to fund the gap, with the financial instrument supporting the rest of the operation. The grant will not be repaid and will not be used to repay the financial instrument as it should cover distinct expenditure items. For instance, to support self-employment and entrepreneurship, the capital grant can be used to purchase equipment and vehicles, although ESF can only be used in case where such purchase is necessary for achieving the objective of the operation, or those items are fully depreciated during the project lifetime, or the purchase of those items is the most economic option.

Capital grants could be also used to lower the burden of the repayable part on the project cash flows or to decrease the final costs of the supported investment to be financed by users.

Figure 10: Financial instrument combined with capital grant



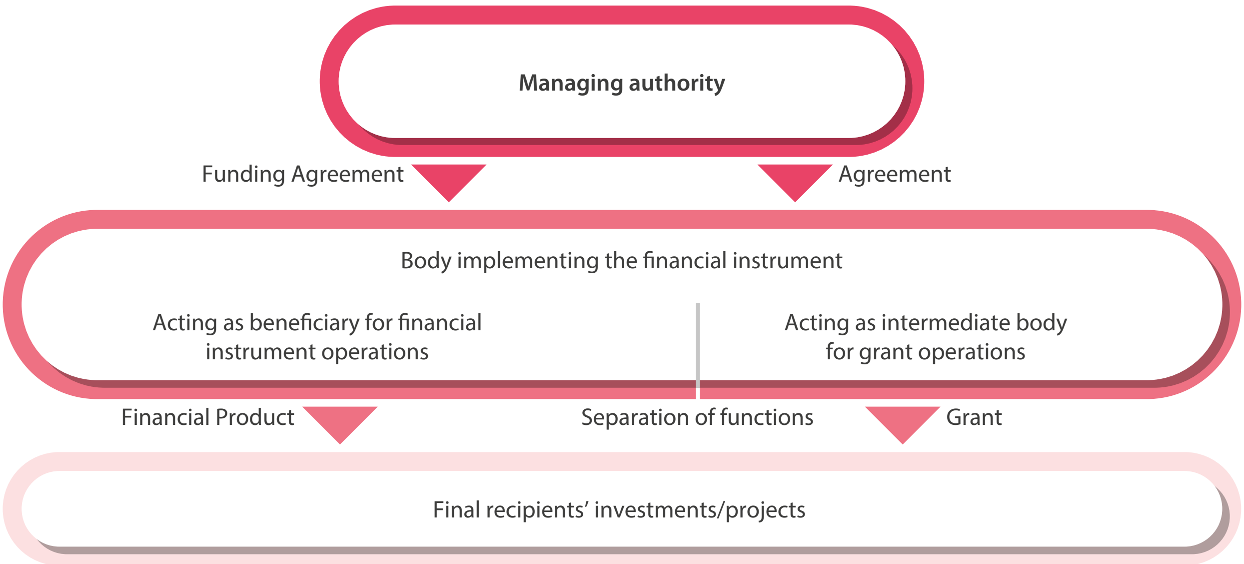
Source: Own elaboration based on fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period.

3.2 Combination of financial instruments and grants in two operations

The combination in **two separate operations** can be at final recipient level but not at financial instrument level. Financial instruments and grants may cover the same expenditure item, but eligibility and payment rules remain distinct. The distinct expenditure should be ensured through the identification of distinct sub-expenditure items or by applying a pro-rata approach with an adequate audit trail. Combined support in two separate operations should not exceed the total expenditure amount. Financial instruments cannot pre-finance grants and grants cannot repay financial instruments.

Combinations where the vast majority of the projects require an amount of grants higher than the investments supported by the financial product will only be possible in two operations. The requirement for separate operations does not prevent both forms of support from being delivered through the same body. Two practical options existed in the 2014-2020 period: the body implementing financial instrument can be either designated as an intermediate body for the grant or become the beneficiary of the grant and redistribute the latter in the form of micro-grants with the financial instrument. In addition, the combination in two operations may continue for investments where the grant type of support needed is not suitable to be delivered in one operation such as where the grants are delivered by the managing authority. Also, any combination with other Union forms of support at the level of the investment must be done in two separate streams, particularly in the case of support through a loan guaranteed under InvestEU and a grant from shared management funds.

Figure 11: Financial instrument and grant combined in two separate operations



Source: Own elaboration based on European Commission (2015), Guidance for Member States on CPR 37_7_8_9 Combination of support from a financial instrument with other forms of support.

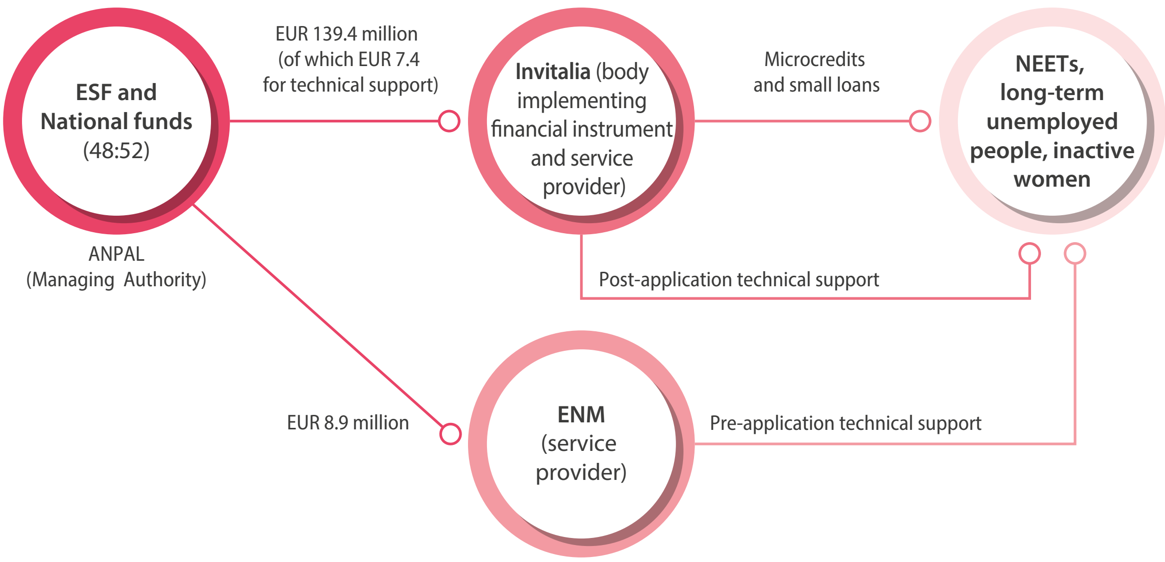
Two practical examples of the combination of financial instruments and grants for technical support in two operations, from **SELFIEmployment** in **Italy** (see Annex I for detailed information), and from the **Social Innovation Initiative** in **Portugal** are illustrated in the box below.

Box 4: Example of financial instrument and technical support subsidy combination: SELFIEmployment, Italy

The SELFIEmployment initiative, established in 2015, combines different types of loans (microcredits, extended microcredits and small loans[15]), with grants in two operations. The grants can finance training and coaching – both before and after the loan application - to equip individuals with the knowledge to launch and sustain businesses as well as enhance their self-employment and entrepreneurial opportunities. It targets individuals Not [engaged] in Education, Employment or Training (NEETs), inactive women and the long-term unemployed.

The **total budget** of EUR 132 million for the financial instrument is financed by two ESF 2014-2020 national operational programmes (NOPs), with EUR 62 million from YEI NOP and EUR 70 million from SPAO NOP. The two NOPs also contribute with EUR 16.3 million for the grant component (EUR 3.1 million from YEI NOP and EUR 13.2 million from SPAO NOP). The **managing authority** is ANPAL (the National Agency for Labour Active Policies), while Invitalia S.p.A. (the National Agency for Investment Attraction and Business Development) acts both as the **body implementing financial instrument** and the **provider of the post-application technical support**. ENM (National Entity for Microcredit) is the **provider of the pre-application technical support** and it is also in charge of communication activities. Both types of support are provided in two operations.

Figure 12: Structure of SELFIEmployment



Source: Own elaboration.

Grants are used to finance training for entrepreneurial self-employment skills, managed by ENM through the YES I START UP programme, implemented before the loan application, with a budget of EUR 8.9 million. It offers 60 hours of foundational training, in-class or synchronous online sessions accommodating various group sizes. There is also an additional 20-hour module with specialised guidance, tailored for individual learners or small groups, delivered in-person or online. However, the technical support provided by ENM is not exclusively used for potential final recipients of the SELFIEmployment revolving fund (i.e. NEETs, inactive women, and the long-term unemployed are not obliged to apply for the SELFIEmployment financial support).

15 Microcredit, from EUR 5 000 to 25 000; extended microcredit, from EUR 25 001 to 35 000; small loans, from EUR 35 001 to 50 000.

Technical support is also provided by Invitalia (the body implementing financial instrument) for business design and implementation, with a budget of EUR 7.4 million. The Invitalia tutoring service is delivered after the loan is disbursed and, unlike participation in the YES I START UP programme, it is mandatory. It starts before the new firm begins operations and lasts for 24 months providing continuous individual online support through webinars and digital consultations.

From its establishment to 1 November 2023, the instrument contributed to the creation of 3 620 new jobs and financed 2 047 projects with EUR 67.1 million. Less developed regions located in Southern Italy, which have the highest rates of NEETs, inactive women, and long-term unemployed, had the highest demand. The most common loan type was microcredit, while the predominant economic activity financed was wholesale and retail trade, followed by accommodation and food services.

Final recipient	Financial instrument		Grant		Aim of the grant
	Type	Amount (EUR)	Type	Amount (EUR)	
NEETs, inactive women, long-term unemployed individuals	Loans	132 million	Pre-application technical support in two operations	8.9 million	• Skills training and capacity building for income generating activities • Support for application
			Post-application technical support in two operations	7.4 million	• Business skills development • Enterprise and financial management

Since its implementation, **SELFIEmployment has played a significant role in providing financial support to some of the most vulnerable groups in Italy. The combination with grants has been fundamental in supporting the business ideas of these groups**, excluded from the job market and in need of greater non-financial support.

Final recipients are satisfied with the financial products, as well as with the training and the active support in developing their business plans. Some issues related to the pre-application technical support, mainly concerning the lack of uniformity in the class courses, have been solved over time, ensuring more uniformity. However, **plans for the future include an ad hoc tutor** – such as the one provided by Invitalia in the post-application technical support - a**lso during the pre-application phase, more simplified access to the financial instrument**, and **reinforced awareness raising and communication campaigns** through enhanced involvement of the regions and municipalities. The managing authority, in fact, intends to continue SELFIEmployment in the 2021-2027 programming period with a combination of financial instruments and grants, also using additional resources provided by the National Recovery and Resilience Plan with the 'Garanzia di occupabilità dei lavoratori' (GOL) programme, which offers integrated services, professional updating or retraining courses and a network with local service providers targeting vulnerable groups.

Box 5: Example of financial instrument and grant combination: Social Innovation Initiative, Portugal[16]

The Portugal Social Innovation Initiative combines several grant schemes with financial instruments (loans and equity) in separate operations. It is a government initiative created at the end of 2014 utilising ESF (85%) and state budget (15%) resources to promote social innovation and stimulate the social investment market in Portugal. ESF resources come from different 2014-2020 operational programmes (OPs), including regional ones. The Portugal Social Innovation Mission Structure is the managing structure acting as the intermediate body for the financing OPs managing authorities.

The initiative foresees the following financial schemes:

- **A capacity-building grant scheme** (Capacity-Building for Social Investment), aiming to improve the organisational and management competencies of organisations and teams directly involved in social innovation and social entrepreneurship projects, by narrowing the skills gap and preparing them to attract and apply social investment. With a total **budget of EUR 15 million**, it provides grant support up to EUR 50 000 (in the form of vouchers) to finance small capacity building plans (up to 18 months of duration), directly applied to social innovation and social entrepreneurship projects. It funds 100% of eligible costs to beneficiaries. To apply for funding, beneficiaries must submit a capacity-building plan including: a diagnosis of the project's capacity-building needs developed by an external entity (up to EUR 5 000 of incurred costs to be reimbursed, for all approved applications); up to five additional capacity-building interventions (incl. training and/or consulting and/or mentoring) that directly address a maximum of five capacity-building needs identified in the diagnosis; a detailed budget for each of the additional capacity-building interventions; a simple non-binding expression of interest by a social investor;
- **A venture philanthropy matching-fund scheme** (Partnerships for Impact), to support the early growth of social innovation or social entrepreneurship projects. With a **total budget of EUR 20 million**, it is grant of at least EUR 50 000 structured as venture philanthropy financing, leveraging other social investments to support high potential impact projects. The grant supports projects that intend to further develop proven social innovation concepts – innovative products, platforms or services to help solve societal problems. It matches 70% to 30% the funding provided by social investors (ex. Foundations, Municipalities, Corporate Social Responsibility of private companies, etc.) and funds 100% of eligible costs to beneficiaries, with no maximum threshold per project. A Partnership for Impact application can be submitted by one or more social innovators (the project implementing entity(ies)) and must include: a one to three year development plan for the project, including a proposal of one or more result indicators, with quantified targets, to measure the project's social impact; a letter of commitment from one or more social investors, stating their financial commitment to the project, the type of engagement they will have with the implementing teams during project development (e.g. capacity-building, mentoring) and a declaration of no control relationship over any of the implementing entities;

16 Content based on fi-compass (2018), *'The Portuguese Social Innovation Initiative - The Social Impacts Bonds Programme Using ESF to finance Social Innovation and Social Entrepreneurship'*.

- a **Social Impact Bonds Programme**, an instrument that uses an outcome payment mechanism to support innovative projects addressing societal problems in specific public policy areas. With a **total budget of EUR 20 million**, it consists of a grant support to pay for validated outcomes achieved by specific social innovation projects in an area of public policy. It funds 100% of eligible costs, upon validation of contracted outcomes, with no maximum threshold per project. Project durations are long, extending up to five years between the project start and the outcome validation and payment;
- a **Social Innovation Fund**, designed to serve the stages of growth and dissemination of social innovation and social entrepreneurship projects. With a **total budget of EUR 47.5 million**, it is structured as a hybrid model of fund with two financial instruments: a debt financial instrument with a wholesale approach, designed to ease access to finance for social economy entities; and a retail equity financial instrument to foster the social investment market. Through the debt financial instrument, the Fund provides guarantees to enable financial institutions to provide loans to social economy entities at below market conditions, while the equity financial instrument co-invests alongside private investors in SMEs that are implementing social innovation projects. Both financial instruments are managed by the Banco Português de Fomento, a 100% public financial entity.

Final recipients can apply to one or more of the above schemes. An illustrative example is the ColorADD project, providing an innovative and universal colour identification system for colour blind people[17]. The ColorADD Company was founded in 2010 in Porto, and, in 2014, it created the ColorADD.Social, a non-profit association dedicated to promoting social integration of people with difficulty in identifying colours, mainly in schools. ColorADD.Social got the approval of four applications for the Partnerships for Impact grant scheme, submitted in partnership with social investors between 2017 and 2022, totalling nearly EUR 530 000. Until January 2023, thanks to the grant scheme, ColorADD.Social managed to reach over 108 000 people within the school community, delivered over 43 200 ColorADD kits to students, and more than 500 libraries adopted the ColorADD code. Also, over 3 000 awareness and capacity-building actions were conducted, reaching 1 776 schools, conducting over 42 492 colour blindness screenings involving over 43 600 students, and engaging more than 6 400 teachers and school professionals. Additionally, the code has been included in over 900 000 school textbooks, and more than 2 600 000 national high school exams have been conducted using the ColorADD code. The association was also able to scale the awareness programme to countries like Kenya, India, and Mozambique.

In 2021, the ColorADD Company applied for the Social Innovation Fund to strengthen its business presence in the Northern region of Portugal, as well as to expand at national level. It got an investment of EUR 375 000, of which EUR 225 000 from the Social Innovation Fund, and the rest from other investors, such as the Fund Common Good and CORE Angels Impact. The equity investment helped the company recruit new employees, subcontract essential services for the efficient functioning of the organisation, strengthen the ability to engage potential partners and improve follow-up sales processes to integrate the solution in existing structures or services provided either by private or public sector, such as big corporations, municipalities, front-line services.

17 Information based on FUSE (2023), Portugal Social Innovation case study - *How to use venture philanthropy financing to support the experimentation & scaling of a social innovation: from match-funding to impact investment*.

04 Concluding remarks

Thanks to the new flexibilities introduced in the 2021-2027 CPR, ESF+ managing authorities can explore new modalities to combine financial instruments with grants, increasing the participation of private resources in new or riskier markets and enhancing the sustainability of the financed projects. Combined financial instruments and grants in one operation offer several potential benefits, for instance, in terms of up-front payments to final recipients as well as simpler requirements in terms of audit, control and reporting compared to the combination in two operations.

Most importantly, the new flexibilities allow managing authorities to better design and set-up solutions adaptable to the ESF+ target groups' needs and expectations. As evidenced by the examples described in the previous chapter, reducing the cost of finance through interest rate subsidies can be particularly effective in the area of education. Providing technical support and advisory services, has been proven to be useful in supporting self-employment initiatives. Performance-based grants can reinforce the social impact of established enterprises operating in the social economy. However, **managing authorities can further explore the use of these combinations in three ESF+ policy areas: social inclusion, employment and education and skills**. For instance, performance-based grants can potentially also be used to support students, linking the grant component to the achieved study results, or to contribute to setting up new self-employment initiatives, linking the form of finance to the effective establishment of the enterprises. Training and advisory services could also be suitable for enhancing managerial and working capacities and skills for people employed in existing enterprises, including those operating in commercial sectors. Moreover, the possibility to disburse the grant directly to the final recipient - not only for their benefit - can allow for a more diverse range of providers specialising in different thematic areas. Finally, lowering the cost of finance through interest rate subsidies could be beneficial for all ESF+ target groups, not only those in education, when private resources are involved.

However, there are also challenging aspects when the combination is implemented within the ESF+ framework. These challenges may include technical difficulties encountered by managing authorities or bodies implementing financial instrument or a lack of capacity and experience in managing the grant component by the bodies implementing financial instrument. Generally, the combination of financial instrument and grant in one operation appears to pose less of a burden during implementation, as the major issues are tackled in the design phase[18].

A key aspect is for **the ex-ante assessment to examine whether there is a need for grant support directly linked to the financial instrument**, to be provided in a single financial instrument operation. Possible reasons include the success of past activities that received grant support, which could indicate the need and extent of a grant component, or the need to encourage a policy effect, including reducing reliance on grants.

The ex-ante assessment can indicate whether to **adapt the terms of combined support to suit the different characteristics and needs of applicants**. For instance, it might be suitable to establish varying conditions depending on factors such as project size, if the final recipient is a start-up or an established enterprise, or whether the support is for working capital or investment purposes. Among other options, the ex-ante assessment could explore whether to vary the respective proportions of the investment financed by grants and supported by the financial product at final recipient level. In this case, the ceiling established by Article 58(5) 2021-2027 CPR in terms of the proportion of grant support that can be provided at the level of each financial instrument shall be complied with.

18 According to the *fi-compass survey on ESF financial instruments* for 2014-2020, see fi-compass (2019), *Survey on financial instruments under the European Social Fund (ESF) – Reflections at present and ideas for future,* November 2019.

Moreover, when reducing the cost of credit is a key objective, the ex-ante assessment may need to consider whether using public resources to provide loans or guarantees alongside interest rate subsidies. While the former option may yield greater reflows, the latter may extend benefits to more final recipients due to its potential for higher leverage.

More generally, it is likely that market conditions as well as potential final recipients' needs and expectations will change during implementation. Thus, the **ex-ante assessment should also ensure flexibility to adapt the combination** - as well as the conditions of support more generally - for instance in terms of target group of final recipients.

The **selection of the bodies implementing the combined support is another crucial aspect**. Appointing the suitable bodies implementing financial instrument can be demanding in the ESF+ domain, where working with disadvantaged groups or specific types of businesses such as social enterprises is often perceived as riskier and dealing with social needs requires a broader range of skills than when working with traditional clients[19]. Since potential fund managers might be reluctant to manage grants, market testing can reveal the necessary conditions for their involvement. These conditions may also vary depending on the type of grants. For instance, fund managers may be more willing to handle capital rebates than capital grants due to greater capacity in delivering the former. However, performance-based grants may also require more specific skills, as the body implementing the financial instrument is required to properly set triggers and monitor the progress towards the targets. In such cases, outsourcing the non-financial services to an experienced service provider, for instance to provide ad-hoc training for self-employment initiatives or to monitor the social impact contribution could be beneficial. Additionally, training and awareness raising amongst potential bodies implementing the combined support might be considered by managing authorities to address any concerns regarding the implementation of grants.

Overall, the **administration of the grant should be kept as simple as possible**, specifying, for example, that the grant shall be given as a fixed amount or percentage of the investment/financing (as for capital grants or rebates), or to reduce the interest rate to a specific level (as in case of interest rate subsidies). Any calculation methodology of the grant elements should be clearly determined and described in the funding agreement. Moreover, the selection process of the bodies implementing the combined support and the funding agreement should ensure that the benefit of the financial instrument and its grant component is transferred to the final recipient.

Combining grants and financial instruments in one operation allows for streamlined efficient procedures, which may contribute or even be needed to achieve the programme objectives. The body implementing a combined financial instrument in one operation shall be selected based on a single procedure, simultaneously covering both the grant and the financial product components. In this case, the managing authority may still be tasked with assessing the eligibility of applicants. However, in certain situations, it can be more suitable to maintain separate operations for financial instruments and grants. This can be the case, for example, when technical support is made available to a wider audience, including beneficiaries who may not be inclined to apply for financial instrument support.

19 See for instance fi-compass (2016), *Financial instruments working with microfinance*, fi-compass (2016), *Financial instruments working with social entrepreneurship*, and fi-compass (2016), *Financial instruments working with personal loans*.

05

Annex I – Case studies

1 Further studies made affordable and further studies made affordable plus, Malta

1.1 Summary

The Further Studies Made Affordable Plus (FSMA+)[20] scheme, like its predecessor the FSMA[21], is a financial instrument in Malta supporting students to attend courses at post-secondary level in Malta and abroad. It provides support in the form of a repayable loan offered under particularly advantageous conditions. The loan is backed by a guarantee and an interest rate subsidy funded by the European Social Fund (ESF) for the FSMA and by the ESF and the European Social Fund + (ESF+) for the FSMA+[22].

Although publicly offered post-secondary education in Malta is generally offered for free, not all post-secondary specialised courses/subjects are provided for free. Some courses are not even available in Malta, whereas some privately provided courses attract significant fees. Until 2017, these courses were not supported by the education related support schemes existing at the time (from the Maltese government or co-funded by the EU). Moreover, private sector finance for students in Malta was only available if certain eligibility requirements and loan conditions were met. These commercial bank requirements, such as the need for collateral, ended up reducing the levels of and even eliminating take-up in certain socio-economic groups.

This gap in available student support was thoroughly documented through an ex-ante assessment, which led to the creation of the FSMA and its successor the FSMA+. The designated implementation body is the Malta Development Bank (MDB) which selected, through public calls, the Bank of Valletta plc (BOV) to manage the financial instrument. The eligibility criteria and benefits remain the same for both the FSMA and FSMA+.

The FSMA/FSMA+ is a combined financial instrument, combining two components. The first component is an interest rate subsidy that makes the instrument more appealing to students by reducing the interest rates applicable on their loan. The second component is a guarantee that enhances student access to bank financing by absorbing a substantial part of the risk. This eliminates the need for the lender to request collateral, while enabling it to lengthen the repayment period and reduce interest rates.

Based on such combination of support, BOV can provide students with much easier access to finance than was previously possible by:

- providing a grace period with zero repayment during their full-time or part-time studies, as well as a full subsidy of the 2.75% interest rate during the grace period;
- eliminating any requirements for either collateral or life insurance;
- significantly reducing the interest rate due after the grace period; and enabling a longer-term repayment period, thereby making the loan more affordable for students through lower monthly repayments.

20 Further information available at: https://www.mdb.org.mt/further-studies-made-affordable-plus-fsma/.
21 Further information available at: https://www.mdb.org.mt/past-schemes/further-studies-made-affordable/.
22 Further information available at: FONDI.eu | European Social Fund - FONDI.eu.

Take up for the FSMA and FSMA+ has been very encouraging, having addressed a clear market gap impacting those students who could not afford to further their studies. In view of the successful take up and positive all-round feedback to date, the MDB would like to continue this successful instrument by promoting a top up of the funds available to the FSMA+ should this become necessary. The MDB would also like to see the possibility of InvestEU being used for similar purposes.

FSMA and FSMA+, Malta

Further Studies Made Affordable (FSMA) & Further Studies Made Affordable+ (FSMA+)

Funding source
FSMA - 80% ESF 2014-2020 and 20% National Funds contribution
FSMA+: 80% ESF 2014-2020 + ESF+ 2021-2027 and 20% National Funds contribution

Type of financial products
Portfolio Guarantee for a portfolio of new student loans in combination with interest rate subsidy.

Financial size
FSMA: EUR 4.5 million made up of guarantees totalling EUR 2.7 million and a grant component (i.e. interest rate subsidies) of EUR 1.8 million.
FSMA+: EUR 5 million made up of guarantees totalling EUR 3 million and a grant component (i.e. interest rate subsidies) of EUR 2 million.

Thematic focus
The objective is to support the development of human capital and meet the financing needs of students seeking to pursue full- or part-time accredited courses in EQF/MQF, as well as internationally recognised certificates.

Timing
FSMA: From October 2019 till December 2021
FSMA+: From January 2022, ongoing

Partners
The Managing Authority is the Planning and Priorities Co-ordination Division (PPCD) in the Maltese Ministry responsible for EU Funds, the body implementing the financial instrument is the MDB and the financial intermediary providing the guaranteed loans for both FSMA and FSMA+ is the BOV.

ACHIEVEMENTS

Absorption rate
FSMA: 100% of programme resources contracted with final recipients,
FSMA+: 64% of programme resources contracted (as of 31 August 2023) with final recipients

EU leverage
FSMA: 5 times[23]
FSMA+:5 times[24]

Main achievements (so far)
By December 2021, 264 students had benefitted from FSMA for a total of EUR 8.6 million of loans.
By August 2023, the FSMA+ had already supported 219 students, for a total of EUR 9.6 million of loans.

23 Achieved leverage (source: Office of the Permanent Secretary, Malta).
24 The eligible loans expected to be generated under FSMA+ should reach EUR 15 million, so the expected EU leverage, over the EUR 3 million of the guarantee component, should reach 5 times.

1.2 Objectives

Malta's socio-economic and education-related challenges are tackled through various policy objectives within the ESF+ Programme for Malta 2021-2027. The programme focuses on investing in human capital to create more opportunities and promote social wellbeing and builds on similar objectives in the previous 2014-2020 ESF Operational Programme (OP). The programme identifies seven priority axes including 'Investing in employability and adaptability of the work force'. This axis invests in human capital to ensure that working-age people and enterprises can respond to the needs of the economy, thereby reducing unemployment. Malta's ability to sustain its economic and social development is dependent on the quality of its human resources.

The main objective of FSMA+ financial instrument (as with its predecessor FSMA) is to encourage the development of human capital in Malta, by supporting the financing needs of students interested in pursuing European Qualifications Framework (EQF) / Malta Qualifications Framework (MQF) accredited courses as well as internationally recognised certificates.

Students can receive a loan of up to EUR 100 000 to help cover their education-related expenses (including tuition and accommodation) incurred while following their chosen study course (in Malta or abroad). The loan is provided to students under particularly advantageous conditions, especially when compared to other existing forms of student related financial support.

The FSMA+ aims to contribute to Malta's human capital targets, which include reducing the rate of early school leavers to 9% by 2030[25]. In 2023, 10% of 18 to 24-year-olds in Malta were early school leavers, about 1% higher than the EU average.

Prior to the introduction of the FSMA, students wishing to follow courses not offered in Malta were unable to obtain loans from commercial credit institutions in Malta on their own merits but had to rely on family income and security for the collateral and guarantees required by these commercial banks to provide the support[26]. The FSMA and FSMA+ have reshaped the market for students support and access to finance as they target students directly, allowing individuals from diverse socio-economic backgrounds to apply. While the portfolio remains small on an overall European scale, it has demonstrated the existence of demand for this kind of support. By August 2023, all the funds available under the FSMA had been contracted with final recipients, whilst an estimated 64% of FSMA+ available funds had been absorbed.

25 Ministry for Education, Directorate for Research, Lifelong Learning and Employability (2021), *ELET - Early leaving from education and training policy – The way forward 2020-2030*.
26 fi-compass (2022), *Financial instruments for education and learning*.

1.3 Design and set-up

Measures to support students in the form of (non-repayable) grants in Malta have increased in the past 15 years, as a result of various grant schemes co-financed by the ESF and the national government such as the Strategic Educational Pathways Scholarship (STEPS) and Master It!. However, these schemes were not sufficient to meet existing (and estimated) demand, leading to various applicants not receiving any financial support.

The ex-ante assessment, conducted by the managing authority in 2015, showed that a gap remained, even when private or other forms of assistance available to students were factored in. This assessment proved the general perception that a number of students were not furthering their studies or even trying to request further funding support because currently available financial products were not deemed to be attractive enough or were inapplicable to their course of study. Moreover, there has traditionally been a relatively low student take-up of available private sector financial products in Malta. Overall, the ex-ante assessment identified an investment need in Malta (and a gap in funding) for further education ranging between EUR 70 million and EUR 245 million over 5 years for Maltese students willing to further their studies.

The FSMA was therefore set-up to ease access to finance for students seeking to further their studies, and due to its success, the FSMA+ was then established as its successor with the same objective.

The Planning and Priorities Co-ordination Division (PPCD) in the Ministry responsible for EU Funds, as the Managing Authority of the ESF OP and the ESF+ programme, appointed MDB to implement both the FSMA and, later, the FSMA+. The financial intermediary providing the guaranteed underlying loans, the BOV, was selected due to its previous related experience in Malta, including managing the 'SME Initiative Malta'. The BOV is responsible for the client due diligence process, the appraisal and selection of student loan applications under pre-agreed conditions, as well as for the servicing of loans. The BOV was also tasked with promoting the offer of the financial instrument.

The financial instrument was designed as a combination of a guarantee (used to mitigate the credit risk of the BOV, thus allowing it to remove collateral requirements and reduce its interest rate) with an interest rate subsidy (which supported the further reduction of interest rates to the benefit of the students). The resources for the FSMA amounted to EUR 4.5 million, made up of a EUR 2.7 million guarantee and a EUR 1.8 million grant component (i.e., interest rate subsidies). For the FSMA+, the resources were increased to EUR 5 million (EUR 1 million from the ESF 2014-2020 OP and EUR 4 million from the ESF+ 2021-2027 programme), of which EUR 3 million for the guarantee and EUR 2 million for the grant component. With a multiplier of 5, the eligible loans expected to be paid under FSMA+ should reach EUR 15 million.

The guarantee issued by the MDB provides a partial coverage of the credit risk related to the new loans to students included in the portfolio. Each loan shall be covered by the MDB at a guarantee rate of 80% subject to a maximum liability in respect of loan losses expressed as a guarantee cap amount of up to EUR 3 million calculated on a portfolio basis as 25% of the portfolio.

The duration of the guarantee was set for a maximum term of fifteen years covering the full moratorium period up to a maximum of five years, and the loan repayment period up to a maximum of ten years following the moratorium period. The guarantee consists of a financial guarantee to cover losses relating to any unpaid principal and interest incurred by the BOV. The origination, due diligence, documentation, and servicing of the loans are performed by the BOV in accordance with its standard rules and procedures. The direct client relationship with the students is solely with the BOV.

1.4 Implementation

The call for expression of interest by the MDB for selection of the financial intermediaries to provide the guaranteed underlying loans was launched in June 2019. The BOV was then selected in August 2019 and an operational agreement for the FSMA was signed between the MDB and the BOV in October 2019, with the first loan disbursement in the same month. The operational agreement between the MDB and the BOV for the FSMA+ was later signed in 2022.

Requests for FSMA and FSMA+ assistance were received and assessed by the BOV, whereas the MDB retained an oversight role. The MDB reported on progress and implementation to the managing authority to ensure that the financial instrument complied with the CPR. The size of the fund portfolio made it unfeasible for more than one financial intermediary to promote and manage the financial instrument. Applications for FSMA and FSMA+ support were received and initially vetted by the BOV branch relationship officers, then passed to the Consumer Finance Centre at the BOV Head Office for approval.

1.4.1 Eligible final recipients

Eligible final recipients are students with a minimum age requirement of 18, attending courses in Malta Qualifications Framework (MQF) levels 5, 6, 7 and 8[27] or recognised international certificates.

No geographical limits are imposed on the educational institution offering an accredited course, but a student must be a Maltese citizen, an EU/EEA Member State national, or a family member of an EU/EEA national with permanent residence in Malta or be in Malta as an employee of self-employed person[28]. Third country nationals with long-term residence status in Malta are also eligible to apply.

Applicants need to contact the BOV and provide the following:

- proof of identification;
- a completed application form detailing: educational institution; type of degree; official name of course; expected course start and end dates; expected first drawdown date; country of educational institution; country of attendance; MQF level course, full time /part time course and distance learning, if applicable;
- evidence of income (where applicable) - documentation showing total annual income and latest three payslips or, for self-employed people, profit & loss accounts together with Inland Revenue income and self-assessment form covering at least three years;
- evidence of academic, study, subsistence and transport expenses (including location).

Finally, the financial intermediary conducts a credit assessment. The BOV also requires educational institutions to conduct aptitude tests on the students or issue an acceptance letter to confirm the applicant's potential to attain the qualification.

27 Level 5 refers to an Undergraduate Certificate/Diploma and a VET Higher Diploma/ Foundation Degree; level 6 refers to Bachelor's Degree; level 7 refers to Master's Degree and Post-Graduate Diploma/Certificate; level 8 refers to Doctoral Degree.

28 MDB (2021), *Call for service for the implementation of the financial instrument: Further Studies Made Affordable Plus (FSMA+)*.

1.4.2 Financial products and terms

Through the financial instrument, students benefit from the following:

- grace period of up to five years covering the study period plus 12 months - i.e. students do not pay anything while studying and for up to one year after their study course is complete;
- full interest rate subsidy during the grace period;
- maximum loan term of at least twice the study period following the grace period (up to 5 years) but limited to a maximum of 10 years. As a result, the total maturity of the loan could be up to 15 years;
- maximum loan amount of EUR 100 000;
- support for up to 100% of eligible expenses through the loan. Eligible expenses include tuition, accommodation, living allowance, transport, textbooks, and other costs related to the course.

1.4.3 Combination with grants

In addition to gaining enhanced access to bank credit through the guarantee, the students also benefit from an interest rate subsidy throughout their studies - the moratorium period. The interest element during the moratorium period of each loan is fully financed by the interest rate subsidy, paid by the MDB to the BOV in accordance with the terms specified in the operational agreement.

The interest rate subsidy is provided within the financial instrument as combination in one operation, i.e. the student is given a loan at advantageous conditions which are (financially) supported through a guarantee and an interest rate subsidy. The interest rate - being subsidised - varies with a fixed margin (0.5%) over the banks' consumer lending base rate, which is variable.

Some FSMA and FSMA+ applicants also benefit from other forms of support, primarily through financial advice provided by the financial intermediary at the point of application. Other forms of support available include grants and scholarships awarded by the Maltese Ministry of Education, which mostly support post-graduate studies at EQF/MQF level 7 upwards.

1.4.4 State Aid

State aid at the level of the final recipient (for both the FSMA and FSMA+) is considered to be inapplicable as the final recipients are individual students, rather than commercial undertakings. However, the MDB also ensures that there is no state aid at the level of the commercial bank/financial intermediary (in this instance the BOV) by ensuring that the benefit from the guarantee is fully passed on to the students, mainly in the form of lower interest rates, longer repayment periods and zero collateral requirements. Moreover, the operational agreement signed between the BOV and the MDB stipulates this fundamental condition.

1.5 Output

By 31 August 2023, 264 loans had been issued to students under the FSMA for a total of EUR 8.6 million and 219 under the FSMA+ for a total of nearly EUR 9.6 million.

Loan requests and approvals from October 2019 to August 2023 are outlined below.

Table 2: Number of FSMA Final Recipients

Years	2019	2020				2021			
Quarter	4	1	2	3	4	1	2	3	4
Approved applications	56	25	6	49	43	14	13	46	16

Source: MDB & BOV (2023).

Table 3: Number of FSMA+ Final Recipients

Years	2022				2023		
Quarter	1	2	3	4	1	2	3
Approved applications	10	27	72	45	19	18	28

Source: MDB & BOV (2023).

The average value of loans is EUR 32 692 for the FSMA and EUR 43 801 for the FMSA+. The demand for loans is spread across different MQF levels and age groups. The majority of recipients for both the FSMA and FSMA+ are pursuing their studies at EQF/MQF levels 6 or 7, equivalent to an undergraduate and master's level of education respectively. These stood at 64% and 68% of the FSMA and FSMA+ final recipients. Final recipient split by sex and age is reported in the following tables.

Table 4: Types of Final Recipients for FSMA (as at August 31, 2023)

	No of Applicants	Assistance (EUR)	Male	Female	16 - 24	25 - 54	55+
Total	264	8 630 812	168	96	171	93	0

Source: BOV (2023).

Table 5: Types of Final Recipients for FSMA+ (as at August 31, 2023)

	No of Applicants	Assistance (EUR)	Male	Female	16 - 24	25- 54	55+
Total	219	9 592 396	126	93	146	73	0

Source: BOV (2023).

Certain students were not previously able to continue their studies as support from public and private sources was insufficient or unattractive, which has been mitigated by the existence of the FSMA and FSMA+. This was already documented by the EIB in an article on the FSMA+ early in December 2023[29].

Over 98% of student applicants for FSMA and FSMA+ have been approved. Those refused support were advised by the BOV to choose alternative and more cost effective (or cheaper) courses to achieve the same educational objectives. The few application refusals were due to the inclusion of excessive costs in the requests for assistance (for tuition, accommodation and/or other expenses), which the bank believed would jeopardise the students' capacity to repay. In many cases, BOV personnel helped these students to reconsider their requests and shift their focus to other courses which would minimise the financial burden. The BOV also provided support to students studying outside Malta whose ability to continue their studies were negatively affected by COVID-19, because their courses were either suspended or stopped as their nature did not allow them to shift to an online format or related reasons.

Overall, information collected by the financial intermediary shows that the supported students are satisfied with the financial conditions being offered to them under the FSMA/FSMA+.

1.6 Lessons learnt

The FSMA and the second generation of the fund, the FSMA+ are financed by the ESF / ESF+. They are considered a success by stakeholders in Malta and across Europe. Some lessons can be learnt from the implementation of these combined financial instruments.

As outlined in an earlier fi-compass report[30], the FSMA was the first financial instrument in Malta managed by the MDB. The EIB offered extensive support to the MDB in the initial set up stages, covering multiple domains including support with the documentation and processes needed. Technical support is crucial for managing authorities and financial institutions wishing to provide financial instruments, especially those with limited size/ capacity and experience.

The MDB and the BOV believe that the challenges with establishing and implementing the FSMA and FSMA+ as innovative and combined financial instruments have been addressed and that the product has been a successful one. Their success, which continued during and after the pandemic, also led to a top-up of FSMA budget and a new FSMA+ budget. Without combining the different forms of support, the FSMA and FSMA+ could not offer such appealing criteria and conditions for target users, which has contributed to their successful implementation.

In view of the successful take up for the FSMA and FSMA+ to date, the MDB's intention is for this financial instrument to continue subject to the availability of the necessary financial top-ups. The MDB is also exploring the possibility of combining Structural Funds as a grant with InvestEU guarantees. .

29 fi-compass (2023), *New Education Scheme is a triumph*, fi-compass news - Winter 2023.
30 fi-compass (2022), *Financial instruments for education and learning*.

2 National fund for social entrepreneurship, Polan

2.1 Summary

In Poland, the importance and development potential of social economy entities (SEEs) is well recognised and supported by public policies and funding. Financial instruments have supported the social sector since the 2007-2013 programming period, and in 2014-2020, the National Fund for Social Entrepreneurship (the Fund) was created on the basis of that previous experience. The Fund has a budget of over EUR 36 million[31] financed by the European Social Fund (ESF) Operational Programme Knowledge, Education, Development (OP KED) under Thematic Objective 9 (promoting social inclusion, combating poverty and any discrimination). The primary goal of the Fund is to provide affordable financing to SEEs and increase the number of SEEs using loans, thereby addressing existing market gaps.

The Fund offers a combination in one operation of start-up and development loans with interest rate subsidies. These subsidies are only for loans financed by the bodies implementing financial instrument using their own resources and cover the difference between the market interest rate indicated by the them in their tender offer and the interest rate applied to a loan from ESF funds. The subsidies should ensure that SEEs pay the same interest rates regardless of whether the source of financing originates from the ESF or the the body implementing financial instrument own funds.

Loans are distributed throughout the country by the bodies implementing financial instrument selected and supervised by Bank Gospodarstwa Krajowego (BGK), acting as the holding fund manager. The Ministry of European Funds and Regional Policy is the managing authority, and the Ministry of Family, Labour and Social Policy is the intermediate body. By the end of July 2023, almost EUR 32.6 million had been disbursed to 1 171 SEEs. This was almost 98% of the initial target for SEE support and 115% of the initial target for jobs created.

For the 2021-2027 programming period, the financial instrument is being continued with the same form of loans for start-ups and development. However the managing authority has decided to use the flexibilities offered by the Common Provision Regulation (CPR). The most relevant is the combination of loans and capital rebates, instead of interest rate subsidies. A capital rebate of 25% will apply when SEEs achieve measurable social impact, such as creating jobs for people with disabilities or mental disorders, health or social services in the local community, special accessibility services, or green economy initiatives.

31 Exchange rate for July 2023 - https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and-beneficiaries/exchange-rate-inforeuro_en (1 EUR = 4.4485 PLN). The same exchange rate is used in the whole case study.

National Fund for Social Entrepreneurship, Poland

THE FINANCIAL INSTRUMENT

Funding source
ESF 2014-2020, OP KED, Measure 2.9[32]

Type of financial products
Risk sharing loans combined with interest rate subsidies.

Financial size
EUR 35.7 million or PLN 158.9 million including:
- EUR 30.1 million or PLN 133.9 million ESF resources
- EUR 2.0 million or PLN 9.1 million national budget contribution
- EUR 3.6 million or PLN 15.9 million expected contribution from own resources of the bodies implementing financial instrument

Thematic focus
Thematic Objective 9 (Promoting social inclusion, combating poverty and any discrimination) under Article 9 of CPR 2014-2020

Timing
From 2016 to 2023

Partners
- Managing authority - Ministry of European Funds and Regional Policy
- Intermediate body - Ministry of Family, Labour and Social Policy
- Holding fund - Bank Gospodarstwa Krajowego (BGK)
- Bodies implementing financial instrument - Towarzystwo Inicjatyw Społeczno-Ekonomicznych (TISE), Fundacja Agencja Rozwoju Regionalnego in Starachowice (FARR), Fundusz Regionu Wałbrzyskiego (FRW) and Fundacja Rozwoju Przedsiebiorczosci in Suwalki (FRP)

ACHIEVEMENTS

Absorption rate
EUR 32.9 million or PLN 146.2 million disbursed to SEEs including:
- EUR 32.6 million or PLN 144.8 million financial instrument (EUR 26.3 million or PLN 116.8 million ESF+ EUR 1.8 million or PLN 7.9 million national budget plus EUR 4.5 million or PLN 20.1 million from the bodies implementing financial instrument)
- EUR 0.3 million or PLN 1.4 million grant component (i.e. interest rate subsidies) (EUR 0.3 million or PLN 1.3 million ESF plus EUR 0.02 million or PLN 0.09 million national budget) (data from BGK as of July 31, 2023)

EU leverage
1.18 times[33]

Main achievements (so far)
1 171 SEEs supported, i.e. 98% of the initial target; 1 272 jobs created, i.e. 115% of the initial target (data from BGK as of July 31, 2023).

32 Project no POWR.02.09.00-00-0004/16 „Wdrożenie instrumentu pożyczkowego i reporęczeniowego w ramach Krajowego Funduszu Przedsiębiorczości Społecznej'-„Implementation of a loan and re-guarantee instrument under the National Social Entrepreneurship Fund'.
33 The expected EU leverage is calculated as the total amount of finance, i.e. EUR 35.7 million, divided by the total amount of ESF allocation, i.e. EUR 30.1 million.

2.2 Objectives

The main objectives of the Fund are to increase the number of SEEs[34] using loan instruments, address SEE problems financing their activities and developing their business, while increasing the number of jobs and social benefits.

Since 2022 national policy has also included the National Programme for the Development of Social Economy until 2030. Economics of Social Solidarity[35]. This indicates that in 2019, the social economy sector in Poland included 103 800 entities employing over 206 400 employees, 1.3% of the national total. The largest group of SEEs are non-governmental organisations (89 000) and rural housewife associations (9 700).

SEEs in Poland have severe problems financing their activities, especially regarding access to bank loans[36]. Only 4% of the surveyed SEEs applied for bank or non-bank loans in 2019. Of these, 63% obtained such financing, while 37% were denied. The main reason for refusal was a lack of collateral, followed by a low assessment of the potential borrower's creditworthiness, too short a period of business activity and, finally, the lack of an appropriate loan offer. In the qualitative research, many respondents pointed out that it is challenging for a typical SEE to apply for repayable financing because their managers usually do not have sufficient financial competence and the professionalism of accounting services supporting SEE varies greatly. Many individuals said they did not even attempt to apply for a bank loan, believing their organisation would definitely not get it, or the interest rates and commissions would be far too high. The organisations that applied indicated that banks often did not understand SEEs, or more broadly, non-governmental organisations. Financial institutions often perceived lending to SEEs as carrying an above-average level of risk. Moreover, they had difficulties with properly analysing SEE financial statements.

In light of the above, public efforts to address the needs of the social economy in Poland have been comprehensive, encompassing legal and policy frameworks, the Fund and non-financial support to final recipients.

2.3 Design and set-up

The ex-ante assessment, finalised in February 2014[37], identified a market failure related to financing for SEEs. The analysis focused on non-governmental organisations (NGOs) and estimated the existing financial gap. This showed that NGOs in Poland limit their investments due to a lack of finance. In 2013 NGOs capital expenditure was reduced by EUR 141.5 million or PLN 655 million due to the lack of finance. Of this amount, the unmet demand for loans was estimated at EUR 11 million or PLN 51 million. It was also considered highly probable that the financial gap would increase.

The ex-ante assessment included the following recommendations:

- keeping loans as a key financial product for SEEs;
- expanding the range of repayable instruments (i.e. counter-guarantees, social venture capital);
- increasing the Fund allocation compared to 2007-2013, due to the increasing gap for SEE financing;
- involving the private capital of financial intermediaries;
- maintaining implementation at the central, national level with the involvement of BGK as the holding fund manager.

34 The official definition of SEE was incorporated into Polish law in 2022 via the Act of August 5, 2022 (Dz. U. 2022 poz. 1812), on the social economy. SEEs include social cooperatives, occupational therapy workshops, professional activity centres, social integration centres, social integration clubs, work cooperatives (including cooperatives for people with disabilities), agricultural production cooperatives, non-governmental organisations (excluding political parties, trade unions and employer organisations), professional self-governments, as well as foundations set up by political parties and European political foundations.

35 Monitor Polski Dziennik Urzędowy Rzeczypospolitej Polskie, Warszawa, dnia 2 grudnia 2022 r. Poz. 1171.

36 Policy & Action Group Uniconsult, IDEA Instytut, and Fundacja IDEA Rozwoju (2020), *Badanie potrzeb finansowych i pozafinansowych w sektorze ekonomii społecznej oraz usług społecznych i zdrowotnych*.

37 The *'Ex-ante assessment of FIs in support of social economy entities and young people'* was carried out between November 2013 and February 2014. A second ex-ante assessment, *'Ex-ante risk assessment for the use of financial guarantee instruments offered to SEE within the framework of POWER'*, was conducted between April and August 2015. See fi-compass (2017), *Social entrepreneurship and social inclusion: 'National Fund for Social Entrepreneurship, Poland*, presentation in Brussels, 29 November 2017.

These recommendations were incorporated into the design of the Fund for the 2014-2020 period. Moreover, it was recommended to attract the private sector to provide more financing to social enterprises by:

- increasing the potential of SEEs;
- building financial history and strengthening financial competence in SEEs, to better prepare them for future offers from financial institutions.

In the shorter term, poor credit history and the relatively high risk of loss limited the use of private sector funds. Private capital was attracted by defining the conditions and criteria to select bodies implementing financial instrument and by proposing interest subsidies for loans granted by private sector bodies implementing financial instrument. The decision to subsidise the interest rate was made at the planning stage and included in the financing agreement between the intermediate body and BGK.

In addition, the ex-ante assessment recommended extending the activities combined with the financial instrument, mainly advisory services in the form of grants. The proposed advisory services, for example, included greater involvement of financial advisors for SEEs applying for and using the instruments. Ultimately, this combination of financial and non-financial support in one operation was not implemented, mainly because of constraints in the 2014-2020 CPR. Nevertheless, non-financial support was made available outside the Fund through other ESF operations, particularly those involving SESC.

SESC are specialist non-governmental organisations supporting the development of the social economy in Poland. They facilitate the professional and social integration of people at risk of marginalisation, increase social capital and help develop social entrepreneurship[38]. SESCs adhere to uniform standards and employ a certification process, 'accreditation', to ensure high-quality services. Each accreditation application outlines the method for supporting SEEs, resulting in activities that are more extensive and comprehensive than merely supporting borrowers. There are 24 accredited SESCs across Poland[39]. Their support is based on *de minimis* State aid and is cumulative with other forms of State aid for SEEs.

Launching the Fund included setting up the holding fund and selecting bodies implementing financial instrument. BGK, the Polish National Promotional Bank, was appointed as holding fund manager under the applicable EU and national regulations.

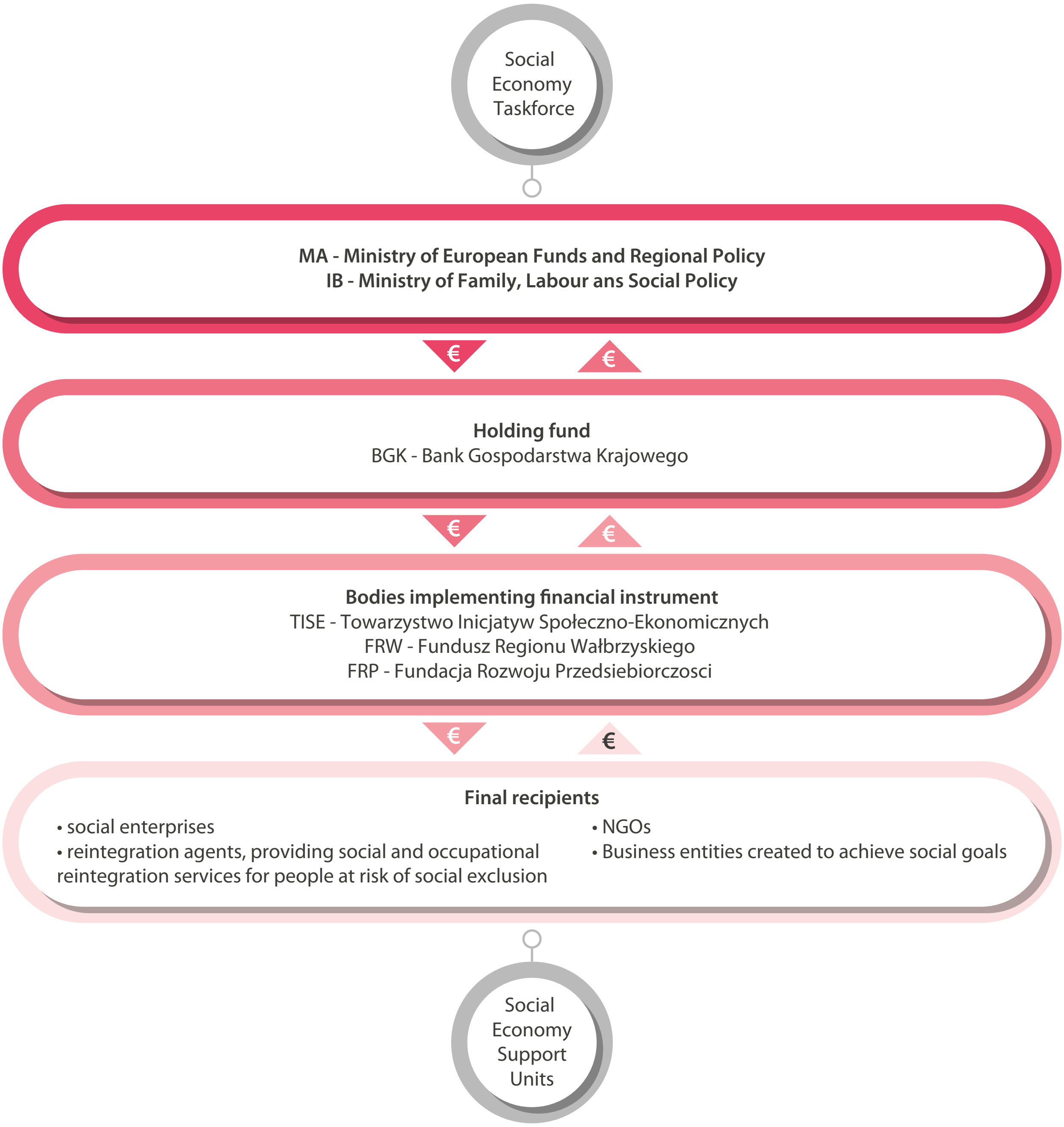
BGK was responsible for selecting bodies implementing financial instrument through an open public procurement procedure. Several institutions were chosen to provide loans (i.e. TISE and the regional agencies: FARR, FRW and FRP). Initially, the intention was also to establish a counter-guarantee instrument alongside the loan instrument, however the public procurement procedure to select bodies implementing financial instrument for counter-guarantees was ineffective. Although 29 financial institutions were informed about the tender and invited to submit offers, none applied. Therefore, resources initially allocated for counter-guarantees were re-allocated to the budget for loans.

To ensure better supervision of the Fund and its effective operation, the Social Economy Taskforce was established. This is chaired by the managing authority and includes the intermediate body, BGK, the National Bank of Poland, representatives of the National Committee for Development of the Social Economy, SESC, the social economy (final recipients) and the banking sector. The taskforce supervises the proper functioning of the Fund and enables the stakeholders to exchange knowledge and opinions.

38 More specifically, their services include: local coordination, stimulating civic activity and increasing participation in the social economy through meetings with different social groups, sectors or regions, diagnosis of the local environment, building development partnerships, and civic dialogue and consultations; creation of SEEs, including support for their activities and new jobs; support and finance for SEEs integrating people at risk of marginalisation and disabled people into society, including work; support for SEEs to acquire public contracts; strengthening the potential of SEEs and providing them with business support.

39 Further information available at: https://www.ekonomiaspoleczna.gov.pl/co-robimy/akredytacja-i-status-owes/wykaz-akredytowanych-owes/.

Figure 1: Structure of the Fund



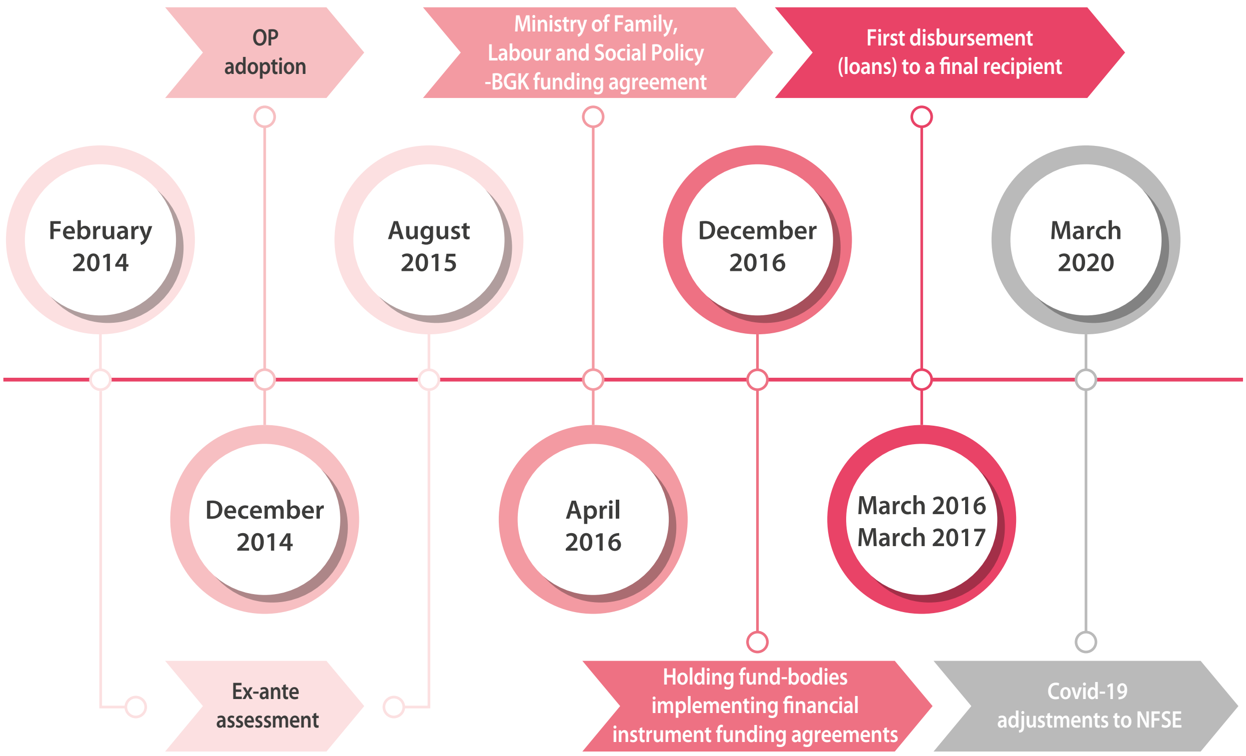
Source: fi-compass (2021), Financing the social economy in Poland - Updated case study - April 2021.

2.4 Implementation

BGK was appointed by the intermediate body with the role of holding fund manager of the Fund, in accordance with 2014-2020 CPR, art. 38.4 (b) (iii). The Operational programme had already envisaged using BGK for the implementation of a financial instrument, according to the applicable EU and national regulations. The funding agreement between the intermediate body (Ministry of Family, Labour and Social Policy) and BGK was signed in April 2016.

As holding fund, BGK carried out the selection of the bodies implementing financial instrument using an open public procurement procedure. In December 2016, BGK completed the public procurement procedure and selected two bodies implementing financial instrument, TISE in Polish macro regions I, II, IV and V and FRW in macro region III. The selected bodies implementing financial instrument started building loan portfolios in March 2017. In 2019, following a new public procurement procedure, TISE was selected in macro regions I, III, IV and V and FRP was selected in microregion II.

Figure 2: Timeline of the Fund



Source: fi-compass (2021), Financing the social economy in Poland - Updated case study - April 2021.

2.4.1 Eligible final recipients

Eligible final recipients include entities registered as SMEs, in particular:

- social cooperatives;
- cooperatives whose aim is employment, i.e. worker cooperatives or cooperatives of people with disabilities, agricultural production cooperatives;
- NGOs, including associations and foundations;
- rural housewife associations;
- church entities;
- non-profit companies with a social orientation;
- reintegration entities: social integration centres, social integration clubs, vocational activity centres, occupational therapy workshops;
- social enterprises.

2.4.2 Financial products

In the period 2014-2020, the Fund offered preferential loans combined with an interest rate subsidy in one operation. These loans were categorised into two types:

- start-ups – organisations that had commenced operations no more than 12 months prior to signing the loan agreement;
- development – offered to SEEs that had been operating for more than a year.

The specific parameters of the two types of loans are presented below.

Table 1: Key features of the financial products offered by the Fund

	Start-up loan	Development loan
Maximum loan amount	Up to EUR 22 500 or PLN 100 000. It is possible to take two loans totalling EUR 45 000 or PLN 200 000, one of which must be used to create jobs.	Up to EUR 112 400 or PLN 500 000. More than one loan is possible, provided the total does not exceed EUR 224 800 or PLN 1 million.
Maximum term	5 years	7 years
Grace period	Not exceeding 6 months	
Collateral	A blank promissory note with a promissory note declaration. If the organisation lacks assets, the promissory note has a zero value. Subsequently alternative forms of collateral are negotiated. These can include personal surety for individuals, the transfer of property belonging to individuals or organisations involved in the borrower's activity.	

Interest rate	1.06% per annum. If there is a commitment to create at least one new job as part of the project financed by the loan, the interest rate is reduced to 0.53% per annum[40].	When the loan does not exceed EUR 22 500 or PLN 100 000, the interest rate is 1.14% per annum. If there is a commitment to create at least one new job as part of the project financed by the loan, the interest rate is reduced to 0.57% per annum. When the loan exceeds EUR 22 500 or PLN 100 000, the interest rate is 1.60% per annum. If there is a commitment to create at least one new job for every EUR 22 500 or PLN 100 000, the interest rate is reduced by 0.15% for each job[41].

2.4.3 Combination with grants

Loans are combined with interest rate subsidies in one operation. The interest rate subsidy is non-repayable financial assistance provided to SEEs in the form of a grant. The subsidy is the difference between the market interest rate indicated by the intermediary in the tender offer and the interest rate applied to a loan granted from ESF. This ensures that interest rates for SEEs are the same regardless of the source of financing i.e. whether they originate from ESF or the body implementing financial instrument own funds.

The interest rate may be reduced for high social impact in terms of job creation (see Table 1). However, the interest rate must not fall below zero.

The subsidies are paid by BGK to bodies implementing financial instrument who provide additional capital from their own resources. The body implementing financial instrument autonomously decides on the financing structure of each disbursed loan (ratio between OP resources and own contributions). The agreed risk-sharing rate that the body implementing financial instrument is bound to observe (i.e. the overall ratio between OP and their own contribution as per the funding agreement between the body implementing financial instrument and BGK) is measured at portfolio level.

2.4.4 State aid

In terms of State aid, the *de minimis* regime is applied at the level of final recipients, insofar as they benefit from the reduced interest rates (for projects with high social impact) through the financial instrument component or an interest rate subsidy. The interest rate subsidy entails providing *de minimis* aid to SEEs equal to the benefit provided by the discounted amount of the subsidy.

40 TISE (2023), *Preferencyjne pożyczki dla podmiotów ekonomii społecznej TISE-POWER 2022* and https://www.bgk.pl/files/public/Pliki/Przedsiebiorstwa/Wsparcie_podmiotow_ekonomii_spolecznej/PES_10.05.pdf.

41 TISE (2023), *Preferencyjne pożyczki dla podmiotów ekonomii społecznej TISE-POWER 2022*.

2.5 Output

By the end of July 2023, SEEs had received EUR 32.9 million or PLN 146.2 million of support, or 92% of the Fund's allocation, of which:

- Nearly EUR 32.6 million for the financial instrument, of which EUR 26.3 million was from ESF, EUR 1.8 million from the national budget, and EUR 4.5 million from the bodies implementing financial instrument;
- EUR 0.32 million for the grant component in the form of interest rate subsidy, of which 0.3 million from ESF and EUR 0.02 million from the national budget.

The allocation was disbursed to 1 171 SEEs (98% of the initial target), contributing to the creation of 1 272 jobs (115% of the initial target). Most of the SEEs were cooperatives (32%), foundations (30%) and associations (22%).

Table 2: Type of supported SEEs (as of 31 July 2023)

Type	Number
Cooperative	371
Foundation	354
Association	262
Limited liability company - micro-enterprise	132
Limited liability company - small enterprise	32
Churches and religious associations	16
Other social or professional organisations	1
Other	3
Total	**1 171**

2.6 Lessons learnt

Financial instruments supporting the social sector in Poland have been in operation since the 2007-2013 period and the Fund performance for 2014-2020 was positive. Over the years, specific elements in the combination of support have changed. For the 2021-2027 period, the third generation of the Fund financed with ESF / ESF+ is being established, making use of the combination possibilities offered by the 2021-2027 CPR[42].

Most significantly, the new ESF+ financial instruments will no longer provide interest rate subsidies. These are seen as burdensome by the institutions responsible for their implementation, primarily due to the continuous calculation requirements for the subsidies to bodies implementing financial instrument when their own capital has been utilised.

Furthermore, the managing authority intends to make use of the new possibilities made available in the 2021-2027 CPR by providing capital rebates within the financial instrument support[43]. Capital rebates are considered to be more attractive for SEEs, which may increase demand for loan support. The planned capital rebates amounting to 25% of the loan value are contingent on the achievement of the social benefits[44], such as:

- Creation of new job(s) for persons with moderate and severe disabilities or persons with mental disorders;
- Implementation of projects involving community-based services (health or social services);
- Implementation of projects involving services or products ensuring accessibility to individuals with special needs;
- Implementation of green economy projects.

Capital rebates are contingent on the following criteria being met:

- the borrower has achieved one of the social benefits listed in conditions 1-4;
- for condition 1, the borrower has maintained the job/activity in this area for at least 12 months;
- for conditions 2-4, the entire amount of the loan is used for these purposes.

The rebate value may not exceed the overall limit of 25% even if several types of social benefits are achieved simultaneously.

The rebate decreases the outstanding capital following a 12-month period subsequent to conclusion of the loan agreement. If the outstanding capital falls below 25% of the initial loan (i.e. the eligible capital rebate), only the outstanding capital is written off meaning the rebate is less than 25%.

Both start-up and development loans for SEEs will be continued in the 2021-2027 programming period (see table below for detail) based on the information provided by the responsible stakeholders interviewed for the purpose of this document. The interest rate will be preferential and aligned with the rediscount rate of promissory notes from the National Bank of Poland. *De minimis* regime at the level of final recipients will be applied. The same conditions for capital rebates apply to both loan types. In accordance with the regulations, the Fund's reflows will be used for additional social support[45].

Overall, the Fund is a good example of the development and optimisation of activities, skilfully combining financial instruments with different grant components, while maintaining the objective of improving access to finance for SEEs (see table below for a detailed comparison). The first financial instrument for SEEs was created under the ESF-financed OP Human Capital 2007-2013, with loans combined with advisory services. BGK managed the holding fund and TISE was the body implementing specific fund, disbursing 500 loans worth EUR 8.4 million.

42 Further information available at: https://www.rozwojspoleczny.gov.pl/media/117896/Zalacznik_do_uchwaly_nr_24.pdf.
43 Moreover, capital rebates are also planned under other ESF+ financial instruments in Poland addressing self-employment, accessibility, and lifelong learning.
44 This section is an extract from the rules and regulations of the Fund, excluding the applicable Polish national legal acts.
45 It is worth mentioning that reflows from the 2007-2013 OP Human Capital funds led to a new scheme granting micro-loans to tackle liquidity issues faced by SEEs in May 2020. Eligible final recipients were SEEs that had been operating for longer than 12 months and working capital was the only eligible expenditure.

The instrument was well implemented, and that experience helped in designing the Fund for the 2014-2020 period. This provided interest rate subsidies, involving more bodies implementing financial instrument and doubling the number of loans disbursed to SEEs. Leveraging the new flexibilities offered by the 2021-2027 CPR Regulation, the Fund will be implemented in combination with capital rebates, which are expected to support SEEs enhancing their social impact.

Table 4: A comparison of the Fund between different programming periods

	2007-2013	2014-2020	2021-2027
Funding sources	ESF, state budget		ESF+, state budget
Operational Programme	OP Human Capital	OP Knowledge, Education, Development	European Funds Program for Social Development
Managing Authority	Ministry of Development Funds and Regional Policy		
Intermediate Body	Ministry of Family, Labour and Social Policy		BGK[46]
Holding fund	BGK		
Bodies implementing the financial instrument	One – TISE	Four – TISE, FRW, FARR, FRP	To be selected
Project implementation area	The entire territory of Poland		
Form of support / combinations	Loans and advisory services as a grant (combination of soft loans with technical support in one operation)	Start-up and development loans with interest rate subsidies for loans from the bodies implementing financial instrument capital to align interest rates for SEEs, regardless of the financing source - ESF or body implementing financial instrument funds (no combination with technical support within one operation)	Start-up and development loans with capital rebates of 25% of the capital provided there are social benefits, no interest rate subsidies
Major changes compared to the predecessor	-	More bodies implementing financial instrument involved Technical support outside the financial instrument in other ESF operations (business development services offered by SESC) New financial product tested (counter-guarantee fund)	New financial products (capital rebates and equity / quasi-equity instruments implemented through Social Capital Funds) Simpler governance structure, Ministry of Family, Labour and Social Policy is no longer the intermediate body More legal certainty with the new Polish social economy regulation (Act of August 5, 2022 on the social economy)

46 BGK acts as both intermediate body and holding fund, as intermediate body it supervises the project while maintaining a separation of functions.

3 S-enterprise programme, Czechia

3.1 Summary

This case study illustrates the experience of the S-enterprise programme, which was the first European Social Fund (ESF) financial instrument in Czechia implemented under Operational Programme Employment (OPE) in the 2014-2020 programming period. The S-enterprise programme was created to support social entrepreneurship by providing soft loans in combination with technical support in the form of advisory services. The objective of the programme is to facilitate access to finance for the business projects of both newly established and existing social enterprises, contributing to more efficient and sustainable social entrepreneurship. At the same time, the programme aims to overcome existing market failures including regulatory uncertainty, low returns on soft investments typical of social enterprises[47], a presumed lower productivity per worker reducing the applicant's creditworthiness, the high transaction costs of supporting small-scale projects and complications in predicting future cash flows for social enterprises.

Financial instruments enhance the effectiveness of ESF programmes in achieving policy objectives and priorities such as inclusion, sustainable jobs and improved education. Although there are a number of practical cases ESF-funded financial instruments in EU Member States, many managing authorities still consider this form of support too innovative to stimulate investment in the social economy.

This case study offers practical information on the objectives, design, set-up, implementation and impact of the S-enterprise programme. It aims to help ESF+ stakeholders become more aware of the potential for financial instruments and enhance the readiness and interest of managing authorities to implement them. After considering various options, the Ministry of Labour and Social Affairs (MoLSA), as managing authority of OPE, decided to appoint the National Development Bank (NDB)[48] to implement the S-enterprise programme. NDB, as the National Promotional Bank of Czechia, had previous experience with implementing loan and guarantee financial instruments. Under the S-enterprise programme, two types of soft loans (investment and operating) in combination with advisory services as technical support in one operation are provided to existing and newly established social enterprises. This combination of support is intended to address the limited availability of funding and relatively weak entrepreneurial skills of social enterprises. According to the ex-ante assessment, these are significant shortcomings within the social enterprise sector in Czechia.

The loans can range from CZK 400 000 (EUR 16 000)[49] to CZK 25 million (EUR 1.0 million), with a maturity of up to ten years for investment loans and two years for operating loans. The biggest advantage over commercial bank products is the zero-interest rate. Additionally, there are no fees and a potential grace period of up to three years for investment loans and one year for operating loans is offered. Advisory services are provided to people managing or operating the social enterprise ranging from 20 hours per project to 50% of the loan amount. However, only the final recipients of soft loans can obtain the advisory services. So far, the S-enterprise programme has provided 42 loans totalling EUR 8.3 million, of which EUR 6.9 million has already been disbursed to social enterprises[50]. Advisory services have been provided to five final recipients for a total of 509 hours.

47 Typically, projects target improved internal processes, communication training, improved working conditions and environments.
48 Until 1 September 2021, NDB was called the Czech-Moravian Guarantee and Development Bank.
49 The case study uses the ECB euro reference exchange rate as of 2 October 2023 (i.e. EUR 1 = CZK 24 460).
50 These results are preliminary and valid as of end 2023.

The managing authority and the body implementing financial instrument had to contend with major challenges, particularly during implementation amidst the Covid-19 pandemic. In addition, potential applicants had a clear preference for grants over financial instruments, and social enterprises had limited awareness of the S-enterprise programme and the products it offered. Key success factors in at least partially overcoming these challenges included an appropriate governance structure, an entity with extensive experience in administering financial instruments, and a clear division of powers and responsibilities between the managing authority and the body implementing financial instrument. Additionally, NDB staff worked closely with applicants in preparing projects and applications. In the 2021-2027 programming period, the managing authority plans to continue the S-enterprise programme with a similar design and only minor adjustments. The financial instrument will therefore continue to support investment and operational loans in combination with grants for technical support. The NDB will continue to be the body implementing financial instrument, while advisory services will be ensured by an external service provider.

S-enterprise programme, Czechia

THE FINANCIAL INSTRUMENT

Funding source
ESF – OPE for the 2014-2020 programming period, national co-financing

Type of financial products
Soft loans in combination with grants for technical support in the form of advisory services, provided to final recipients

Financial size
CZK 400 million (EUR 16.4 million): ESF CZK 310.25 million (EUR 12.7 million); national co-financing CZK 89.75 million (EUR 3.7 million)

Thematic focus
Promoting sustainable and quality employment and supporting labour mobility; Promoting social inclusion, combating poverty and any discrimination.

Timing
From September 2019 to December 2023

Partners involved
Ministry of Labour and Social Affairs (managing authority), National Development Bank (body implementing financial instrument), Moore Czech Republic (advisory services provider)

ACHIEVEMENTS

Absorption rate[51]
38% of programme resources: ESF and national funding (as at 31 July 2023)

EU leverage[52]
1.29 times

Main achievements (so far)
26 social enterprises supported; 35 loans totalling CZK 182.1 million (EUR 7.4 million) concluded, of which CZK 147 million (EUR 6.0 million) were disbursed by 31 July 2023.

51 Absorption rate is calculated as the total amount of disbursed programme resources divided by allocated programme resources.
52 The achieved EU leverage is calculated as the total amount of finance disbursed to eligible final recipients, i.e. EUR 6 015 849 divided by the total amount of ESF disbursed to final recipients, i.e. EUR 4 666 043.

3.2 Objectives

The social entrepreneurship sector in Czechia is experiencing dynamic growth, with an increasing number of entities showing interest and actively operating in this sector. There has been an ongoing discussion about suitable legislation for the sector[53]. The absence of a legal norm with an unequivocal definition of social enterprise has led to different interpretations. This has resulted in inaccurate data on the number of existing social enterprises, their financial needs and their absorption capacities. Currently, there are 242 voluntarily registered[54] social enterprises in Czechia with an aggregate annual turnover of almost CZK 2.7 billion (EUR 110.4 million)[55] employing over 5 100 people. However, according to expert estimates, there are probably 400-600 social enterprises operating in the country.

Support for social entrepreneurship in Czechia is advisory and financial. Advisory services are provided through SPoint contacts operated by MoLSA in cooperation with partners in the regions and funded through European Structural and Investment Funds (ESIF). SPoint currently operates in six locations across Czechia where social enterprises can get free advice, consultation, education and training, promotion cooperation, information on financial support, networking and experience sharing, as well as incubation support[56]. Financial resources for social enterprises most often comes from ESIF or under the Employment Act[57] and less frequently through private sector loans, grants from regions and municipalities, or philanthropy[58].

In Czechia, financial support from public sources is primarily through grants. S-enterprise, implemented in the 2014-2020 programming period, was the first financial instrument under OPE. The S-enterprise programme offers soft loans in combination with technical support in one operation. It is implemented under Priority Axis 2 'Social Inclusion and Combating Poverty', Investment Priority 1 'Active inclusion, including with a view to promoting equal opportunities and active participation, and improving employability' and Specific Objective 2 'Social economy development'[59]. S-enterprise facilitates access to finance for newly established and existing social enterprise business projects. These projects must focus on investment, especially in new production technology, modern production or services and expanded capacity, as well as operational activities.

In Czechia, social enterprises lie between the market and non-profit sectors and mostly focus on employment and social inclusion for disadvantaged people. This means that the social entrepreneurship sector is not entirely market-oriented and that its continuous development relies on public intervention. The main market failures and sub-optimal investment situations in this sector include regulatory uncertainty, limitations on profits, low returns on soft investments typical of social enterprises, as well as information asymmetry. Furthermore, presumed lower productivity per worker reduces creditworthiness, and exacerbates problems with predicting future cash flows for social enterprises. This is because their profitability is very closely linked to the social entrepreneurs involved.

53 In May 2023, MoLSA presented a draft 'Act on Social Enterprise and on Amendments to Related Acts' ('Social Enterprise Act') that was subsequently a subject of a consultation process. However, a standard legislative procedure has not yet been initiated.

54 The directory of social enterprises was created within the project 'Development of Social Entrepreneurship Ecosystem', registration number CZ.03.02.02/00/22_004/0001397. The directory is administrated by MoLSA and covers enterprises that adopted the principles of social entrepreneurship. Registration in the directory is not compulsory, it depends only on the interest of individual social enterprises. The directory is available at České sociální podnikání Adresář sociálních podniků (ceske-socialni-podnikani.cz..

55 MoLSA, Adresář sociálních podniků (Social enterprises directory), *České sociální podnikání (Czech social entrepreneurship)*, 2023, Available at: https://ceske-socialni-podnikani.cz/adresar-socialnich-podniku.

56 MoLSA, SPointy (SPoints), *České sociální podnikání (Czech social entrepreneurship)*, 2023, Available at: https://ceske-socialni-podnikani.cz/poradenstvi/spointy.

57 Act No 435/2004 of 13 May 2004 on the employment ('Employment Act').

58 MoLSA, Předběžné hodnocení využití finančních nástrojů v Operačním programu Zaměstnanost plus 2021-2027 (Ex-ante assessment of the use of financial instruments in the Operational Programme Employment plus 2021-2027), 2022, p. 16.

59 MoLSA, Operační program Zaměstnanost 2014-2020 (Operational Programme Employment 2014-2020), 2021, p. 33, Available at: https://www.esfcr.cz/programy/op-zamestnanost.

There are also relatively high transaction costs for banks with the smaller investments demanded by social enterprises[60]. Overcoming these market failures while contributing to greater efficiency and sustainability for social entrepreneurship was the main motivation of MoLSA, as managing authority. This led to exploring the possibility of using financial instruments and subsequently implementing the S-enterprise programme.

3.3 Design and set-up

The ex-ante assessment for the use of financial instruments in OPE 2014-2020 was carried out from July to September 2017 by MoLSA in cooperation with an external service provider[61]. It included a market failure analysis, an assessment of financial instrument added value, an estimate of additional public and private resources, an evaluation of previous experience in the use of similar financial instruments, and an investment strategy. The ex-ante assessment identified only one specific objective in the OPE showing a strong potential for the financial instrument, 'Development of the social economy sector'. It recommended soft loans in combination with technical support as the most appropriate solution for a pilot project utilising financial instruments within the OPE. This recommendation resulted from a comprehensive analysis of the Czech environment and foreign experience, which showed that in addition to limited funding for social enterprises, another major issue was relatively weak entrepreneurial skills resulting in inadequate business plans, inefficient marketing, and the limited sustainability of projects. Soft loans in combination with technical support could, according to the ex-ante assessment, tackle both the entrepreneurial and managerial weaknesses. Support that could be repaid with expected revenues would be an incentive to deliver viable activities and projects. It would also contribute to building entrepreneurial and managerial skills, making social enterprises more efficient in the long run and enhancing their potential to develop high-quality projects. The ex-ante assessment suggested either an existing national entity such as a national promotional bank, labour office or commercial bank or an EU level entity (European Investment Bank, European Investment Fund), favouring the national promotional bank, as the body implementing financial instrument.

After considering various options, MoLSA opted to offer soft loans in combination with technical support provided in one operation. Following other ex-ante assessment findings, MoLSA appointed NDB to implement this, since it had experience with administering financial instruments in the form of loans and guarantees[62]. Moreover, the direct provision of loans through NDB meant a significantly simpler implementation structure compared to the alternatives.

60 MoLSA, Předběžné hodnocení využití finančních nástrojů v Operačním programu Zaměstnanost 2014-2020 (Ex-ante assessment of the use of financial instruments in the Operational Programme Employment 2014-2020), 2017, p. 16.

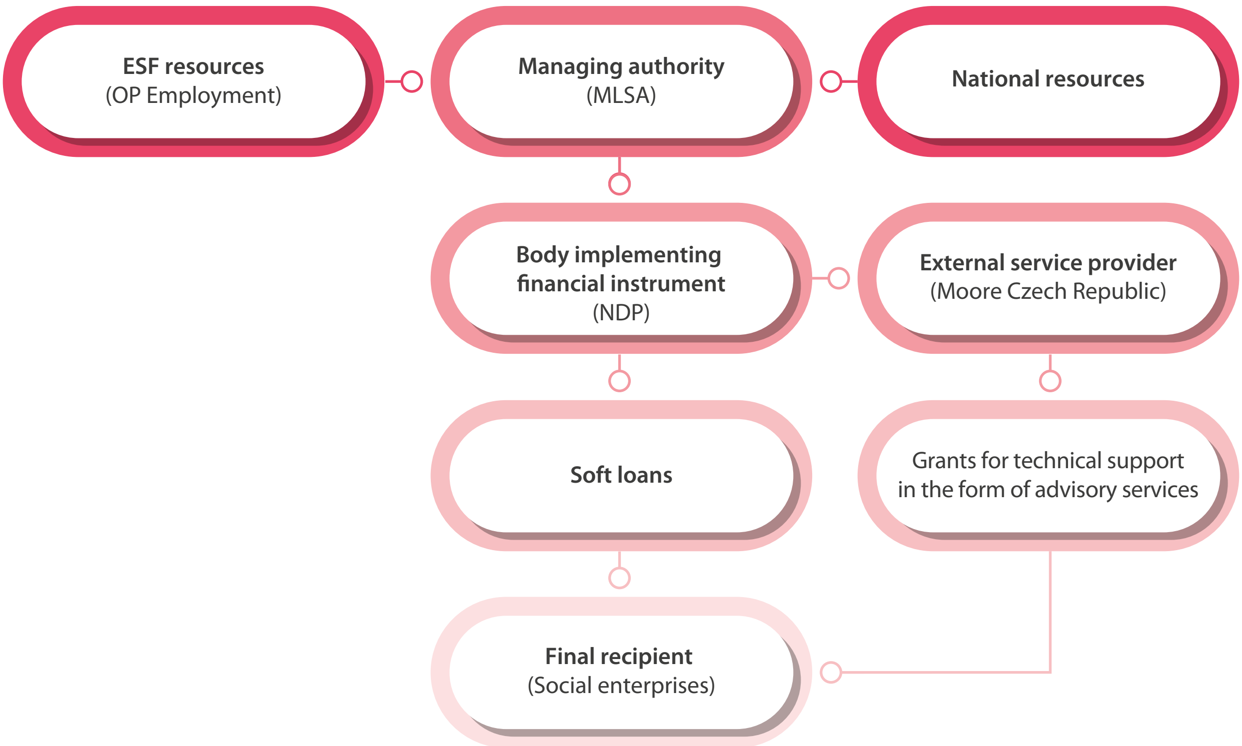
61 MoLSA, Předběžné hodnocení využití finančních nástrojů v Operačním programu Zaměstnanost 2014-2020 (Ex-ante assessment of the use of financial instruments in the Operational Programme Employment 2014-2020), 2017, available at: esfcr.cz/documents/21802/7516382/Předběžné+posouzení+pilotního+využití+finančních+nástrojů+v+OPZ_závěrečná+zpráva.pdf/.

62 For example, JESSICA for the Regional Operational Programme Moravia-Silesia and financial instruments under the Operational Programme Enterprise and Innovation.

NDB is a specialised state-owned banking institution contributing to sustainable economic development in Czechia. It is a joint stock company, instituted pursuant to the Banking Act[63], whose sole shareholder is Czechia represented by the Ministry of Industry and Trade, the Ministry of Regional Development and the Ministry of Finance. NDB became the body implementing financial instrument and administrator of the 'Loan Fund SP 2019' upon the decision of the Minister of Labour and Social Affairs of 5 November 2018 in accordance with Article 38(4)(b)(iii) of the Common Provision Regulation[64] through direct award of contract enabled by the Omnibus Regulation[65].

A single funding agreement between MoLSA and NDB covering the soft loans and the grants was concluded on 30 July 2019. Under this agreement, the managing authority allocated CZK 400 million (EUR 16.4 million) to the financial instrument, of which CZK 310.25 million (EUR 12.7 million) was provided from ESF and the remaining CZK 89.75 million (EUR 3.7 million) from the state budget[66]. Five percent of this committed amount (CZK 20 million, EUR 818 000) is earmarked for the management fee that covers all costs incurred by NDB as per the funding agreement. The fee includes a base fee and a performance fee for managing soft loans and is paid quarterly in arrears.

Figure 1: Governance structure of the S-enterprise programme



Source: Own elaboration.

63 Act No 21/1992 of 20 December 1991 on banks ('Banking Act').

64 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

65 Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

66 For monitoring purposes, the amount allocated to the financial instrument is divided between more developed and less developed regions on a pro rata basis.

As the figure above shows, the governance structure of the S-enterprise programme is straightforward and includes three main entities. MoLSA, as the managing authority of OPE, is responsible for transferring the allocation to the 'Loan Fund SP 2019'. This is a separate system with funds earmarked to finance soft loans and the management fee. MoLSA also approves calls for projects prepared by NDB and provides methodological and technical guidance to the NDB for the preparation of the call(s) for projects to benefit from the instrument. As part of the appraisal process, MoLSA evaluates and decides whether the applicants (potential final recipients) have met the criteria and are thus eligible to apply for soft loans. In relation to State aid granted under the General Block Exemption Regulation (GBER)[67], MoLSA makes an entry in the Transparency Award Module and also plays a role in controlling both NDB and final recipients.

NDB, as the body implementing financial instrument, is responsible for the proper performance of activities defined in the funding agreement as well as for the preparation, launch, modification and closure of calls for projects. NDB receives applications for soft loans and assesses fulfilment of the requirements and credit risk. If these are satisfactory it concludes the loan agreement and approves disbursement of the loan. NDB is also in charge of arranging advisory services for final recipients, monitoring progress and reporting on implementation[68]. In the context of State aid, NDB verifies whether the recipient has been granted *de minimis* aid in the past and records any new *de minimis* aid in the relevant register (see box for more information). As part of its supervisory role, NDB carries out on-site inspections on a sample of loans to ensure compliance with the loan agreements[69]. Subsequently, NDB also determines and applies any penalties and, when necessary, recovers loans due.

An external service provider, selected by NDB through a public tender, provides advisory services to final recipients interested in this form of support (see Implementation section for more information). In addition to advice, the service provider prepares interim reports for NDB on the services for individual final recipients, as well as reports summarising the services provided each year.

67 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in the application of Articles 107 and 108 of the Treaty Text with EEA relevance.

68 Summary information on the status and progress of implementation entered quarterly into MS2014+ in accordance with the guideline for monitoring ESIF implementation in Czechia in the 2014-2020 programming period.

69 NDB must carry out on-site inspections of projects covering at least 10% of the number of loan agreements and at least 10% of the total volume of loans granted.

3.4 Implementation

The S-enterprise programme, the first in Czechia to financially support social entrepreneurship through financial instruments, was launched on 30 September 2019 when the call was published. Two months later, on 1 December 2019, the programme started receiving applications for support.

3.4.1 Eligible final recipients

Eligible applicants are existing enterprises whose founding documents comply with the definition of a social enterprise[70]. These social enterprises must be both autonomous and entitled to do business in Czechia, i.e. they must be engaged in the activity supported by the loan. To be eligible, these social enterprises must not be in bankruptcy, distrainment or liquidation, or have any arrears to selected institutions[71].

Initially, only social enterprises meeting the definition of small and medium-sized enterprises under GBER could be final recipients. However, the first update of the call, effective from 1 August 2020, extended eligible final recipients to large enterprises as well[72]. In addition to the requirements for final recipients, the call also defines project requirements. These include implementation in Czechia, equal opportunities for men and women, sustainable development in terms of environmental protection and the absence of other public support for expenditure financed by soft loans.

3.4.2 Financial products

The S-enterprise programme provides investment and operating loans, the latter being added after the first update of the call, effective from 1 August 2020. An investment loan may be used to cover tangible fixed assets (e.g. machines and equipment, buildings including land forming a single functional unit and the technical improvement of buildings) or intangible fixed assets. The operating loan can cover low-value tangible or intangible assets if they constitute an expense for the final recipient, inventory and other operating expenditure including services such as marketing, rent and energy but excluding personnel and wages[73]. Only one soft loan can be provided per project. The main terms and conditions of both types of financial product are detailed in the table below.

70 According to the 'Call for Projects - Soft loans for social enterprises under the S-enterprise programme' Annex 2 - Definition of social enterprise, a social enterprise is an enterprise that meets the following characteristics: 1) social usefulness in the field of employment and social inclusion of persons disadvantaged on the labour market; 2) employment of at least 30% of persons disadvantaged on the labour market; 3) integration and development of employees disadvantaged on the labour market through personal and integration tools that enable the employee to perform work activities while contributing to the solution of their individual specific needs (e.g. individual employee development plans); 4) involvement of employees and members in the course of the enterprise based on a developed strategy; 5) reinvestment of at least 51% of profits in the development of the social enterprise and/or in the fulfilment of its social usefulness; 6) independence in managerial decision-making and management from external founders or other authorities; 7) localisation, support for the local economy and cooperation with local actors; 8) environmental responsibility in all phases of the business.

71 In addition to these requirements for final recipients, the call also defines other requirements depending on whether State aid is provided under GBER Article 14 or 22.

72 The main reason for this modification was to allow religious organisations, which usually do not meet the definition of a small or medium-sized enterprise, to apply for soft loans.

73 Regardless of the type of loan, eligible expenditure has to meet the following conditions: 1) be provable by accounting/tax documents that are clear, specific and up-to-date; 2) be directly related to implementation of the project; 3) be paid no earlier than the date of submission of the soft loan application; 4) property must be owned by the final recipient.

Table 1: Terms and conditions of the financial products

Specific characteristics	Investment loan	Operating loan
Target group	Social enterprises	Social enterprises
Loan amount	CZK 400 000-25 million (EUR 16 000-1.0 million)[74]	CZK 400 000-25 million (EUR 16 000-1.0 million)
Coverage ratio of eligible expenditure	Up to 90% of eligible expenses[75]	n.a.
Interest rate	0%	0%
Fees[76]	No fees	No fees
Maturity	Up to 10 years from conclusion of the soft loan agreement (up to 12 years if the majority of the soft loan is used to acquire or technically improve immovable property)	Up to 2 years from conclusion of the soft loan agreement
Collateral	According to the agreement between the final recipient and the soft loan provider (usually a blank promissory note, a pledge on movable property or immovable property, or other instruments according to the specific case)	According to the agreement between the final recipient and the soft loan provider (usually a blank promissory note, a pledge on movable property or immovable property, or other instruments according to the specific case)
Grace period	Up to 3 years from conclusion of the soft loan agreement	Up to 1 year from conclusion of the soft loan agreement
State aid[77]	*De minimis* aid or under Articles 14 or 22 of GBER	*De minimis* aid

Source: NDB, S-enterprise, 2023, Available at: https://www.nrb.cz/en/produkt/s-enterprise/.

74 The original minimum loan amount was CZK 650 000 (EUR 27 000). This was reduced to CZK 400 000 (EUR 16 000) in the first update of the call.

75 For State aid provided under Article 14 of GBER, the maximum intensity depends on the NUTS region and the size of the final recipient. For micro and small enterprises, the maximum intensity ranges from 40% to 70%, for medium-sized enterprises from 30% to 60% and for large enterprises from 30 to 50%.

76 Under the S-enterprise programme, operations such as accepting a soft loan application, cancelling a loan agreement before any drawdown, statements of business case accounts or cashless transfers are free of charge. The only chargeable item is late payment interest, which is 9% per annum.

77 Under the S-enterprise programme State aid is provided through different schemes. The investment loan is either *de minimis* aid according to the Commission Regulation No. 1407/2013, 717/2014 and 1408/2013, or under GBER Article 14 (Regional investment aid) and Article 22 (Start-up aid). Operating loans and advisory services are exclusively via *de minimis* aid.

3.4.3 Combination with grants

Under the S-enterprise programme social enterprises may also access advisory services provided as *de minimis* aid[78]. However, receiving financial support in the form of an operational or investment loan is indispensable to obtaining advisory services. These services are arranged by an external service provider selected by NDB through public tender. Expenditure on advisory services is at most 10% of the total allocation for the financial instrument[79].

The advisory services are intended for persons managing or operating a social enterprise. Each final recipient may benefit from such services ranging from 20 hours per project to 50% of the loan amount. If the advisory services exceed 100 hours per project, the NDB management committee has to approve further use. The advisory services are provided for: 1) management; 2) organisation and production; 3) marketing and public relations; 4) financial management. An application for advisory services can be made by the final recipient when applying for the soft loan, specifying the scope of the services and the thematic focus. Final recipients can also apply for advisory services when drawing down the loan and are free to change the extent of the services and the preferred topics. Whether the final recipient applies for advisory services at the same time as the soft loan or later, it results in two separate agreements between the NDB and the final recipient - one relating to the soft loan and one relating to the advisory service[80].

3.4.4 State aid

This is the responsibility of the NDB officer (‘application administrator’) in charge of each business case. The application administrator develops a loan proposal that assesses the requirements and conditions of the S-enterprise programme, including State aid compliance.

While operating loans and advisory services are always provided as *de minimis* aid, investment loans may use either *de minimis* aid or aid under GBER Articles 14 or 22. The decision about the preferred form of State aid is based on collaboration between NDB and the applicant in particular for the applicant’s economic activity, the project location, the maturity and size of the applicant and the amount of additional funding. The objective of the NDB is to meet both the S-enterprise programme requirements and the applicant’s needs.

For *de minimis* aid, the NDB examines the central register of *de minimis* aid (CRDM). This holds records of any such aid having already been provided and the maximum support the applicant may still receive (free limit), covering the applicant and any linked enterprises. For this verification, the applicant must inform NDB of *de minimis* aid received but not yet recorded in the CRDM both for themselves and any linked enterprises. The NDB independently verifies this information in Cribis[81] and/or Arachne[82].

78 The opportunity to use advisory services was launched on 6 April 2021, significantly later than the S-enterprise programme, mainly due to the COVID-19 pandemic.
79 Unused advisory service funds could have been employed by NDB for other eligible expenditure of the financial instrument, in particular for soft loans.
80 The timing of the advisory service application affects the approval process. In the first case, both soft loan and advisory services are approved at the same time. In the second case, there are two separate flows, one for the soft loan and one for the advisory services.
81 Cribis is a database of companies and individuals in Czechia and Slovakia including the company’s structure, key managers and financial results.
82 Arachne is a datamining tool promoted by the European Commission to help identify ESI funded projects potentially exposed to risks of fraud.

If an applicant applies for an operating loan in combination with technical support, from the NDB's perspective these are two different forms of *de minimis* aid with separate eligible expenses and agreements. For the operating loan, State aid is calculated as the benefit the applicant receives from an interest free loan compared to the cost of a hypothetical loan with the same parameters but with the reference interest rate. If an applicant with a lower rating and less collateral applies for an operating loan of CZK 1 million (EUR 40 880) with a grace period of 12 months and a loan maturity of two years, *de minimis* aid at a reference rate of 13.93% p.a. is approximately CZK 210 000 (EUR 8 590). For technical support, State aid is the number of hours of advisory services multiplied by the hourly rate of the external service provider. For 55 hours of advisory services, the *de minimis* aid would be approximately CZK 50 000 (EUR 2 040). Both forms of *de minimis* aid can only be provided if their sum does not exceed the applicant's free limit.

The loan proposal is reviewed by a senior NDB officer. If approved at that stage, either the NDB branch director or the NDB Loan Committee (depending on the loan exposure of the applicant), will decide on the loan proposal. If this is successful, the applicant is invited to sign the agreement. Otherwise, the applicant receives an official letter explaining the reasons for rejection. The NDB then enters the *de minimis* aid in the CRDM and archives all material related to the verification in its internal information system.

3.5 Output

Applications for S-enterprise programme soft loans closed on 30 June 2023. Over the almost four-year period, NDB received 86 applications totalling CZK 473 million (EUR 19.3 million), of which 36 (CZK 186 million; EUR 7.6 million) were approved, 18 (CZK 86 million; EUR 3.5 million) are still pending, 15 (CZK 108 million; EUR 4.4 million) were withdrawn by the applicant and 17 (CZK 93 million; EUR 3.8 million) were rejected by NDB[83]. Although the receipt of applications had already closed, the programme continued to 31 December 2023. The table below, valid as of 31 July 2023, includes only preliminary programme results[84].

The initial target was for 30-80 loans with a total volume of CZK 340 million (EUR 13.9 million). However, as of 31 July 2023, only 35 loans totalling CZK 182.1 million (EUR 7.4 million) had been concluded, of which CZK 147 million (EUR 6.0 million) had been disbursed. Investment loans (27 contracts, CZK 175.4 million, EUR 7.2 million) are significantly more popular with social enterprises than operating loans (8 contracts, CZK 6.7 million, EUR 275 000). There have been two defaults for a total of CZK 3.07 million (EUR 126 000). More details are in the table below.

83 The most common reasons for rejection or withdrawal were the economic performance of the applicant (40%), riskiness of the applicant or project, project feasibility, or distrainment (24%), programme terms and conditions, such as the definition of social enterprise, project character (12%), cancellation of the investment asset (4%), and other, including client not cooperating and not submitting documents (8%).

84 According to NDB representatives, of the 18 pending applications, at least 9 (CZK 33 million) will probably be approved by the end of the year.

Table 2: Soft loan details

By loan amount		
Type	**Amount**	**Additional information**
Median	CZK 4.5 million; EUR 184 000	-
Lowest investment loan	CZK1.35 million; EUR 55 000	Administrative services; medium-sized enterprise
Highest investment loan	CZK 23.4 million; EUR 957 000	Building a guest house; micro enterprise
Lowest operating loan	CZK 500 000; EUR 20 000	Manufacture of food products; small enterprise
Highest operating loan	CZK 1.3 million; EUR 53 000	Medical and dental supplies; medium-sized enterprise
By size of final recipient		
Size of enterprise	**Loan amount**	**Number of soft loans**
Micro	CZK 44.1 million; EUR 1.8 million; 24%	9
Small	CZK 88.7 million; EUR 3.6 million; 49%	16
Medium-sized	CZK 49.3 million; EUR 2.0 million; 27%	10
By sector		
Sector of operation	**Loan amount**	**Additional information**
Manufacturing	CZK 87.2 million; EUR 3.6 million; 48%	Metal, wood and plastic products
Accommodation and hospitality	CZK 53 million; EUR 2.2 million; 29%	-
Retail and wholesale trade	CZK 18.5 million; EUR 756 000; 10%	-
Administrative and support services	CZK 15.9 million; EUR 650 000; 8%	-
Other	CZK 7.4 million; EUR 303 000; 4%	Construction industry, education, accounting
By aid scheme		
Aid scheme	**Loan amount**	**Median**
De minimis	CZK 98.5 million; EUR 4.0 million	CZK 3.2 million; EUR 131 000
GBER	CZK 83.6 million; EUR 3.4 million	CZK 7.5 million; EUR 307 000

Source: NDB.

The initial target for advisory services has also not been met as interest from social enterprises remained well below expectations[85]. Of the planned 10-80 contracts, only five were concluded, for a total of 509 hours. Final recipients showed the greatest interest in marketing and public relations (339 hours) followed by financial management (80 hours), management (50 hours) and organisation and production (40 hours).

The S-enterprise programme has three binding indicators with targets, but none had been met by July 2023. Although applications had already closed, the programme continued to 31 December 2023, therefore these are only preliminary programme results.

Table 3: Indicators (as of 31 July 2023)

Indicator code	Indicator name	Target	Achievement	Fulfilment (%)
10212	Number of existing social enterprises supported[86]	40	22	55
60000	Total number of participants[87]	20	n.a.[88]	n.a.
10213	Number of social enterprises established through support[89]	5	4	80

Source: MoLSA.

85 Based on interviews with representatives of NDB and the external service provider, four main reasons for the limited interest in advisory services were: 1) high workload of social enterprise managers who cannot/are not willing to allocate part of their capacities for this purpose; 2) bad experience with similar services or low expectations about their usefulness; 3) concern about the administrative burden associated with the advisory services; 4) soft loan as an indispensable condition for obtaining advisory services significantly limits potential applicants.

86 Number of existing social enterprises that received financial support as an investment and/or operating loan under the S-enterprise programme.

87 Number of persons working in the social enterprise (final recipient) who received advisory services of at least 40 hours, of which at least 20 hours are not e-learning.

88 Neither the managing authority nor the body implementing financial instrument have data on current achievements of the indicator 'Total number of participants'. Data will be shared by the external service provider only at the end of the programme.

89 Number of social enterprises that received an investment and/or operating loan under the S-enterprise programme and did not carry out the supported social enterprise activity on any comparable scale before receiving the loan.

When interpreting fulfilment of these indicators, as well as the number and volume of soft loans, it must be considered that less than six months after the launch of the programme, a state of emergency was declared in Czechia as a result of the Covid-19 pandemic. This led to social enterprises limiting their planned investments or directly restricting, suspending or closing business activities. The high level of uncertainty significantly reduced the interest of potential applicants for investment and operating loans. The limited interest was mainly from those social enterprises that were only slightly affected by the pandemic[90]. Other macroeconomic and political developments, such as the war in Ukraine, the energy crisis and rapidly rising inflation also burdened potential applicants through increased costs for their business activities and development plans. These negative external factors were completely beyond the influence of the managing authority and the body implementing financial instrument. According to representatives of MoLSA and NDB, in these challenging times the financial instrument proved to be correctly designed and under more favourable macroeconomic conditions interest would have been higher.

NDB was remunerated in the form of a management fee consisting of a base fee paid at a rate of 0.5% p.a. of the funds transferred to the deposit account of the 'Loan Fund SP 2019' and a performance fee calculated on the basis of several components. These for example comprised percentages applied to the remaining principal balance of the soft loans and the total sum of soft loan repayments transferred during the relevant billing calendar quarter. As of 31 July 2023, NDB had received CZK 4.4 million (EUR 180 000) in management fees[91], amounting to 2.4% of the total loans concluded.

S-enterprise allows for a grace period of up to three years for investment loans and one year for operating loans. The loans repaid so far have been minimal which does not allow for a meaningful assessment of key indicators such as the default rate. According to NDB, CZK 10.4 million (EUR 425 000) of the CZK 147 million (EUR 6.0 million) of loans disbursed so far had been repaid by 31 July 2023. There have been two defaults for a total of CZK 3.07 million (EUR 126 000).

In addition to ESI funds, the S-enterprise programme has also mobilised other public resources. The planned EU leverage was 1.23. Based on available data, this prediction appears to be broadly confirmed as the leverage was 1.29 as of 31 July 2023.

90 MoLSA, Předběžné hodnocení využití finančních nástrojů v Operačním programu Zaměstnanost plus 2021-2027 (Ex-ante assessment of the use of financial instruments in the Operational Programme Employment plus 2021-2027), 2022, p. 18.

91 Of which the base fee is CZK 2.7 million (EUR 110 000) and the performance fee is CZK 1.7 million (EUR 70 000).

2Fabion s.r.o.

'Thanks to the soft loan, I am fulfilling a professional and personal dream not only for myself but also for other people around me.'

Dagmar Francová, founder

2Fabion s.r.o. is a social micro-enterprise in Ústí nad Labem, a regional city in the northwest of Czechia. Although the enterprise was founded in 2015, it only adopted the principles of social entrepreneurship in 2020. In providing psychotherapy and accounting services, 2Fabion s.r.o. follows principles that are social (half of all its employees are people facing disadvantages or limitations in the labour market, who participate in the operation and development of the enterprise), economic (most of the profit is reinvested directly into the enterprise), environmental (frugality and sustainability) and local (local suppliers and active involvement in community activities).

Thanks to a soft loan from the S-enterprise programme, the social enterprise could purchase, renovate and partially equip its premises. The office now facilitates the full execution of both business activities, with ample capacity to expand the team and increase turnover.

Originally, the final recipient wanted to finance the investment through a grant, but the business location made the social enterprise ineligible. Standard market loans from commercial banks were not feasible due to insufficient turnover and credit history. Through her personal network, the final recipient was informed about soft loans under the S-enterprise programme, which became the only realistic opportunity to secure financial resources for the investment.

Thanks to the support of MoLSA and NDB staff (especially in setting up the social enterprise and financial planning[92]) and the applicant's experience with project administration, processing the application was relatively simple. The social enterprise obtained an investment loan of CZK 1.5 million (EUR 61 000)[93] with a 0% interest rate, ten-year maturity and a grace period of one year.

The final recipient also decided to benefit from free advisory support. The extent and thematic focus of the advisory services were adapted to their needs. In the end, the final recipient used advisory services in three of the four areas offered (i.e. management, marketing and public relations, and financial management). The most useful was financial management, which could be put into practice for financial planning.

With the investment loan, the final recipient created the material and technical conditions for fully-fledged and continuous business activities independent of grant support. This has enabled an expansion of the accounting team and, thanks to new capacity, an increase in services provided. These benefits far outweigh the obligations associated with the loan, such as regular reporting, which the final recipient considers adequate and not too time-consuming.

For further business development, the final recipient plans to stabilise the team over the next two years and is not considering any staff expansion or extension of services. The use of other financial instruments is not planned at this moment.

92 Support with financial planning is usually provided by NDB when preparing the loan application to contribute to a solid business case and smooth appraisal process. These services are provided by NDB beyond its obligations in the funding agreement with MoLSA. Since they cannot be covered by the grant for technical assistance, they are funded through the management fee.

93 The final recipient did not use the full amount of the investment loan, but only CZK 1.35 million (EUR 55 000). The regular monthly repayment CZK 11 450 (EUR 470).

3.6 Lessons learnt

The design and set-up of the S-enterprise programme were carried out without major complications due to the extensive experience of the body implementing financial instrument. However, implementation faced several challenges. First was the pandemic, which caused a high level of uncertainty and limited interest from potential applicants. Secondly, social enterprises are used to grant support, leading to a clear preference for grants over repayable support. Changing this mindset and adopting a more market-oriented approach is a long-term process. The managing authority can contribute by reducing the number of grants available for social enterprises and adjusting their terms and conditions to avoid any overlap and direct competition with the S-enterprise programme[94]. Thirdly, few social enterprises were aware of the S-enterprise programme and the products it offered. The solution lies in continuous and intense information campaigns, involving SPoints and promotional activities using different forums and platforms (e.g. conferences, workshops). Finally, social enterprise managers have a heavy workload leading to a lack of interest in advisory services. Although the managing authority and body implementing financial instrument have limited options in this area, during project application or implementation they could present the advisory services and highlight their positive effect, especially on management efficiency. At the same time, instead of a single provider, they could offer a more diverse range specialising in different thematic areas.

Although the S-enterprise programme has not yet met its targets for the number or volume of loans, or advisory services, the managing authority and the body implementing financial instrument are convinced the programme has been correctly designed and set up. The main reasons for failure to meet the targets have been unforeseeable external factors. Final recipients are also positive about the programme, appreciating its set-up. Several success factors can be identified. Firstly, the managing authority has chosen an appropriate governance structure and selected an body implementing financial instrument with extensive experience of administering financial instruments. Secondly, there is close cooperation between the managing authority and the body implementing financial instrument, including a clear division of powers and responsibilities. Thirdly, NDB staff work closely with applicants during project/application preparation. Thus, NDB acts more as a partner aiming to build a solid business case, rather than a final authority only approving or rejecting a loan application.

For the 2021-2027 programming period, the managing authority is continuing with the programme under the name S-enterprise plus, with applications open to social enterprises from 1 April 2024. The total allocation of the S-enterprise plus programme amounts CZK 400 million (EUR 16.4 million), of which CZK 207.2 million (EUR 8.5 million) from ESF+/OPE+, CZK 62.8 million (EUR 2.6 million) from national co-financing and the remainder (CZK 130 million, EUR 5.3 million) from repaid loans (reflows)[95]. The follow-up programme is designed and set up in a very similar way to S-enterprise. It is again a financial instrument supporting investment and operational loans in combination with grants for technical support. The NDB continues to act as the body implementing financial instrument and advisory services are ensured by an external service provider.

Minor adjustments have been made, such as extending the maximum maturity of operating loans from two to three years and new visibility requirements. If the Social Enterprise Act is adopted, the managing authority envisages adjusting the eligibility criteria, so the programme fully complies with the new definition of a social enterprise in the act. Also, MoLSA expects to limit grant support for social enterprises to make soft loans more attractive.

94 Based on interviews with representatives of the MoLSA, the managing authority plans in 2024 to reduce the volume of investment grants available and adjust their terms and conditions to avoid overlaps and limit direct competition with the S-enterprise programme. The objective is to increase social enterprise interest in soft loans in combination with grants for technical support.

95 As in the 2014-2020 programming period, private resources are not foreseen for the 2021-2027 programming period.

4 SELFIEmployment, Italy

4.1 Summary

This case study presents the SELFIEmployment initiative implemented in Italy during the 2014-2020 programming period. The initiative was launched in May 2015 and was active up until November 2023. A new version of the instrument was launched In February 2021, expanding the eligibility criteria to include beneficiaries beyond the ‘Not in Education, Employment, or Training’ individuals (NEETs) category, and offering more favourable financial conditions for final recipients.

The initiative combines loans support with training and coaching. This comprehensive approach aims to equip individuals with the necessary knowledge to launch and sustain businesses as well as enhance their self-employment and entrepreneurial opportunities. It targets disadvantaged groups in Italy, including NEETs, inactive women and the long-term unemployed. The total budget of EUR 148.3 million, of which EUR 132 million is dedicated to the financial products, is financed by two ESF national operational programmes (NOPs): the Youth Employment Initiative (YEI) programme contributing EUR 65.1 million and the Active Policy Systems for Employment (SPAO) programme, contributing EUR 83.2 million.

The managing authority is ANPAL (the National Agency for Labour Active Policies), while Invitalia S.p.A. (the National Agency for Investment Attraction and Business Development) is responsible for management and implementation of the financial instrument combined with grant. Within the established revolving fund, Invitalia offers zero-interest loans as microcredits (from EUR 5 000 to 25 000), extended microcredits (from EUR 25 001 to 35 000) and small loans (from EUR 35 001 to 50 000). There is no guarantee required, while repayment can be up to seven years with a grace period of twelve months. Invitalia is also in charge of providing ‘post-application’ and tutoring/coaching for final recipients, assisting business design and implementation for 24 months. Moreover, with the new version of the instrument, Ente Nazionale per il Microcredito (ENM, National Entity for Microcredit) has taken a pivotal role for pre-application training and communication, previously managed by multiple entities and only for NEETs. The technical support, both in the pre- and post-application phase, is financed through grants combined with the financial instrument in two operations, from the two ESF NOPs. Of the EUR 16.3 million total allocation: ENM receives EUR 3.1 million from the YEI NOP and EUR 5.8 million from the SPAO NOP, while Invitalia receives EUR 7.4 million from the SPAO NOP.

Since its inception in 2015, the programme has financed 2 047 initiatives (1 835 of these up to 2021) with EUR 67.1 million and created more than 3 600 jobs[96]. The instrument has two key advantages over commercial alternatives. Firstly, recipients bear no expenses for the loan, thus reducing the cost of initiating an enterprise. Secondly, the product is accessible to groups that typically do not receive financial support from financial intermediaries, e.g. commercial banks or financial institutions. Moreover, comprehensive mentorship and guidance have played a key role, by improving final recipients’ entrepreneurial and management skills and contributing to the sustainability of the funded initiatives.

96 The data are updated to 1 November 2023 and are extracted from the Invitalia website https://www.invitalia.it/cosa-facciamo/creiamo-nuove-aziende/nuovo-selfiemployment.

SELFIEmployment

Funding source
ESF NOPs 2014-2020 (YEI NOP and SPAO NOP)

Type of financial products
Microloans, extended microloans, small loans

Financial size
EUR 148.3 million (EUR 68.9 million from the ESF plus national public funding), of which EUR 132 million for loans (EUR 62 million from YEI NOP and EUR 70 million from SPAO NOP) plus EUR 16.3 million for grants (EUR 3.1 million from YEI NOP and EUR 13.2 million from SPAO NOP)

Thematic focus
Increasing the employability of NEETs, inactive women and the long-term unemployed

Timing
May 2015 to November 2023

Partners involved
ANPAL (managing authority)
Invitalia (body implementing financial instrument; non-financial services provider)
ENM (non-financial services and communication services)

ACHIEVEMENTS

Absorption rate
51% (as of November 2023)

EU leverage
1.91 times[97]

Main achievements (so far)
As at November 2023, 2 047 projects financed for a total of EUR 67.1 million and 3 620 jobs crated.

97 The planned EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 132 million, divided by the total amount of ESF allocation to the financial instrument, i.e. EUR 68.9 million.

4.2 Objectives

The SELFIEmployment instrument was initially designed to financially support NEETs from 18 to 29 years-old - one of the categories of disadvantaged individuals with the most limited access to finance in Italy. To increase the attractiveness of the instrument, the target was widened as of February 2021 with the New SELFIEmployment to include inactive women and long-term unemployed individuals.

The financial instrument is supported by ESF 2014-2020 through YEI NOP and SPAO NOP. The former is a national operational programme delivering the Youth Guarantee Initiative, which promotes the sustainable integration of young people into the workforce. The SPAO NOP seeks to ensure durable, high-quality employment opportunities and enhance job mobility. While it serves a broader demographic, it emphasises support for disadvantaged communities. Significantly, SPAO NOP funds were used to expand SELFIEmployment reach in 2021 by encompassing the long-term unemployed and inactive women. Additional resources were added by both programmes to finance a broader range of final recipients and, more importantly, to improve the provided technical support. Potential recipients undergo preparatory training before applying and receiving aid during the application process through grants financed by both YEI NOP and SPAO NOP in two distinct operations. On approval, recipients receive specialised tutoring and coaching 'post-application', which is financed by SPAO NOP grants in two separate operations. This holistic business development support equips beneficiaries to achieve their entrepreneurial ambitions.

A crucial component of the investment strategy is to provide services that promote business growth, which are embodied in the YEI NOP under ESF Thematic objective 8. Under the measure 'Sostegno all'autoimpiego e all'autoimprenditorialità (Support for self-employment and self-entrepreneurship)', the NOP outlines two lines of action. The first, measure 7.1, 'Attività di accompagnamento all'avvio di impresa e supporto allo start up di impresa' (business start-up support activities) introduces measures and services to provide final recipients with the skills needed to be successfully self-employed. Measure 7.1 is provided through various activities, with primary focus on a 60-to-80-hour training programme. The second, measure 7.2, incorporated in SELFIEmployment, consists of mentoring for approved applicants to enhance their entrepreneurial skills in developing and managing their business. Additionally, it provides administrative, accounting and other assistance to fulfil contractual obligations.

4.3 Design and set-up

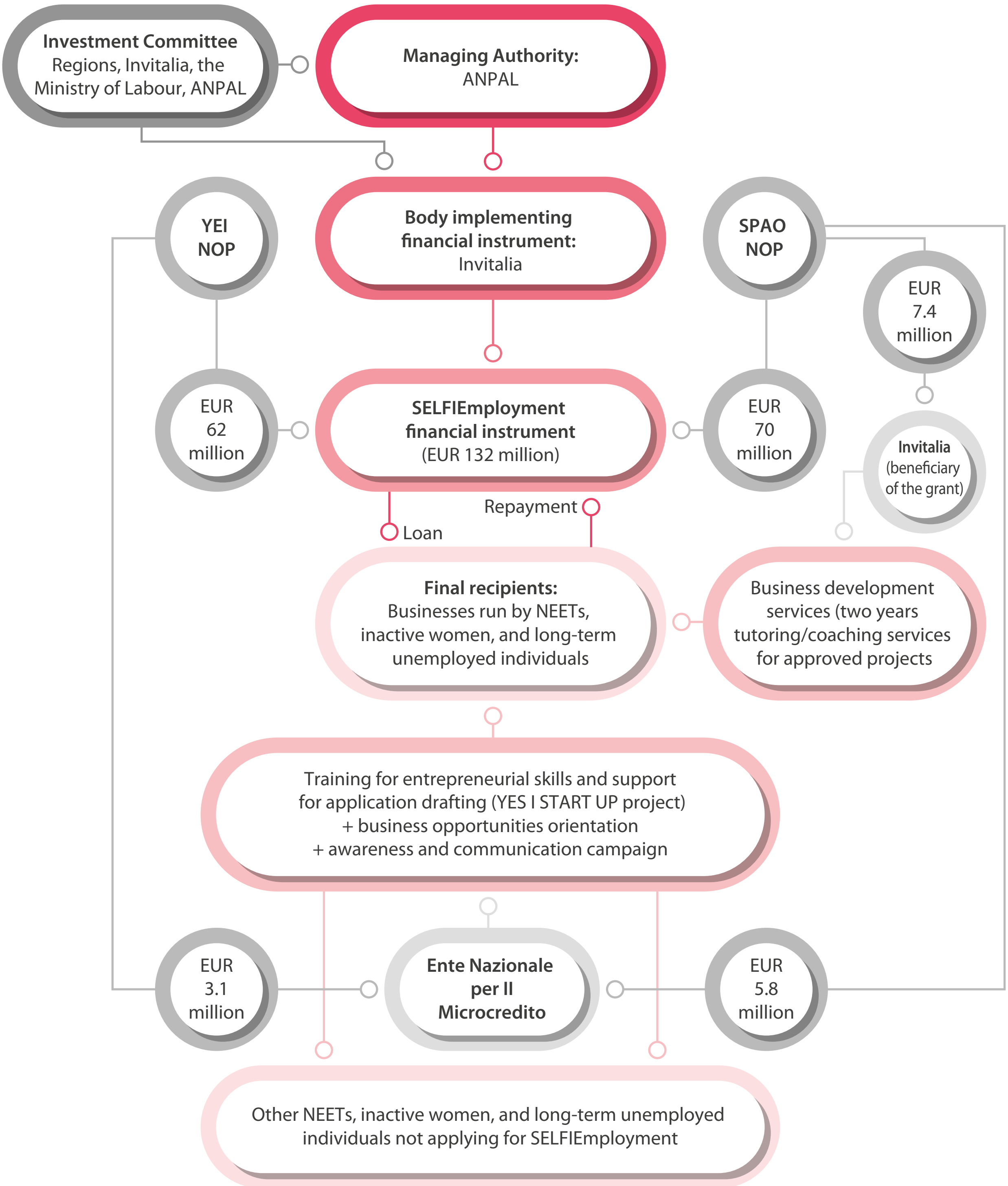
The ex-ante assessment of the YEI and SPAO NOPs (2015)[98] identified a market failure for self-employment and entrepreneurship, with a significant lack of incentives for NEETs. Their condition was particularly difficult in 2014, one year before set-up of the instrument. Italy had historically high youth unemployment of 43% for 15- to 24-year-olds, while the EU27 average was 24%. In addition, Italy had one of the highest levels of NEETs in 2014, with 23.2% of those aged 15 to 24 falling into this category. In 2021, it was still ranked highest in the EU with 19.8%. The ex-ante assessment estimated a financial gap for financing NEET business initiatives of EUR 1.1 billion. It was therefore essential to provide specific and tailored assistance to this group of the population.

As previously indicated, the eligibility of SELFIEmployment final recipients expanded in 2021 to also target inactive women and the long-term unemployed. Women, in particular, are considered a vulnerable demographic in Italy, with historically high inactivity. In 2014, the share of inactive women between the ages of 15 and 64 was 46% (11% higher than the EU27 average and similar only to Malta). Between 2014 and 2022, this value fluctuated slightly from 46% in 2015 to 44% in 2019. The long-term unemployed also held a significant share of total unemployment in Italy relative to other European countries. In 2014, they accounted for 64% of total unemployment in Italy for 20- to 64-year-olds, approximately 13% higher than the EU27 average. By 2022, Italy was ranked third among member states for the highest long-term unemployment rate at 58% of all unemployed people.

98 Ministero del Lavoro e delle Politiche Sociali, Valutazione ex ante degli strumenti finanziari da attivare nell'ambito del PON IOG 2014-2015 e PON SPAO 2014-2020 Rapporto Finale, versione del 14/12/2015.

The outcome of the ex-ante assessment was the setting up a revolving fund to tackle unemployment among young people and remedy a lack of public financial support for NEETs, It was decided to use ESF resources to support self-employment and promote entrepreneurship.

Figure 1: Governance structure of SELFIEmployment



Source: Own elaboration.

ANPAL is the managing authority for the YEI and SPAO NOPs, which both contribute to the instrument SELFIEmployment. The managing authority has entrusted Invitalia as the body implementing financial instrument, a well-established in-house government agency that has managed national measures for new enterprises and start-ups.

Resources for the new SELFIEmployment revolving fund amount to EUR 132 million, of which EUR 62 million is from the YEI NOP and EUR 70 million from the SPAO NOP. The increase from the previous EUR 103 million (EUR 53 million from YEI NOP and EUR 50 million from SPAO NOP) is to cover the financial needs of the newly supported targets.

The ex-ante assessment advocated combining financial support with training and coaching to improve entrepreneurial and management skills for final recipients and make the financial instrument more effective and sustainable[99]. It also recommended supporting them in the initial phases of their business activity, to ensure proper use of the financial resources. Moreover, it suggested a communication campaign to disseminate the opportunities offered by the financial instrument to the widest possible audience of final recipients.

In emphasising the importance of support services and tutoring both in the planning phase and during the implementation process, the ex-ante assessment highlighted a crucial insight gained from the stakeholder consultations[100]. According to the information collected, these activities were fundamental for bridging technical gaps and fostering greater awareness of the potential risks for beneficiaries. In this regard, the consultations brought to light the possibility of helping potential recipients identify the most suitable market sectors with less competition for starting an entrepreneurial activity. This can contribute to reducing the company mortality rate, often attributed to competition from more experienced players in the market and/or to the degree of market saturation. Very often in fact, proposed entrepreneurial activities are guided by individual abilities that do not necessarily reflect the needs of the reference market. In this context, ad hoc coaching and tutoring specifically targeting market orientation can significantly increase the sustainability of the funded initiatives.

Initially, for technical support, Unioncamere (Chambers of Commerce) and the regions provided pre-application training, while ENM supported application drafting. Final recipients of the loans received 'post-application' and tutoring/coaching from Invitalia.

Since 2018, with the YES I START UP project, ENM has delivered pre-application tutoring as well as promoting and communicating the initiative. ENM also promoted the SELFIEmployment initiative and supported application submissions (previously managed by Unioncamere). The two forms of support were combined in two distinct operations. In the new SELFIEmployment, Invitalia continued to provide final recipients with business development assistance. Funding for technical support amounted to EUR 7.4 million for Invitalia from SPAO NOP resources and EUR 8.9 million for ENM, of which EUR 5.8 million is from the SPAO NOP and EUR 3.1 million from YEI NOP. However, resources for ENM were not exclusively used for potential SELFIEmployment loan applicants, but targeted all NEETs, inactive women and long-term unemployed people interested in understanding the opportunities for starting a business.

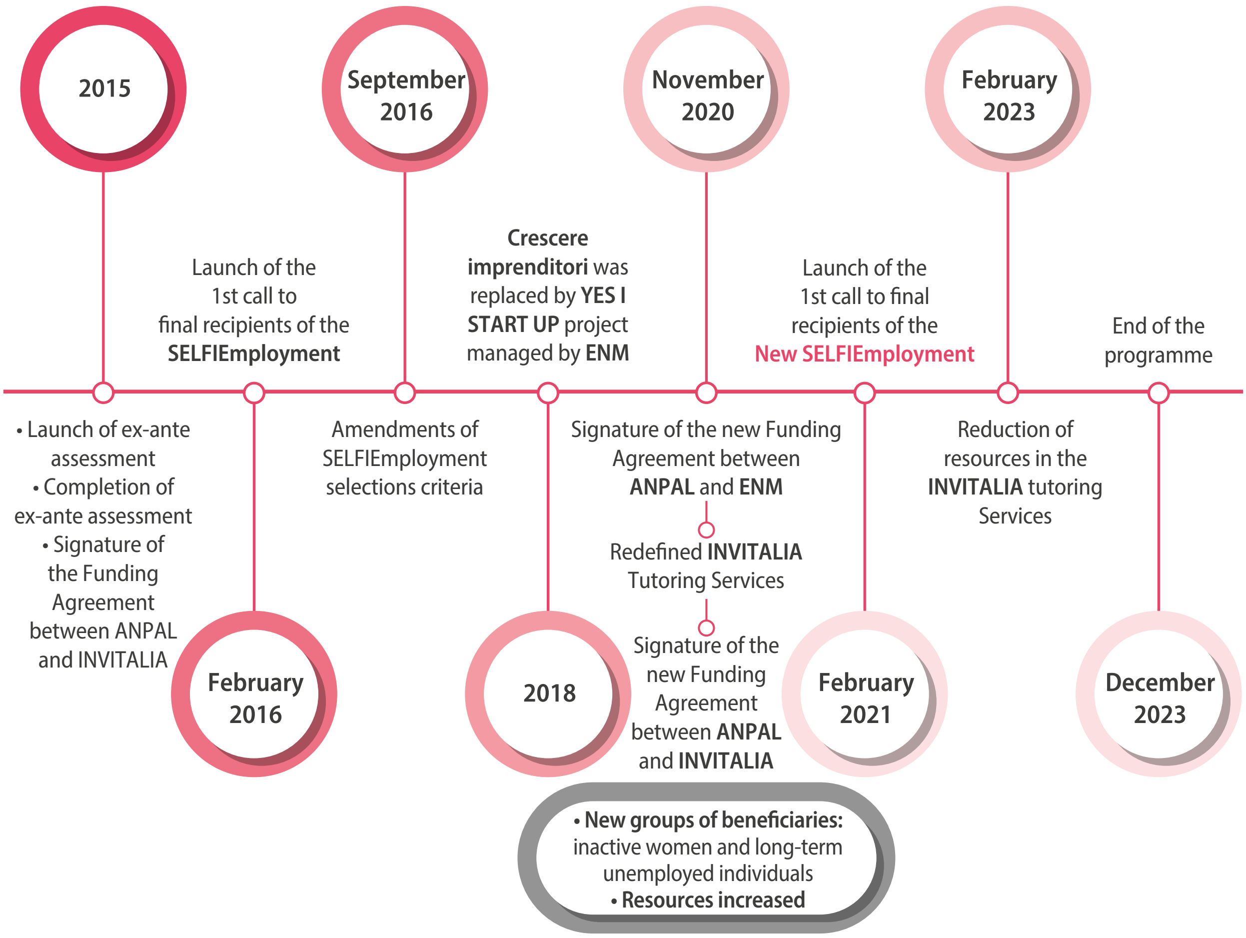
99 Ministero del Lavoro e delle Politiche Sociali, *Valutazione ex ante degli strumenti finanziari da attivare nell'ambito del PON IOG 2014-2015 e PON SPAO 2014-2020 Rapporto Finale*, versione del 14/12/2015, p.9.

100 Ministero del Lavoro e delle Politiche Sociali, *Valutazione ex ante degli strumenti finanziari da attivare nell'ambito del PON IOG 2014-2015 e PON SPAO 2014-2020 Rapporto Finale*, versione del 14/12/2015, p.105.

4.4 Implementation

Two months after completing the ex-ante assessment, the first call for SELFIEmployment was launched in February 2016. The initial disbursement of the loans to final recipients took place in October 2016 and continued until early 2021. In July 2020 a new funding agreement between ANPAL and Invitalia, signed in November, extended the instrument to inactive women and long-term unemployed individuals[101]. The agreement also included an increase in resources for the revolving fund to EUR 132 million, EUR 62 million from the YEI NOP and EUR 70 million from the SPAO NOP, from the previous EUR 103 million (EUR 52 million from the YEI NOP and EUR 50 million from the SPAO NOP). Specifically, the additional EUR 20 million from SPAO NOP resources were allocated to support inactive women, while the initial EUR 50 million was reallocated: EUR 10 million was redirected to support the long-term unemployed, and EUR 40 million was allocated to assist NEETs[102].

Figure 2: Timeline of SELFIEmployment



Source: Own elaboration.

101 ANPAL and Invitalia (2020), *Accordo di Finanziamento tra Agenzia Nazionale Politiche Attive Del Lavoro, Direzione Generale per le politiche attive, i servizi per il lavoro e la formazione, e Invitalia, Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo D'impresa S.P.A. per la gestione di un Fondo Rotativo Nazionale a valere sul PON 'Iniziativa Occupazione Giovani 2014-2020' e sul PON 'Sistemi di politiche attive per l'occupazione 2014-2020'*, 29 July 2020.

102 ANPAL (2020), *Decreto n*469*, 11 November 2020.

In November 2020, ANPAL and ENM defined and agreed upon an updated tutoring plan, which included additional resources to support new groups of beneficiaries. This plan was a continuation of the initiative launched in 2018. EUR 5.8 million came from the SPAO NOP, of which EUR 2.2 million was allocated to the YES I START UP project, specifically for inactive women and long-term unemployed individuals, and EUR 3.6 million to support applicants for SELFIEmployment financial products as well as communication and awareness activities[103]. An additional EUR 3.1 million from the YEI NOP were dedicated to the YES I START UP project targeting NEETs[104].

Moreover, in February 2023, ANPAL revised the resources allocated for the technical support provided by Invitalia, from EUR 16 million to EUR 7.4 million[105]. The revision was necessary considering that Invitalia had requested reimbursement for the training previously carried out for a total of EUR 4.6 million and its forecast for 2022 and 2023 amounted to EUR 2.8 million. Of the EUR 2.8 million, EUR 375 500 was allocated to long-term unemployed individuals, EUR 1.4 million to NEETs, and EUR 1 million to inactive women.

New SELFIEmployment started implementation with the launch of the second call to final recipients in February 2021, offering support until the end of 2023. From 10 November 2022, applications for extended microcredits and small loans (see section 4.2) were no longer accepted as the programme was nearing its end[106]. Additionally, as of 15 June 2023, it was no longer possible to apply for microcredits for the same reason.

4.4.1 Eligible final recipients

New SELFIEmployment is aimed at:

- NEETs under 29 who have enrolled in the Youth Guarantee programme and are not engaged in other work activities, studies or professional training;
- Inactive women, who are not employed in other work activities;
- Long-term unemployed adults who are not employed in other work activities and have presented a declaration of availability for work for at least 12 months.

Provided they were inactive, these individuals could apply to fund an individual business, partnership or cooperative society/social cooperative with a maximum of 9 members to be established no more than 12 months from submission of the application. Alternatively, they could apply for funding for a professional association or company of professionals to be established within the same deadline. Disbursement of the loan was conditioned upon the establishment of the enterprise. In the event the recipient ceased operations after loan had already been disbursed, the final recipient was required to repay the amount received, net of the capital portion of the instalments already repaid. The revolving fund financed self-employment initiatives for goods production, services or trade including franchising. Services included tourism (accommodation, catering), culture and recreation, personal, business, environmental and ICT services (multimedia, information and communication), energy efficiency and renewable energy, manufacturing, artisan, retail and wholesale as well as processing and marketing agricultural products[107].

As specified in section 4.3, participation in the pre-application tutoring provided by ENM was not mandatory and access to it was also open to other NEETs, inactive women or long-term unemployed individuals who did not intend to apply for the financial instruments. As the post-application tutoring provided by Invitalia started once the loan was obtained, the eligibility criteria for the grant support matched those for the financial support.

103 ANPAL (2020), *Decreto n° 500*, 26 November 2020.
104 ANPAL (2020), *Accordo ai sensi dell'art. 15 della legge 7 agosto 1990, n. 241*, 20 November 2020.
105 ANPAL (2023), *Decreto n°018*, 14 February 2023.
106 This is intended to allow disbursements to recipients within the expenditure eligibility deadlines.
107 With the exception of the cases referred to in article 1.1 (c), (i) and (ii) of EU Regulation no. 1407/2013. Fishing and aquaculture, primary agricultural production and, in general, sectors excluded from article 1 of EU Regulation no. 1407/2013, are also excluded.

4.4.2 Financial products

SELFIEmployment provided zero-interest rate loans. The intervention financed projects from EUR 5 000 to 50 000, covering up to 100% of the costs in three ways:

- microcredit, from EUR 5 000 to 25 000;
- extended microcredit, from EUR 25 001 to 35 000;
- small loans, from EUR 35 001 to 50 000.

The loans did not require guarantees and were repayable over 7 years in monthly instalments starting twelve months after the loan was issued. Compared to the old SELFIEmployment, the new initiative increased the grace period from the previous six months.

The final recipient was required to set up the enterprise and identify an operational headquarter within 3 months of signing the loan contract and complete the investment programme within 18 months from the same date.

Eligible expenses included tools, equipment and machinery; hardware and software; masonry work (up to 10% of the investment); management expenses such as rent for real estate, leasing, utilities, IT, communication and promotion, insurance, raw materials, consumables, semi-finished and finished products as well as wages.

Potential beneficiaries were required to submit their applications online through the Invitalia portal. Invitalia evaluated these applications in line with Regulation 1304/2013 (pertaining to ESF) as well as YEI and SPAO NOP guidelines.

4.4.3 Combination with grants

Grants were combined with the financial instrument in two operations through tutoring by ENM under the YES I START UP project and by Invitalia.

The YES I START UP replaced the previous 'Crescere imprenditori' (Growing entrepreneurs) project managed by Unioncamere and regional agencies which equipped NEETs with entrepreneurial skills for self-employment. Initially, participation in 'Crescere imprenditori' was a prerequisite for entering the SELFIEmployment initiative. However, from September 2016, it was no longer mandatory. Nevertheless, participation granted individuals bonus points that could enhance their chances of securing a loan. The project focused on a self-assessment of the participant's entrepreneurial abilities. A subsequent phase provided training and technical mentoring. Basic training could be in a classroom or with small groups and lasted at least 60 hours. This was followed by technical support tailored for individuals or small groups, for a minimum of 20 hours.

As of 2018, YES I START UP succeeded 'Crescere imprenditori' under measure 7.1 of the YEI NOP with a broader target, extending support to inactive women and long-term unemployed individuals other than NEETs. While, previously, ENM had only been in charge of supporting final recipients in drafting their applications, with YES I START UP it also took charge of pre-application training, replacing Unioncamere and the regional agencies. YES I START UP offered 60 hours of foundational training, accommodating various group sizes in-class or via synchronous online sessions, and even blending courses in response to Covid-19 challenges. Additionally, the initiative offered a 20-hour module with specialised guidance, tailored for individual learners or small groups, delivered in-person or online.

The Invitalia tutoring service was offered individually to final recipients and included three sessions with recipients to ensure the guidance was tailored to each development phase. These sessions were an integral, automatic and mandatory component of the programme. If a recipient was unwilling to participate, they forfeited the financial benefits. The initial session was held before a financial contract was signed by the recipient and Invitalia, to address challenges linked to launching entrepreneurial endeavours. The second was run before the firm began its operations and offered support with the pre-start activities. The final session focused on ongoing support and guidance.

Each session aimed to assist with entrepreneurial concepts, marketing, organisation, budgeting and finance. Moreover, Invitalia provided continuous online support through webinars and digital consultations. For the tutoring service, Invitalia acts as the beneficiary of the grant, receiving the grant on the basis of the costs incurred for the provided training courses.

4.4.4 State aid

The financial support and non-financial services provided by Invitalia complied with the *de minimis* regulation threshold.

The financing was granted in accordance with EU Regulation No. 1407/2013 '*de minimis*'. To calculate the amount of subsidies in terms of Gross Grant Equivalent, the methodology set out in the European Commission's communication regarding the revision of the reference and discount rate setting method (2008/C 14/02) was applied. Consequently, the reference rate in force at the date of granting the aid was used, determined by applying an increase of 650 basis points to the base rate published by the European Commission on its website.

To ensure compliance with the prohibitions on cumulation and the obligations of transparency and publicity set by European and national legislation regarding state aid, Invitalia compiled and entered the granted funding into the National Aid Register (established at the Ministry of Economic Development pursuant to Article 14 of Law No. 57 of March 5, 2001). The Register was designed to allow public administrations responsible for aid measures in favour of enterprises and private entities charged with managing such aids, to perform the required administrative checks.

4.5 Output

From its establishment in 2015 to 1 November 2023, the financial instrument financed 2 047 projects with EUR 67.1 million and contributed to the creation of 3 620 new jobs[108].

More detailed geographical and product data are only available for the period up to 30 September 2020, by which date 4 316 applications had been submitted to SELFIEmployment[109]. Less developed regions (Southern Italy) had the highest demand, with Campania accounting for 47% of the total requests. Of these submissions, 34% were approved, 22% rejected due to ineligibility, 42% denied following a negative evaluation, and 2% were still under review[110].

The most common loan type as at September 2020 was microcredits (42%), followed by small loans (33%), and extended microcredits (25%). The predominant economic activity was wholesale and retail trade (42%), followed by accommodation and food services (27%).

The financial instrument recorded a notable default rate - defined as more than four missed repayments or the cessation of business activities - averaging 27%. The range of defaults varied from 19% to 32% up to mid-2021[111]. It was also acknowledged that some projects, not considered in the default rate, had ceased even before receiving funding. According to the managing authority, the default rate is acceptable, given that the target recipients are a riskier group than average, and the pandemic also contributed to defaults.

108 Of these, under the old SELFIEmployment (up to 1 March 2021) 5 274 business plans were submitted, 1 835 projects financed with EUR 61 million (of EUR 172.5 million requested) and 3 254 jobs created. Data from: https://www.invitalia.it/cosa-facciamo/creiamo-nuove-aziende/nuovo-selfiemployment.

109 ANPAL (2021), *Rapporto quadrimestrale Garanzia Giovani n. 3/2020*. At 30 September 2020, 1 474 applications were approved for funding, for a total of EUR 48.7 million disbursed.

110 Compared to data collected by ANPAL in 2018, the geographical distribution of the requests had not changed, with Campania topping the list at 52%. The share of approved requests was similar at 32% and those lacking requirements or denied totalled 62%. See ANPAL (2018), Rapporto quadrimestrale Garanzia Giovani n. 2/2018.

111 ACT (2021), *Tavolo tecnico strumenti finanziari del 24 giugno 2021*.

4.6 Lessons learnt

Since its launch in 2015, SELFIEmployment has played a significant role in providing financial resources to NEETs, one of the most financially excluded groups in Italy. The new version of the instrument was initiated in 2021 amid the challenges of the pandemic and support was extended to two other particularly vulnerable categories, namely inactive women and long-term unemployed individuals. Additional non-financial services provided by Invitalia and ENM have also been fundamental in supporting the business ideas of the final recipients.

Most beneficiaries expressed satisfaction with the product, training and the active support in developing their business plans provided by Invitalia[112]. However, a major challenge was the lack of uniformity in the pre-application courses, which varied substantially geographically. With the new edition, ENM took direct control of training which was previously managed by multiple entities, to ensure more uniformity. Therefore, these issues seem to have been addressed. Nevertheless, despite the fact that the pre-application courses empowered many young people, the participants found the courses to be overly theoretical and not practical enough. Similarly, some loan applicants did not participate in the pre-application tutoring (which was not compulsory). Additional administrative challenges during the loan application procedure, further discouraged them from applying to the fund. For instance, demonstrating that an applicant is a NEET required several documents and steps that could discourage potential recipients. While an ad hoc tutor could be a solution for the future, also during the pre-application phase, making access easier could increase the demand for support.

Moreover, the new agreement with ENM has strengthened awareness raising and communication to overcome initial challenges with reaching out to final recipients.

The managing authority believes the instrument will be continued in the 2021-2027 programming period with a combination of financial instruments and grants. The exact features and design of the instrument are still to be defined. Additional resources to be combined with SPAO NOP and YEI NOP contributions might be provided by the National Recovery and Resilience Plan through the 'Garanzia di occupabilità dei lavoratori' programme. This programme offers integrated services, based on cooperation between public and private entities for job support, professional updating or retraining courses and networking with other local services (social, socio-health, conciliation, education) targeting vulnerable groups.

112 ANPAL (2021), *Progetto YES I START UP – Formazione per l'avvio d'impresa – Rapporto di valutazione in itinere*.

www.fi-compass.eu

contact@fi-compass.eu

European Commission

Directorate-General
Employment, Social Affairs & Inclusion

B-1049 Brussels

European Investment Bank

Advisory Services

fi-compass

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg