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COMMISSION STAFF WORKING PAPER

IMPACT ASSESSMENT

Accompanying the document

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on European Social Entrepreneurship Funds

{COM(2011) 862 final}
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This report commits only the Commission's services involved in its preparation and does not prejudge the final form of any decision to be taken by the Commission.

1. INTRODUCTION

The subject matter of this impact assessment is social businesses and their funding.

Social businesses are an emerging type of business, which seeks to achieve social goals through the use of business techniques. Such enterprises draw on a wide range of funding sources – public money in the form of grants, charitable donations, direct investments – but take a business form so they can draw on support from the financial markets.

Social business is a significant part of the European economy. Consultation on the Commission's Social Business Initiative has shown the wide range and growing maturity of this sector. External assessments show that the number of social businesses and their impact is growing: the 2009 GEM survey[1] estimated the share of the population involved in social entrepreneurship as 4.1% in Belgium, 7.5% in Finland, 3.1% in Germany, 3.3% in Italy, 5.4% in Slovenia, and 5.7% in the United Kingdom. Approximately one in four businesses founded in Europe would therefore be a social enterprise. These estimates suggest this is not a small sector, and in absolute terms the number of EU citizens directly employed within or indirectly impacted by the sector is significant.

There is a growing awareness of the distinct nature of the social business sector. The development of the European Venture Philanthropy Association to 135 members across 20 countries demonstrates growing awareness of this amongst investors and market participants.[2]

Social businesses are almost exclusively SMEs. The social mission of social businesses correlates with a strong focus on sustainable or inclusive development, and on tackling social challenges across EU societies: this means that investment in social businesses are likely to have a greater positive social impact than investment in SMEs more general. Given some estimates, such as by J. P. Morgan, suggest social investments could grow rapidly to become a market well in excess of EUR 100 billion, underlining the potential of this emerging sector.[3]

Ensuring this sector continues to grow and flourish would therefore be a valuable contribution to meeting the objectives of the Europe 2020 Strategy.

Social businesses derive significant proportions of their funding from grants, whether from foundations, individuals or from the public sector. As businesses, however, their sustainable growth depends on drawing on a wider range of investments and financing sources. In this regard, the EU market for investment funds has begun to play a significant role. A market for investment funds whose main objective is investing in social undertakings has taken shape. This reflects the increasing interest of many investors in making investments – typically as part of a wider portfolio – that aim to achieve positive social effects over and above the quest

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1 Terjesen, S., Lepoutre, J. , Justo, R. and Bosma, N. 2011. Global Entrepreneurship Monitor Report on Social Entrepreneurship, http://www.gemconsortium.org/about.aspx?page=pub_gem_special_topic_reports

2 Presentation from EIF to Commission. On EVPA see http://evpa.eu.com/about-us.

3 See J.P.Morgan,*Impact Investments: An Emerging Asset Class*, 2011.

of financial returns. Investment funds targeted at social undertakings are one important form of such investments.

But social investment funds are typically small, with concomitantly high relative costs, and they face certain specific difficulties scaling up their fund-raising and buidling trust across the EU. Underlying this are specific market problems related to the identity and goals of these funds, which are compounded by competing self-regulatory initiatives to address them. In addition regulatory problems can be identified related to the application of rules on private investment funds to these funds, undermining their efficiency and access to the single market.

The aim of this impact assesmsent is therefore to clarify the nature and scale of these problems, to assess possible measures for ensuring social investment funds can flourish in Europe, and to assess the potential impact of different options and the likely overall impact of potential measures.

This impact assessment complements work being carried out under the Commission's Social Business Initiative on supporting social businesses more widely, including through other forms of funding for social businesses. This impact assessment concentrates solely on the role of investment funds. Measures to address issues examined here could be complemented by other measures taken to build the financial eco-system in which social businesses operate. This includes measures at the level of the Member State to provide specific incentives, such as tax benefits for investors when they invest in social businesses (that would have to be designed in line with state aid rules and the EU Treaty). While the effectiveness of these other measures will have a strong impact on the take-up of the measures identified here, the justification for these latter measures is not dependent on the wider Social Business Initiative.

Note on terminology

Throughout this impact assessment, reference to social businesses should be read – unless explicitly qualified – in a broad and inclusive way. Social undertakings, enterprises and businesses should be read as interchangeable (terminologies sometimes vary according to source). Social businesses include businesses focused on environmental or ethical missions.

References to social investment should be taken broadly. To ensure a clear distinction between social investments as such, which can include any investments in which social impacts are being considered by the investors, and investment funds specifically targeting social businesses as their investment target, the latter are referred to here as ‘social entrepreneurship funds’ (SEF).

This reference does not cover funds that do not specifically fund social businesses, irrespective of whether they follow socially responsible investing guidelines or not.
The focus of this Impact Assessment is on SEF in particular, rather than social investment more widely. Further details on these concepts and their interactions can be found in Annex I.

This impact assessment should be read alongside the impact assessment on the European Venture Capital market (VC IA).[4]

[4] [Reference to insert once published].

2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

2.1. Overall context

This work has a broad context. The Treaty of Lisbon refers to "a highly competitive social market economy, aiming at full employment and social progress". The EU2020 strategy and the Single Market Act seek to this end to identify and take concrete steps towards sustainable, inclusive growth. The Communication on a European Platform against poverty and social exclusion identified in addition the necessity of "mobiliz[ing] the potential inherent [in] the social economy".[5]

The financial crisis has once again underlined the vital importance of steps to support growth in all its forms. Sustainable and inclusive growth has a particular and vital role to play. The social business initiative is therefore a key step in this agenda, as set out in the Single Market Act: "The tremendous financial lever of the European asset-management industry … should be used to promote the development of businesses which have chosen – above and beyond the legitimate quest for financial gain – to pursue objectives of general interest or relating to social, ethical or environmental development."[6]

The establishment of a European framework for social investment funds has been identified by the Commission as a 'locomotive' for the social business initiative, one of 12 'key levers'.[7] The options to be identified and assessed in this impact assessment form the basis for the Commission's actions on this 'locomotive'.

2.2. Public consultation and consultation of other parties

On 13th July 2011, the Commission services launched a public consultation on possible measures to improve the access of social businesses to finance by means of investment funds, which closed on 14th Sept 2011.[8] Contributions received were 67 in total and can be consulted online.[9] The consultation process has been open and transparent. The consultation has been published on the Commission website and announced in a press release and complies with the minimum standards for public consultation of interested parties. A summary of responses to this consultation is available in Annex II.

In general, the value of EU action in the area of social business and more specifically on social investment funds has been strongly endorsed across different types of stakeholders (including key Member States already active in this area, other public authorities, fund managers including those investing into social businesses already, as well as other social investors, social entrepreneurs, industry associations, spokespeople for the foundation sector, and consumers). Many stakeholders underline growing appetite for investments into this sector, and note that while the sector is young, it could grow very rapidly, generating opportunities for coordinated action now. Of course, action now carries risks, and stakeholders have been open in discussing and present these risks; views vary as regards details of action and the timing of different measures at the EU level. Generally, respondents underline the importance of the EU taking a careful and staged approach in this area.

5 See http://ec.europa.eu/social/main.jsp?langId=en&catId=961, and for the text of the Communication, http://ec.europa.eu/social/BlobServlet?docId=6393&langId=en.
6 See section 2.8 of the Single Market Act, SEC(2011) 467 final, which can be found at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0206:FIN:EN:HTML.
7 See http://ec.europa.eu/commission_2010-2014/barnier/docs/news/2011/smact_timetable_en.pdf.
8 See http://ec.europa.eu/internal_market/investment/social_investment_funds_en.htm.
9 See http://ec.europa.eu/internal_market/investment/social_investment_funds_en.htm.

Given the emerging nature of the social investment market, the analysis contained in this impact assessment draws strongly on the contributions of stakeholders to the consultation, including when providing data on the size and nature of the market. It also draws on market analysis by the Commission services.

In addition, regulators and supervisors were also consulted via the European Securities Committee (ESC), including through a questionarie requesting details on existing national regimes for social investment funds.

This falls within the wider context of the Commission's work and consultation on the Single Market Act, where the role of social businesses and their financing was also identified and explored with stakeholders and participants in that consultation.

2.3. Related initiatives

- *EU Passport for Venture Capital*

Since many social businesses are also SMEs, measures that facilitate access to finance for SMEs could also help social businesses. In this context, of notable importance are the support and regulatory frameworks for venture capital, in particular the steps to be taken to develop a EU passport for Venture Capital funds. The extent to which work on establishing such a passport might aid social businesses is central in considering the effectiveness and efficiency of the options identified in this impact assessment.

In general terms, social businesses facing funding shortfalls are SMEs, and investment funds targeting social businesses can be viewed as a specific type of venture capital fund; for this reason the analysis in this impact assessment will consider whether the situation of social investment funds targeting social businesses warrants additional steps over and above those taken on venture capital funds.

- *Social Business Initiative*

As noted, actions foreseen within the Social Business Initiative (and on Corporate Social Responsibility and Socially Responsible Investing) could also contribute to addressing the issues explored in this Impact Assessment. Actions under the Initiative have been laid out in detail in the Social Business Communication adopted on 25th October.[10] These range from introducing as an investment priority "social enterprise" in the scope of actions under the future ESF and ERDF regulations, and identifying and developing best practices for social businesses or the creation of a database for existing labels and certifications of social enterprises, to measures aiming to strengthen the professionalism and managerial capacities within social businesses.[11] Other measures pertain to the development of a European Foundation Statute and measures in relation to public procurement. Furthermore, consideration will be given to a possible simplification of the state aid rules with respect to social businesses.

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[10] See http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/735.

[11] A related initiative ("A European Code of Good Conduct for Micro-credit Provision") has been developed successfully in consultation with representatives of the banking and non-banking micro-credit sectors, as well as with other stakeholders. This comprehensive document aims at providing standards and processes that should lead to meaningful improvements in the operations and governance of micro-credit providers from the point of view of consumers, investors, funders and regulators. to provide standards and procedures. See http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=6978.

- *Programme for Social Change and Innovation*

A programme for Social Change and Innovation has been adopted by the Commission on October 6th, in order to improve access to finance for social enterprises, alongside measures to support micro-finance. This programme provides for a financial instrument for the start-up, development and expansion of social enterprises. This includes a legal definition of social enterprise (see section 4.1.1 below).[12]

- *Single Market Act*

The Commission, in the Single Market Act[13] (SMA) undertook to put in train several measures to ensure investment funds focused on funding social undertakings can flourish. The current proposal on a European framework for social investment funds is one initiative that delivers on that commitment.

The principal aim is to increase the effectiveness of the fundraising by social investment funds, and to achieve a high level of clarity as to the characteristics that distinguish social investment funds from the wider category of alternative investment funds. Only funds that comply with these characteristics shall be eligible to raise funds by virtue of the proposed European framework for social investment funds. The Regulation forms part of the Commission's Social Business Initiative (COM(2011) 682/2).

- *Existing EU rules on private investment funds*

EU rules on investment funds are already in place. For institutional funds, the broad focus of this impact assessment, AIFMD has introduced a new passport, and work is ongoing on developing detailed implementing measures. For retail funds UCITS IV changes –have recently been implemented to improve the efficiency of the Single Market and to strengthen investor protection. Currently, adjustments to rules on depositaries and remuneration of managers are being considered as part of a revision of the UCITS rules (UCITS V).

Linkages between Commission initiatives under SMA

Initiative	**Relationship with other intiatives**	**Areas covered**	**Interactions**
Social Business initiative	Part of SMA	Public procurement, foundations, red-tape for social businesses, public financial support, **development of social business 'eco-system'**	These measures **compliment** measures on SEF.
Social Entrepreneurship Funds (SEF)	*Part of SBI*	**Private** finance for social businesses through funds	*Subject to assessment here.*
Programme for social change and innovation	*Part of SBI*	**Public** finance for social businesses	**Compliment** measures on SEF. SEF measures increase impact.

12 http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1093&furtherNews=yes; and for the regulation: http://ec.europa.eu/social/BlobServlet?docId=7148&langId=en.

13 http://ec.europa.eu/internal_market/smact/docs/20110413-communication_en.pdf 13 April 2011

EIF Fund of Funds	*Part of SBI*	**Public / Private** finance for social businesses.	**Strongly compliment** measures on SEF**.** SEF measures increase impact.
SME Action Plan	Part of SMA	Public / Private finance, development of eco-system for SMEs	**Compliment** measures on SEF. SEF measures increase impact.
Venture Capital Funds	*Part SME Action Plan*	Private finance for SMEs (may cover some social businesses)	These measures **compliment** meausures on SEF.

As can be seen from this table, measures on SEF compliment other measures and could amplify their impact too. The impact of the various measures together is likely to be stronger than their impact individual. Notably, measures by the EIF to provide seed finance via fund of fund structures to funds targeting social business could strongly complement steps to create a EU framework for such funds, by increasing investments into such funds. Also, EU steps to create such a framework could increase the effectiveness of the EIF steps, by reducing search costs for the EIF fund of funds and ensuring a readier supply of funding from private sources to compliment the public money available via the EIF fund of funds.

However, while the scale of the impact of measures on SEF may be sensitive to the impact of other measures, this impact assessement considers measures on SEF in isolation.

2.4. Impact Assessment Steering Group

An Impact Assessment Steering Group was established in July 2011. Colleagues from Directorates General Competition, Enterprise and Industry, Employment, Social Affairs and Inclusion, Health and Consumer Protection, Internal Market and Services, Taxation and Customs Union, the Secretariat General and the Legal Service participated in the discussions.

The Group met 3 times ahead of the finalisation of this report. The group met on 22 July 2011, 8 Sept 2011, 19 Sept 2011.

Minutes of the last meeting of the IASG that took place on 19 Sept 2011 are attached.

2.5. IAB opinion and remarks taken into account

IAB meeting took place on 9 November 2011. The IAB issued its opinion on 11 November 2011. Subsequent to this opinion a number of significant modifications were undertaken, both in terms of the presentation of the problems and in relation to the options andi the policy choice. The resubmitted version of 14 November contains the following improvements:

1. In line with the IAB's request, the wider context of the present initiative was presented in a more comprehensive manner, clarifying that the initiative on social investment funds was only a small piece in a wider set of initiatives aiming to address social business.

2. The modified version of this impact assessment report also stresses the crucial importance in developing a common understanding of the essential characteristics that would distinguish a social business from other undertakings engaged in commerce. The report now clearly shows the emerging contours of the notions of 'social business' (Section 4.1.1) while acknowledging that further refinements might become necessary as the regulatory framework for social business funds takes shape. This is why the proposed rules will contain an empowerment to further refine the notion of 'social business'.

3. In addition, the modified IA report contains a clearer description of the key features that distinguish a social investment funds from the wider category of alternative investment funds. In line with the IABs request, the report clarifies that the essential features of a social investment fund are linked to the social undertakings it targets, the composition of its portfolio (at least 70% of investor capital invested in qualifying target undertakings) and the investment tools it employs (equity, quasi-equity, debt instruments but no leverage). In analogy to the approach taken in relation to venture capital funds, the distinguishing criteria are therefore threefold and refer to: (i) investment targets; (ii) investment instruments; and (iii) portfolio composition. As with venture capital, this IA report concludes that these building block define a social investment fund with the requisite level of detail, thereby allowing a clear distinction between social investment funds and other alternative investment funds.

4. The report also contains additional arguments on why EU action in relation to social investment funds is beneficial at an early stage, before different initiatives develop divergent approaches in the area thereby causing confusion among those willing to invest in social business and the funds that support their activities.

5. All policy options are described in further detail, especially with a view to their practical implementation, effectiveness and efficiency, especially with respect to their regulatory enforcement.

6. Throughout the report, additional attempts have been made to reflect stakeholder's views on problems that arise and preferences for different policy options.

The resubmitted report was further improved following a second opinion from the IAB, by, amongst other things:

- Including more details on interactions between these measures and other initiatives under section 2.3;
- Including detail on proposed venture capital requirements under section 4.4;
- Including a new section, 4.7.7, addressing certain risks of early intervention;
- Clarifying further the phasing of options, their interactions, the costs and benefits of the approach to phasing of options, e.g. under sections 6, 7 and 8;
- Outlining in more depth impacts for Member States under section 7.7.4.

3. KEY CHARACTERISTICS OF SOCIAL INVESTMENT FUNDS AND THEIR INVESTORS

3.1. SIF are a key financing tool for social businesses

Private investment funds are a vital financing vehicle across all types of business activity in the EU, including for social businesses. At the end of 2010, the European asset management industry managed assets worth around EUR 8 trillion in investment funds.[14]

[14] Source: EFAMA Investment Fund Industry Fact Sheet. This figure is equivalent to over 50% of EU GDP and around 33% of global fund assets.

Social investment funds targeting social businesses (SEF in this impact assessment) have emerged as a key financing tool for those businesses. This development has been supported by respondents to the Commission's consultation on social investment funds, since funds are a flexible tool of choice for making risky investments.

SEF also act as key intermediaries. As Avanzi, an Italian think-tank, notes "… investment funds can play an important role because they can minimise the information asymmetry. The problem of social businesses is that they don't speak the same language of [traditional] investors; and these are not eager to invest time to know more and eventually understand a model that is miles away from their standard. The market would need specialised players, who know their counterparts, the context in which they operate; their logic and their approach. In order to became a specialist, one need to reach the critical mass that allows the investment needed for knowledge – which is in fact the case of a fund".[15]

3.2. Investors are increasingly seeking 'social returns'

Investors are increasingly seeking to achieve positive social or environmental or other goals with their investments. As the Global Impact Investing Network (GIIN) puts it, social investments "aim to solve social or environmental challenges while generating financial profit".[16] The focus on 'social returns' by some investors makes SEF a natural target for these investors.

Investments in social business aim to generate positive social or environmental consequences. These externalities can be characterised in a variety of ways – environmental, social, or ethical impacts, such as reduced use of pollutants, jobs for excluded sections of society.[17] While all business activity produces a range of impacts on society, social businesses **specifically target positive social or environmental outcomes**. These 'social businesses' offer a focal point for investors seeking social returns. They also offer a chance to 'leverage' the impact of social investments.[18]

While investors in social businesses are seeking social returns, this is not to the exclusion of financial returns. For instance, while social businesses will typically not offer dividends to investors, but will re-invest any financial surpluses in the business, this does not mean that there will be no financial return for investors over and above the return of capital.

15 Response to Commission consultation.

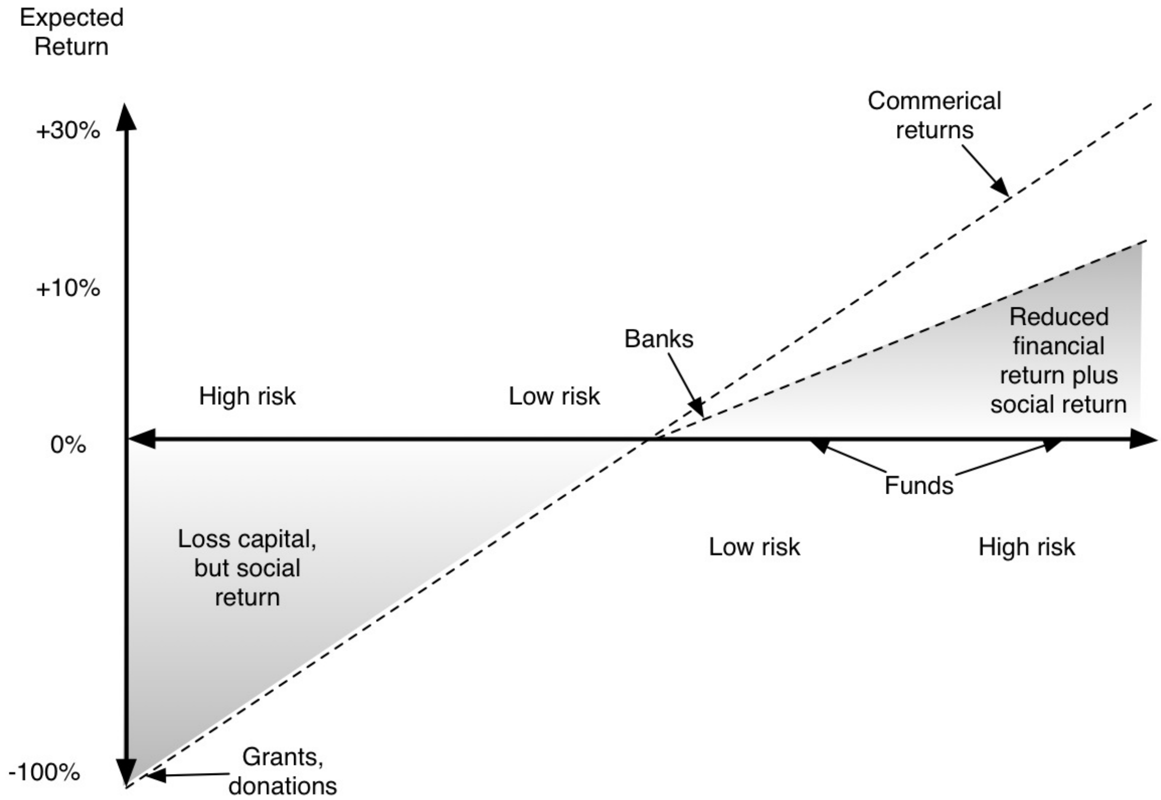
16 Annex I contains more detail on this, including the relations between investments targeting social business and other kinds of 'social investment' that have been emerging. See, e.g., EVPA: *Social Enterprise: From definitions to developments in practice,* EVPA Knowledge Centre Research Paper, 2010; EBAN White Paper: *European Early Stage Impact Investing* (EBAN), June 2011; Monitor Industry: *Investing for Social & Environmental Impact, A Design for Catalysing an Emerging Industry,* 2009; ClearlySo: *Investor Perspectives on Social Enterprise Financing* (ClearlySo) July 2011, NESTA: *Understanding the Demand and Supply for Social Finance* (NESTA1), 2011, p. 10-15; NESTA: *Growing Social Ventures* (NESTA2), 2011; J P Morgan: *Impact Investing: An Emerging Asset Class* (JPMorgan), 2010. For a global perspective, see also the GIIN work on social investments / impact investing: http://www.thegiin.org/cgi-bin/iowa/home/index.html.

17 For more externalities and their importance in relation to conceptualising social entrepreneurship, see http://www.socialenterpriseportal.org/files/Library/Social-Entrepreneurship-Felipe-Santos.pdf, p.17-20.

18 See NESTA1, p. 12, JPMorgan, p.33. The rise of national sustainable investment forums or SIFs over recent years provides an indication of the growing importance of a wider frame in investment thinking: Twelve European countries have SIFs today, a majority of which are members of Eurosif, the pan-European Sustainable Investment Forum established in 2001.

Many stakeholders note that investors in social businesses are happy to make a 'trade-off' between expected financial returns and 'social returns' (which can be characterised as taking on more risk for the same returns or lower returns for the same risk). As the European Social Investment Taskforce notes "Social investors … seek a financial return – usually the aim across the portfolio is to at least recover the capital so that it can be recycled elsewhere, but may charge below commercial rates, and overall aim to break even as opposed to generate financial returns."

The following diagram sets out these dynamics:



Source: Adapted from Cheng, 'Access to capital for social businesses', p. 17.

3.3. SEF are currently a small player in the investment fund sector

Estimates of the size of the EU market for SEF vary, but current 'best estimates' by the European Investment Fund (EIF) are that there are around 50 funds verified by them as focusing on social businesses, though they note this could extend up to around 200. The average size of the funds is very small – between EUR 10 and 20 million – with only one or two exceptions (e.g. BridgesVentures in UK, which is around EUR 115 million). A rough estimate based on these fund sizes and numbers of funds therefore gives a market that could be of around EUR 500 million to around EUR 4000 million (Recent EVPA estimates put the 'venture philanthropy' market at around EUR 1000 million).[19]

By way of comparison, VC assets under management were around EUR 50 billion and private equity (PE) assets under management were around EUR 500 billion at the end of 2010 (SEF are mostly a subset of these figures). Even the most aggressive assessment of the size of the social investment market puts it at less than 10% of the size of the VC market, and

[19] Presentation from EIF to Commission. For EVPA figures, see http://evpa.eu.com/blog/2011/11/evpa-releases-first-ever-data-on-vp-industry-in-europe/.

less than 1% of the size of the PE market; a more realistic assessment would be around 2% and 0.2% respectively.

EVPA note that EU SEFs "are typically below EUR 20 million in assets, and below the critical mass needed to make larger investments and to cover the real costs of the management team necessary to run the operation".[20]

It is also important to note that social investment funds have a more targeted focus on investing in a select group of social enterprises which makes them different from the more general set of funds that claim to be supporting 'socially responsible investment' (SRI). Annex I places the SEF market in the context of the wide SRI market.

3.4. Majority of SEF are institutional

The investor base of SEF is currently largely professional rather than retail, though retail funds that in part target social businesses are sold, for instance, in the French, Luxembourg, Dutch and Belgian markets. The French retail market is large; while the funds are not limited to targeting social businesses, in practice *fond solidaire* often act as conduits for social businesses.

Stakeholders and consultation respondents suggest that existing inflows are mostly derived from high net worth individuals (HNWI), who traditionally have been a mainstay of the philanthropic sector. As the European Venture Philanthropy Association (EVPA) put it "social business funds should primarily be opened to professional and qualified investors, as the social enterprises which they fund will require both funding and non-financial support to accelerate their growth".[21] The social business' need for 'patient capital' sits at the core of its demand on capital markets, yet such capital exhibits low degrees of liquidity and long time periods before returns are likely.

3.5. SEF are thinly capitalised and clustered in only a few Member States

As mentioned in Section 3.1, average sizes of social investment funds are small. The largest investment funds are clustered in either France or the United Kingdom. For example, BridgesVentures (EUR 115 million) is located in the UK, Alter Equity, Citizen Capital, NEF Capital éthique (EUR 30-50 million) are all located in France, and BAC Partenaires, Catalyst, and the Social Enterprise Investment Fund (EUR 15-25 million) are located in France (BAC) or the UK.

The only substantial social investment fund domiciled outside these two countries that Commission research indicates as exceeding the EUR 25 million threshold is Karmijn Capital in the Netherlands (EUR 50 million). It appears that the largest Italian venture capital fund is Oltre Capital with only EUR 10 million in assets under management while all the examples for Germany (BonVenture, Social Venture Fund) do not exceed EUR 10 million. Member States with a smaller investor base generally have no social investment funds of any notable size domiciled in their territories (there are exceptions, such as a fund operating in Hungary).

The following table shows some of the most important EU social investment funds and the range of their investment activities:

[20] Submission to Commission consultation on social investment funds. Their figures as noted under footnote 19 put the median fund size at EUR 11 million.

[21] Submission to the Commission consultation on social investment funds.

Fund Manager	Country	Investment Strategy	Instruments	(Target) size
Alter Equity	France	* Focus on early stage companies engaged in a sustainable development (environmental or social purpose)	Equity	EUR 50m
BAC Partenaires	France	* Achieve financial returns for its investors, in addition to serving a social purpose * Fostering employment and supporting role models in the most deprived urban areas of France	Equity	EUR 15m
BonVenture	Germany	* Investment in social and ecological projects aiming at reaching long-term sustainability * Early-stage focus.	Equity	EUR 10m
Bridges Ventures	UK	* Growth capital fund focused on UK SMEs * Target companies generating positive social and environmental impacts * Underserved areas, energy and envrionment, education, health.	Equity, quasi-equity	GBP 100m
Catalyst	UK	* Geographical focus on the UK * Invest in businesses generating revenues and already profitable	Equity	GBP 20m
Citizen Capital	France	* Achieve a social purpose as well as earn financial returns * Invest in companies located in underinvested communities or with a clear sustainable development purpose	Equity	EUR 30m
Financités (Planet Finance)	France	* An entity of Planet Finance, European leader in micro-finance * Micro-equity operations in French regions * Invest in companies located in underserved areas	Micro-equity, quasi-equity	EUR 3m
Karmijn Capital	Netherlands	* Invest in gender diverse Dutch companies led by women or with women accounting for more than 30% of the decision making positions	Equity	EUR 50m
NEF Capital Éthique	France	* Focus on SMEs engaged in energy efficiency, environmental technologies, ethical consumerism (bio products and fair trade) * Aim to participate in financing rounds in early to expansion stage companies	Equity	EUR 50m
NESsT Venture	Hungary	* Philanthropic investment fund providing financial and capacity-building support to social enterprises in Central Europe and Latin America * Companies generate revenues to help diversify the financing base and further the mission of the parent non-profit organization	Quasi-equity, Loans, Grants	n.a.
Oltre Capital	Italy	* Invest in and develop companies that produce/supply goods or services designated to satisfy the ongoing needs in the field of service and social relations * Companies will have a social purpose	Equity	EUR 10m
Social Enterprise Investment Fund	UK	* Provide loans, grants and professional support to social enterprises involved in the delivery of health and social care services	Loans, Grants	GBP 25m
Social Venture Fund	Germany	* Invest in social businesses, which have innovative and entrepreneurial driven solutions for urgent social and environmental challenges * Aim to maximise the social return on investment, thus realising a high societal value	Equity, Loans	EUR 10m

Source: EIF

3.6. The target undertakings of SEF are active in a wide range of activities

While the overall capitalisation of social investment funds remains very low, the range of activities financed by these funds is extremely diverse. Social business financed by these funds covers an area ranging from the provision of infrastructure in deprived urban areas

(BAC Partenaires), catering to the needs of energy, the environment, education and healthcare in deprived areas (BridgesVentures, Citizen Capital), the provision of microfinance to SMEs in deprived areas (Planet Finance), bio products and fair trade (NEF Capital éthique), the provision of goods and services for socially excluded sectors of the population (Oltre Capital), to the provision of social services (social enterprise investment fund). It is fair to say that there is an almost inverse relationship between the breadth of ambition pursued by social undertakings and the thin capitalisation of their sponsors.

The Commission has identified at least four discrete clusters of development in social businesses: the UK, with a social investment market that has matured in the course of the last 20 years, partly in reaction to active public policy; Member States with a social economy tradition (such as France); Member States where private sector provision can be characterised as developing rather independently from public policy (such as Germany); and finally, Member States without strong developments so far in either public policy or the private sector. A significant proportion of the responses to the Commission consultation on social investment funds were from stakeholders located in the UK or France.

Examples of social businesses[22]

In **Italy**, a medical centre provides high-level specialised assistance to people in need (immigrants for example), particularly in areas poorly served by public services.

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

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

In **Hungary**, a foundation set up a restaurant employing disabled staff (40 employees) and provided them with training and childcare to ensure the transition to stable employment.

In **The Netherlands**, a company teaches reading using innovative digital tools and a method based on playing. This method is particularly suitable for hyperactive or autistic children but can also be used for illiterate people and immigrants.

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

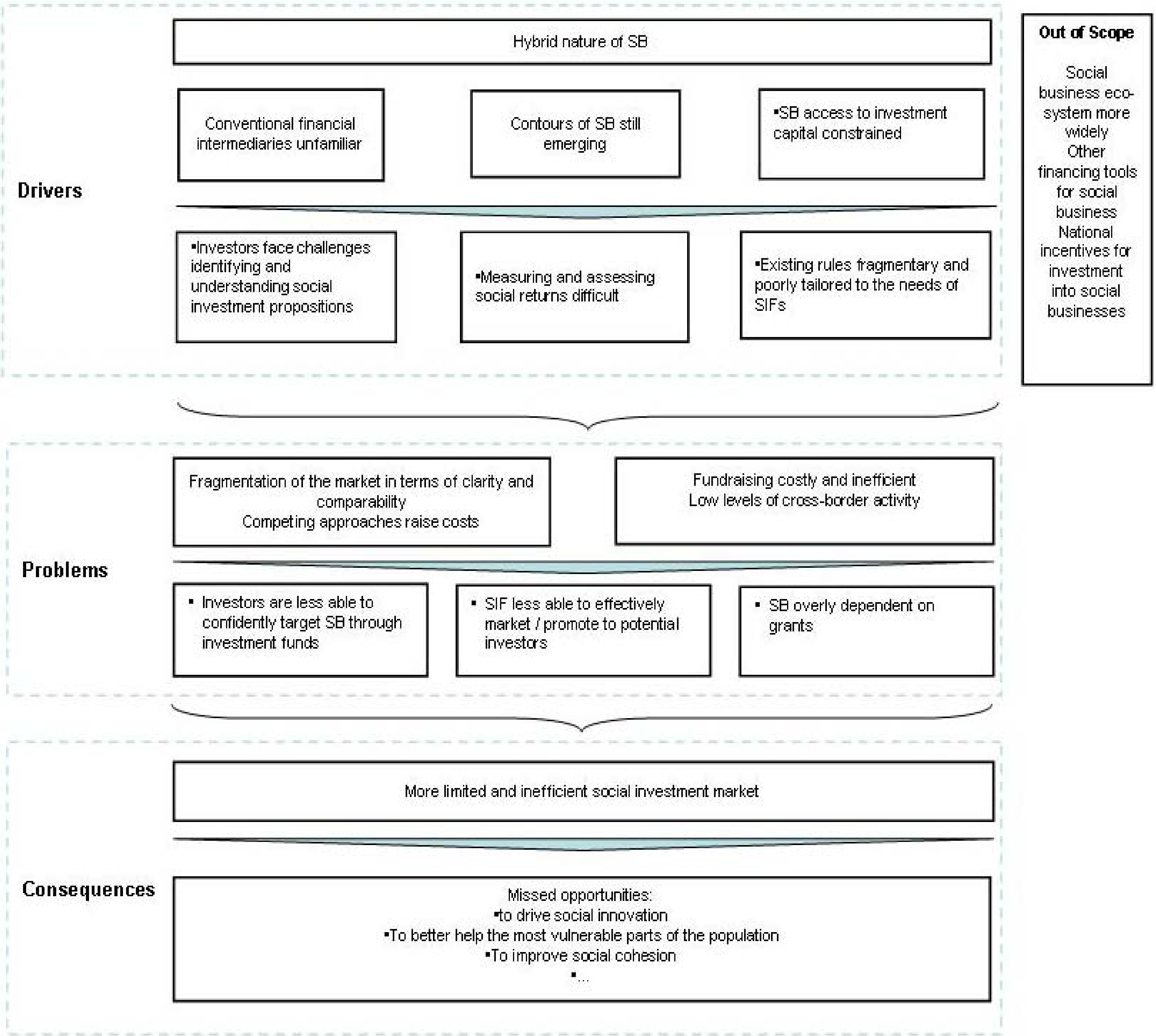
In **Germany**, a business organizes exhibitions and business workshops in total darkness. Blind guides lead attendees through a completely dark environment, where they learn to interact by relying on other senses than sight.

In **Denmark**, a business exclusively hires employees with autism spectrum disorder (ASD). The business' objective is to tailor a working environment for specialist people such as people with ASD in order to let them solve valuable tasks for the business sector at market terms.

In some jurisdictions specific legal forms have been developed so as to aid wider steps to support such enterprises, such as 'Impresa a Finalità Sociale' in Italy, or a 'Community Interest Company' in the UK.

[22] See also box 1, NESTA, *Growing Social Ventures* , p. 13.

PROBLEM TREE



4. PROBLEM DEFINITION

Structural problems in the SEF market impede the matching of supply of private capital from investors with demand for such capital from social businesses, so such businesses are often strongly dependent on public finance and investors are unable to allocate their capital as they might wish.

4.1. Challenges establishing an operational definition of social businesses

4.1.1. The contours of social business are still emerging

Over the last decade, a consensus has emerged that 'social businesses' can be distinguished from other types of businesses. Stakeholders have confirmed that social businesses are a distinct sub-set of SMEs, but which share specific characteristics not shared by other SMEs. At the most basic level, social businesses are those enterprises that explicitly combine a social mission with a financial one, with the social mission as dominant. Often this social mission is enshrined in the undertakings charter of association and is rather precise as to the field of activities that are covered.

In terms of delimitating what is a social business and what is not, the Commission set out, in the Communication on Social Business, a definition of the term 'social enterprise' to cover those businesses for which the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation, where profits are mainly reinvested with a view to achieving this social objective, and where the method of organisation or ownership system reflects their mission, using democratic or participatory principles or focusing on social justice. This same definition was also reflected in the Regulation on an EU Programme for Social Change and Innovation (SEC(2011)1134).[23]

Three core elements therefore can be seen for differentiating a social undertaking from other entities active in the field of commerce:

- their primary objective is to achieve social impact;
- the almost complete reinvestment of surplus into the promotion of the social business (no dividends);
- the particular, most often inclusive manner, in which a social undertaking is managed vis-à-vis its employees and external stakeholders.

This definition is broad and inclusive in terms of the determination of what is a social objective. Nevertheless, the typology of activities that fall under this definition has solidified over the last decade. Social entrepreneurship is usually associated with small start-up engaged in local efforts. Although they often tackle issues that are of global relevance (the persistence of poverty, access to basic services for marginal groups, social integration of people with a disability), the focus of their activity is almost essentially local.

[23] See COM(2011) 682 final; also for the Regulation on an EU Programme for Social Change and Innovation, see http://ec.europa.eu/social/BlobServlet?docId=7148&langId=en.

The very breadth of activities and ambitions pursued by social businesses is at once a strength, a corollary to innovation, but also a source of problems. For many investors entering this field, the contours of social business is still a large tent where many different activities are assembled. Naturally, this gives rise to an initial impression that the concept of social entrepreneurship is still poorly defined and its boundaries with other type of economic activity remain fuzzy. This conceptual fuzziness invites a European approach that consists in attempting to provide sharper contours and define a well-established core of activities that would be deemed social business. In this manner, European action could shape the field's further development, and on this basis the operational definition above has been adopted throughout this impact assessment.

The possibility of including the definition of social business as one of the problems was considered but rejected, as arguably it would impede any action or solution to the identified problems. This approach has been confirmed with stakeholders, including fund operators, social businesses and investors operating in the field.

The definition set out above will therefore be employed as the legal definition for the purpose of assessing options in this impact assessment. However, it is important that the impact of measures introduced on its basis be subject to further assessment and monitoring, precisely so that the definition might be refined and developed in the light of the further evolution of the market.

4.1.2. Conventional financial intermediaries unfamiliar with social business

The combination of social and financial goals by social business is its key quality, yet many conventional financial intermediaries are not well prepared to address the concept of investing to support a social mission (this is set out in the next section from the perspective of the investor).

As the European Social Investment Taskforce set it out: "the Financial mechanisms in use have been adapted from commercial use and rarely take into account the ‘social return’ element of the investment. Social return is assessed in wildly different ways, by social businesses themselves as well as by social investors. Investors take different approaches to assessing risk, return (financial and social) and how their pricing reflects that. Few are transparent about their approach, making it difficult for social businesses, among others, to assess who is providing what and why. Indeed, the pricing of investment rarely links coherently to the expected social return of the investment, leading to confusion".[24]

4.2. Social businesses access to investment capital constrained

Stakeholders widely accept that social businesses need better finance. The European Social Investment Taskforce submission to the Commission consultation on social investment funds argued that "lack of access to capital is acting as a barrier to social businesses … achieving their social mission".[25]

Two issues emerge: a possible **overdependence on public finance and charitable support**, and **challenges** in gaining access to so-called **'patient capital' --** suitably heterogeneous and sustainable sources of private finance that takes a long-term view.

[24] European Social Investment Taskforce (EUSIT) submission to Commission consultation on social investment funds/Cheng, *Access to capital for social businesses*, p. 16

[25] EUSIT/Cheng, p. 9.

Since social businesses are in almost all cases SMEs, the financing patterns in the SME sector as explored in the VC IA also apply to them. For SMEs, financing typically varies in nature and balance as enterprises develop. Entrepreneurs move from informal funding (friends and family) through different forms of debt-based financing, with a growing proportion of equity-based financing then developing, before the enterprises are listed (which offers initial investors an exit opportunity). OECD data from 2009 showed funding for EU SMEs was dominated by lending from banks.[26]

However, while the financing mix for social business is to a degree similar to that for other SMEs, evidence from stakeholders suggests that there are crucial differences in the balance struck between sources and associated funding forms (grants or donations from public bodies, foundations, and individuals have a role for social businesses that is more dominant compared to conventional SMEs).

For instance, UK data shows public finance dominates the sector in that Member State: figures[27] show that over the last ten years over STR 350 million flowing into the social enterprise sector was from public sources, with less than STR 50 million from philanthropic and commercial or mixed sources.

ClearlySo, in a report on financing social enterprises for the City of London Corporation, noted "the sector has been heavily dependent on government and philanthropy, and these need reinforcement. The global pools of capital which operate out of the City of London could provide exactly that".[28]

The European Social Investment Taskforce underline this: "the sector is dominated by grant funding, both in terms of the amount of supply and the cultural dominance of this form of funding. … There is a finite supply of charitable money, and insufficient to go round – a situation which will only worsen in the coming years. Therefore, the efficient use of those funds becomes imperative, to ensure that grants are used where most appropriate. … The majority of capital funding available is for fixed assets. … There is some evidence of banks providing secured lending for more general purposes, although this of course relies on social businesses having assets (or directors being willing to provide personal guarantees) – and we know social businesses are undercapitalised. The handful of other mechanisms available – underwriting, unsecured loans, quasi-equity, equity – are barely used. … Little genuinely patient capital/soft loans are available, yet such finance would seem necessary in a sector in which success is rarely achievable in the short-term (tackling poverty, improving education, etc)".[29]

Other stakeholders broadly concur: a central issue for social businesses is their over-dependency on grant-based or public financing and their adaptation to it. The transition into a 'conventional' financial landscape may be particularly challenging for social businesses compared to other businesses, as these businesses fall between the targets accepted by foundations for grants and the enterprises normally targeted by VC.[30]

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26 There is a typical SME 'lifecycle' as an enterprise migrates through different funding sources as it grows and develops. See VC IA.

27 See: http://www.youngfoundation.org/files/images/Growing_Social_Ventures.pdf; UK data from: http://www.socialinvestmenttaskforce.org/downloads/SITF_10_year_review.pdf.

28 ClearlySo, *Investor perspectives on Social Enterprise Financing*, 2011, p. 5.

29 EUSIT/Cheng, p.16.

30 The migration through different financing sources can be different for social businesses, as can be starting points (for instance, some social businesses evolve out of associations or other cooperative groupings, and so can rely on different early funding sources than seen with non-social SMEs). There

In contrast with the venture capital markets (which are focused on raising equity and quasi-equity financing), a number of respondents to the consultation noted that a wider range and variety of instruments or funding conduits are vital for the smooth operation of social businesses. For example, the French Authorities noted the central role of certain specific non-transferable debt instruments in the financing of social businesses in France. EVPA also recently has undertaken a comprehensive market survey for the social business sector, which has underlined that the social business sector is highly dependent on grants and other forms of non-investment funding. The clear implication is that financing tools designed for social businesses are broader in scope than those used by SMEs.[31]

As EVPA noted in their submission to the Commission consultation on social investment funds, "…social investments need to be long-term and patient in their nature".

4.3. Investors targeting social businesses face difficulties

*4.3.1. **Key Driver 1:** Investors face challenges identifying and understanding social investment propositions*

A common theme in the responses of stakeholders to the Commission consultation on social investment funds was the impact of confusion and a lack of consistent disclosures about social investments, even for professional participants already operating in the social business sector.

Core elements of this problem related to investment funds include:

- difficulties investors face in discerning which funds are truly investing in social businesses, given a lack of common criteria for what such funds might do; and

- a lack of sufficient consistency in regards information on what each fund does: on what it will or will not invest in, on its criteria for establishing this and methodologies followed, on the degree of support it provides to social businesses it targets.

Responses to the Commission Consultation on social investment funds have underlined these concerns.

The Financial Services User Group (FSUG) noted: "there is much scope for investors to be misled by market operators jumping on the social business/social investment fund bandwagon. There seems to be quite a broad range of social investments funds/financial instruments. For example: social 'impact' bonds; social purpose companies/funds; social investment bonds (SIBs); and some for-profit companies, which claim that their activities have a social benefit. FSUG believes there is a substantial bit of work needed to ensure that categorisations and definitions are right. … It is important that consumers can easily recognise, immediately and without any doubt, what social businesses and what private investment funds in supporting social businesses are".

Finnish public authorities also noted: "There are currently no standard disclosure practices or e.g. comparable performance data to present an investment case, which includes a social engagement. Issuers of financial instruments either advocate that they are normal investees

is much evidence of growing work on developing wider understanding and comprehension of the investment proposition posed by social entrepreneurs: see, for instance, the Social Investment Manual launched recently by the Schwab Foundation for Social Entrepreneurship (http://wef.ch/pdf).

31 http://evpa.eu.com/wp-content/uploads/2011/11/VP-Industry-data_for-press.pdf.

and tone down their social nature, or identify themselves as philanthropic. There should be practices to present investment cases with a middle approach. This should be done through elaborating e.g. the profit distribution, investment, personnel or environmental policies. … [R]equirements comparable to UCITS Directive and AIFMD [are needed], supplemented with an obligation to report on investments in social businesses, in particular reporting on special features, particularly on how to measure social performance when not seeking financial return on investments (i.e. non-profit character)."

The Banque Populaire Caisse d'Epargne (BPCE) also commented: "BPCE accorde une attention particulière à la transparence et à la qualité d'une information claire et fiable qui est dispensée aux consommateurs, de plus en plus, intéressés par ce type de produits. C'est pourquoi, une action européenne semble nécessaire pour déterminer les critères qui pourraient permettre à une entreprise de se prévaloir d'un ou plusieurs labels de type « entrepreneuriat solidaire »."

*4.3.2. **Key Driver 2:** Measuring or assessing social returns is difficult*

Measuring and assessing the social returns of investments is central for investors in this sector. This reflects the hybrid nature of social businesses and the investor's interest in social returns alongside financial returns.

Yet the EIF have highlighted that there is a "lack of standard metrics for social performance. 85% of impact investors have developed their own measurement systems (source: J.P. Morgan), resulting in a lack of comparability between investors and projects". They note that "measuring impact appears complex, expensive and subjective".

In light of this, many indexes or measures of performance for social investments have been emerging under self-regulatory steps.

The EIF underline the development since 2008 of the Impact Reporting and Investment Standards (IRIS). (The GIIN includes a good resource on this work on social performance and reporting: http://iris.thegiin.org/materials.)

Different measures tend to focus on different aspects or approaches to assessing performance. For instance, the Social Return on Investment approach (SROI) seeks to measure performance in dollar terms, to allow comparisons across a wide range of different types of company. The B-Ratings System uses a matrix approach, focusing on five key stakeholders perspectives (consumers, employees, suppliers, the community, and the environment). The HIP (Human Impact + Profit) framework also focuses in on five areas, this time thematic (health, wealth, earth, equality and trust).

The competition between different measures is illustrated by three indicative and different methodologies emerging even within one sector: recent discussion with stakeholders has highlighted three methodologies emerging across the housing sector (IPD/ AeDex Social Housing Property Index (Netherlands), Urban returns (Germany), Social Return on Investment – SROI (United Kingdom, Netherlands)).

As can be seen, different purposes can drive different approaches.

There is global work ongoing in this area, with widespread academic and commercial attention. The Social Performance Task Force in the US is a good example of the range of initiatives; http://sptf.info/resources/sp-initiatives lists five different strands of work.

Yet the explosion in research, innovation and competing standards itself carries risks and leads to problems. This plurality can be confusing for investors, as information can conflict or use similar concepts in different ways, reducing trust. Conflicts or overlapping information can also undermine the capacity of investors to compare different investment propositions where claims about social returns subject to different measurement criteria or methodologies.

In addition, it can be argued that self-regulation in this area is unlikely to lead by itself to consistent or comparable overall approaches, though it may be too early to draw that conclusion. The incentives for industry participants may not be strong enough to lead to sufficient individual or collective expenditure on developing sophisticated approaches or buy-in to using them.

Consultation respondents noted the importance of addressing potential confusion in this area. The EIF have reached interim conclusions in favour of supporting and driving forward further work in this area, so that there can be precise and objective criteria for investment decision making on social performance.

For instance, ALFI noted: "[c]onsideration of social returns should be a key element of the investment process (and not just a reporting consideration). … Social investors are looking for information on the social outcome ("impact", "performance", "return") of their investments." The European Social Investment Taskforce also makes similar comments, amongst others.

4.4. The potential of SEFs are not fully realised

*4.4.1. **Key Driver 3:** Existing rules are fragmentary and poorly tailored to the needs of SEFs*

The rules under which SEF operate are not tailored to the specific needs of such funds, and different rules can apply in different Member States or to different types of fund.

Existing social investment funds (SEF) typically take the form of closed-ended funds. (These will in the future be Alternative Investment Funds (AIF) under the AIFM-D but since existing funds are small, they mostly fall under the threshold for the AIFM-D so its rules would not automatically apply.)

In France and Luxembourg (amongst a small number of other cases), some funds also fall under national open-ended fund rules (UCITS-like regimes): these funds typically will have reduced levels of investment in social businesses, will be subject to more robust regulation, and may in some cases be offered (depending on the fund) to retail investors. The French *fond solidaire* market has not been included in our assessments of the size of the EU social investment fund market, as the target of these funds is not always social businesses with a social mission as defined in the Social Business Initiative. However, some of this market will be supporting social businesses.

In general there are **no specific rules** targeted at social investment funds (with the exception of the *fond solidaire* model).

As analysed under the IA for VC, eight member states have specific rules applying in relation to VC, which have served to fragment the EU landscape for VC funds. For non-VC funds and for those member states where VC regimes do not apply, a patchwork of requirements exists.

Note under this table all funds are AIF under AIFM-D, but existing social investment funds would all fall beneath the AIFMD-D threshold rules so in practice would remain under national rules.

Fragmentation between Member State and EU regulation applying to different fund types

Type of fund	Existing requirements	
	Content	**Relevance for SEF**
National fund regimes (retail)	In some larger Member States with more mature financial services markets: these regimes typically include detailed fund and fund management rules similar to UCITS, but more flexibility in eligible assets compared to UCITS. Funds of this kind can be found in all major fund markets such as UK, France, Germany, Luxembourg, Ireland. AIFM-D will impact here.	France, Luxembourg have funds that are broadly marketed as social investment funds under this category; French regulation includes specific rules tailored for such funds. These funds are not however targeted at social businesses as defined in this impact assessment and the Commission Social Business Initiative.
National fund regimes (institutional)	Eight Member States have VC regimes (Austria, Germany, Estonia, France, Italy, Portugal, Spain, UK). These vary in terms of content (e.g. on eligible investors, portfolio composition, reporting and transparency requirements, etc., as set out in VC IA). In Luxembourg, UK and Germany, amongst other larger markets, open-ended institutional funds are permitted under relevant regulations that can be used to target social businesses. These regimes can include requirements on reporting, qualified investors, fund rules in some cases, and so forth. VC proposal will impact here. AIFM-D will impact here.	Most of the UK SEF market sits under this category; in general most SEF in other Member States also fall under this category where national rules exist.
Other national rules on managers	Some Member States have rules applying to managers (e.g. UK). On registration, reporting, broad principles. Some apply MiFID rules on conduct in some contexts. AIFM-D will impact here.	Not known, not extensive (only in most developed fund markets).
Other [where no national fund or manager rules apply]	All MS, but content varies significantly. Prospectus requirements relating to public offerings; national requirements relating to public offerings; company law German closed-ended funds currently fall under this category. AIFM-D will impact here.	General requirements apply to all existing SEF, as with other funds, unless national rules explicitly exempt them.

As this table shows, rules vary materially and significantly across different member states, depending on how existing social investment funds are structured. As noted above, evidence from stakeholders, including EVPA, is that the vast majority of social investment funds fall either under a national retail regimes (mostly in France and Luxembourg, though these funds vary in the extent that they target social businesses or are able to target retail investors), or under other national regimes as may apply for PE or VC closed-ended funds (in UK but also most other jurisdictions that have social investment funds).

While AIFM-D will apply to all non-UCITS EU asset management, social investment fund business will almost entirely fall under the threshold for that framework, and so existing fragmentation in national rules will apply to social investment funds.

The fragmentation in rules facing social investment funds can be summarised thematically:

Requirement	Extent of Fragmentation across EU member states
Eligible investors	Rules vary significantly. Under VC, where there are national frameworks these typically set out who might be qualified. (Same for other fund types). Prospectus and MiFID rules apply in some MS or for some fund types.
Portfolio composition	Rules vary significantly. Under VC frameworks, different MS have different thresholds for investments into SMEs. Otherwise rules mostly (with some exceptions) only apply for retail funds (e.g. French *fonds solidaire,* which mostly follow a retail framework similar to UCITS and confine investments into social businesses to a 10% slice of the overall fund). While France has rules specific to social investments broadly understood, these rules are not targeting investments into social businesses as such. In other jurisdictions national rules on marketing may apply in regards claims made about the portfolio composition, for instance against misleading claims (a fund must invest in the assets it says it does).
Rules on conduct	Rules vary significantly. In jurisdictions with non-harmonised retail funds, these rules are often similar to UCITS; requirements vary significantly across other fund types and different jurisdictions. In the future managers will be subject to AIFM-D rules if they fall in scope (are large enough).
Rules on transparency and reporting	Rules vary significantly. Retail funds are subject to extensive transparency and reporting requirements in general, and these are not harmonised (since UCITS funds are not able to be SEF). Where such rules contain specific measures regarding social investments (e.g. requiring certain disclosures on SRI policies, etc.) these are not harmonised at the EU level. Other funds or their managers may be subject to reporting requirements, but not currently in all jurisdictions. In the future managers will be subject to AIFM-D rules. Those that fall above the AIFM-D threshold have to fulfil strong transparency and reporting requirements.
Other general requirements	Rules vary significantly. They can include registration or authorisation requirements, requirements on 'fitness and properness' of persons carrying on substantively the business, requirements on capital, etc.

Self-regulatory developments – discussed later in section 4.6.1 – are likely to contribute to a fragmentary picture, even though these necessarily do not carry the force of regulatory requirements. Such fragmentation extends beyond the fragmentation between different Member States and rules applying to different fund types, so fund managers can be faced with competing initiatives even for the same fund or in the same fund sector. This is outlined above. While Eurosif are actively pursuing greater consistency and coverage in regards existing initiatives related to social investments more widely, they are not specifically addressing the needs of funds investing into social businesses as defined here. As set out in section 4.6.1, the work of Eurosif, while very valuable, is unlikely to fully address the fragmentation issues outlined here.

Fragmentation has impacts on costs for funds that are the same as those outlined in the VC IA (the procedural steps and costs associated with raising capital in several jurisdictions are described in Sections 5.1.2, 5.1.3, 5.1.4 and 5.1.5 of that IA). As with venture capital funds, the major costs result from the necessity to obtain national distribution licenses (EUR 20.000-40.000 per country), the requirement to entertain a local presence (EUR 25.000 per year), prospectuses (around EUR 40.000 per country). Lesser costs, that multiplies with the number of jurisdictions targeted by the fund, result from the need to update various other legal documents (e.g., securities legends).

Proposed rules on Venture Capital
The Commission has separately been assessing possible new uniform rules on European Venture Capital funds. Under that assessment, measures are considered to set a common EU standard and label for such funds, defined as funds with a minimum of a 70% investment in SMEs, with these investments made solely by means of equity or quasi-equity instruments. While social businesses are mostly also SMEs, the SEF sector has grown separately from the venture capital fund sector (though in legal terms SEF may overlap in form with venture capital funds). In addition, the focus the venture capital fund sector has been squarely on gaps in equity and quasi-equity funding, given the problems EU SMEs face in gathering such funding.
For social businesses, funding solely through venture capital funds could therefore pose particular problems and lead to distortions in available finance. Firstly, VC funds would not permit non-equity based support from funds to social businesses; evidence from the social business sector and existing practitioners in the SEF market has been that a breadth of instruments is vital in supporting social businesses, precisely because these businesses have specific funding needs related to the development of innovative financial instruments combining public and private investments, or equity and debt. Secondly, the focus point of the VC market is on financial returns over the longer term, rather than the achievement of a mix of financial and social returns; this difference in focus is likely to undermine the extent to which VC funds would be successful in supporting social businesses.

4.5. Summary of Consequent Problems

Direct consequences

Problem drivers one and two combine to **undermine trust** in the social investment market, and to reduce competitive efficiency in the market.

The lack of coherence and coordination in information provision also increases the probability of mis-buying scandals which would undermine trust even further.

Problem driver three increases costs for funds, limits the efficiency of their investment strategies (so they can comply with fund rules not tailored for the purposes of SEF) and their capacity to grow, and reduces awareness of and take up of SEF strategies amongst fund managers.

Key consequence: severely restricted cross-border activity

The fragmentation in rules across fund types and member states correlates with (and likely leads to) very low levels of cross border activity. Evidence from EVPA indicates that cross-border activity in the social investment fund market is only 4%. (To provide context for the figure of 4% from EVPA: the VC IA noted that VC funds raised 12% of funds cross border between 2007 and 2010, and that this compared poorly with 20% for PE over the same period.)

EVPA underline their view that this is far too low and note that they believe "distribution across Europe should be facilitated to allow European investors to invest in other EU country funds and/or in funds investing across all of Europe. Innovations in social enterprise models could thus be developed / extended across Europe and the development of EU wide funds is a key step in such a process".

This might imply that the social investment fund market is currently so small and under-developed that it has not been able to avail itself of significant opportunities for cross-border activity. On the other hand, it might imply that specific barriers apply for social investment funds that have a greater impact than for VC more widely.

The key distinction for social investment funds, compared to VC funds, is divergent disclosure and transparency practices across different jurisdictions, and reduced visibility of the funds and clarity as to their identity and nature.

Secondary consequences

Continued fragmentation in capital pools between Member States limits the potential for growth and the extent to which larger, more efficient funds can develop capable of driving a larger and larger social business sector, particularly where local Member State capital pools are limited.

Smaller funds are proportionately more expensive to run. In addition, this can contribute also to reduced market liquidity, undermining the market's capacity to match investors and social businesses. This can act as a 'limit' to the emergence and growth of the sector. As noted above in section 4.4, investments funds can be vital intermediaries in 'crystallising' an investment sector.

To the extent that such effects occur, the wider consequences are clear: social businesses would find it more difficult to secure funding, investors would not be able to find the investments they are seeking, or would make investments which do not perform as expected. Confidence in the social investment market (and investment markets more widely) would be undermined, contributing to increasing inefficiencies in capital markets.

In general terms, in so far as such impacts impede the emergence of a vibrant social business sector, they contribute to reduced levels of sustainable and inclusive growth across the EU. SMEs are a core potential driver of growth[32] and social enterprises in addition are a key component in driving social innovation. Reduced effectiveness in funding these thereby has the potential for much wider impacts.

4.6. Evolution of the market without EU action

4.6.1. Social investment will not develop as a business model trusted across Europe

Social investment as a business model will not prosper without improved quality of information. In the absence of a coordinated approach on how this information is collected and presented, the sector will be weakened by the proliferation of self-regulatory labelling and transparency initiatives.

While these initiatives increase the volume of information available, they tend also to fragment that information or make it increasingly difficult for investors to compare between different investment propositions. This is particular the case where the investors might examine propositions from different Member States subject to different national traditions.

In the absence of a coordinated European approach, different labels for different types of social investment funds have emerged through self-regulatory interventions. Labels are mostly based on self-regulatory initiatives of the industry such as the label Finansol or the

[32] See, for further information, the Impact Assessment on Venture Capital [Reference to insert once published]., Annexes I-II.

label Novéthique in France, or the Lux Flag Label on Microfinance in Luxemburg. However, although these labels share certain common features (e.g. transparency as regards the selection of the investment targets), the criteria for granting the label vary for instance as regards concrete elements of the investment strategy of the funds. This variety in approaches is likely to create confusion for investors. Furthermore, these labels are limited in their geographical scope and not easily recognisable for investors in other countries. Finally, they do not specifically address the issue of investing into social businesses – as in the case of Luxembourg, labels are more linked to the wider field of socially responsible investing or microfinance and do not allow the precise identification of social undertakings targeted.

Alongside these national approaches, there are also industry led pan-European initiatives to create a label for social investments such as by Eurosif.[33] Eurosif has also developed a logo which investment funds, which adhere to the criteria for the use of the label. However, this label is not specifically dedicated to investment funds investing into social businesses, and does not help investors identify such funds. It is also a non-binding self-regulatory tool; therefore, divergent approaches by Member States are not excluded. Furthermore, Eurosif works in partnership with the national networks for social investments, which also have the task of promoting the label; these national networks have developed different approaches to the Eurosif criteria. Therefore, despite the common basis provided by Eurosif the labels remain restricted to the respective national context.

4.6.2. Social investment funds will not achieve the scale necessary to make a difference

The current legal framework harmonising the rules on social fundraising discourages social investment fund managers from raising capital on a European basis. Capital sources remain confined to national investors – for social investment funds domiciled in smaller Member States this will often lead to an extremely narrow investor base. Funds that operate in such Member States do not, therefore, benefit from access to a large, liquid and integrated financial market and will face difficulties in increasing the relatively small sizes of current social investment funds (on average these funds do not exceed €10-20 million). These small sizes are not conducive to deeloping the necessary sectoral specialisation that social investment demands.

At present, raising investment capital for social business across border entails a cumbersome and costly process, which (as with Venture Capital Funds) includes: identification of the suitable regime for potential investors, creation of complex parallel fund-raising structures, submission and approval of sales prospectuses, foreign registrations or authorisations, the establishment of a local distribution office and on-going regulatory compliance processes involving a multitude of host Member States.

Such formalities, coupled with the small size and therefore limited financial and human resources available to the average social investment fund, effectively skew the cost vs. benefit analysis against seeking capital beyond the fund's home jurisdiction. This makes it hard for social investment fund managers to achieve sufficient economies of scale, which results in too many small funds with a suboptimal size of assets under management. In consequence, not enough capital or other funding is available for individual social businesses. Due to the wide variety of business ventures to which social investment funds could contribute, small funds are currently too thinly spread to achieve optimal outcomes.

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[33] Eurosif are an organization active at the European level – composed of members at the national level – that is seeking to coordinate the provision of information related to socially responsible investing. See

The scale of the inefficiencies caused by the fragmented regulatory framework is difficult to capture and quantify, however the anecdotal evidence cited in Section 4.4 indicates that the cost and complexity of fund-raising in multiple jurisdictions often outweighs what a small fund operator can afford, both in relation to financial and personnel resources.

As a consequence of fragmentation, various inefficiences can be expected to continue and grow: (i) larger social investment funds, in terms of assets under management, are likely to remain concentrated, essentially in two Member States with a relatively large domestic investor base (the preponderance of larger social investment funds identified in this IA involve France and the UK[34]); (ii) SEF funds operate with capital commitments that essentially equate to a single or small number of investment projects (€ 10-20 million); (iii) as consequence of the low capital commitments, social investment funds can either not invest in more than one project or need to spread their investments so thinly that they cannot maintain the necessary level of involvement with the social target undertaking; (iv) the absence of better endowed funding infrastructures is detrimental to the more rapid development of a social investment sector; (v) the absence of a privately funded social investment sector prevents tackling persistant poverty and wealth disparities in Europe (which risk to be increased as a consequence of the financial crisis).

4.6.3. Potential social investors will not invest in social investment funds

The complexity and costs associated with developing and providing relevant information for their investors by social investment funds reduces choice. Investors currently have a choice to donate to charities, engage in philanthropy or invest in social investment funds. The latter alternative supports a strong expectation that the investment will be dealt with in a commercial manner with an aim to maximise social impact.

The current regulatory complexity around fundraising, will lead to lower capital inflows to social investment funds which, in turn, leads to less opportunities for portfolio diversification for potential investors. Furthermore, the limited amount of supply side opportunities reduces competition among social investment fund managers. Less competition impacts investors who may be faced with higher placement transaction fees and, generally, less opportunities to achieve social impact with their investments.

4.6.4. Social business will have fewer funding sources

In the absence of policy action in favour of larger privately financed social investment funds, social business has fewer alternative sources of capital to draw on. Instead of being able to select from a larger pool of competing, sufficiently capitalised and highly specialized social business funds that operate across borders to achieve size and economies of scale, social business will remain overly dependent on charity or public finance. The alternative of private 'patient capital' will not be exploited sufficiently, especially since public financing is subject to budgetary constraints and austerity measures adopted within the context of the 'sovereign debt' crisis.

This absence of more diverse sources of financing will lead to higher cost of finance, and less resources that social business can dedicate to achieve the desired social impact. Less funding for social target undertakings decreases the social impact that these undertakings can have on society.

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34 See Section 3.5 above.

Last, but not least, the geographic imbalance in the supply of private funds for social investment will persist. As this impact assessment demonstrates, social investment funds are centred in a few big Member States - all larger funds are essentially domiciled either in France or the UK. In consequence, Member States with a smaller investor base essentially have no social investment funds of any notable size domiciled in their territories. As social investments are predominantly local, this implies that social undertakings in these countries will remain precluded from access to private capital supplied via the investment fund channel. Their heavy dependence on public grants will persist.

4.6.5. National supervisors will have little guidance in how to assess social investment claims

In the absence of EU action to bring greater consistency in the essential characteristics of social investment funds, public authorities, in allowing a private placement by social investment funds, will have to make comprehensive assessments of these funds, their managers and the often heterogeneous regulatory requirements that such funds would need to comply with. This is especially true for, but not limited to, the cross-border marketing of a foreign-domiciled social investment fund.

4.6.6. The European economy will be less diverse and less resilient

Without EU action, the supply of finance by social invesmtent funds to social businesses will remain far below an efficient scale. The sheer heterogeneity of rules with which such funds would need to comply with, especially in cases of fundraising in multiple jurisdictions, would deprive the European economy of the potential benefits of the increase in financing for social business that is associated with specialised social investment funds. An economy that does not cater to the population at the margins of society risks upheaval and will be less resilient to withstand financial and societal ‘shock events’, such as the financial crisis or a potential severe downturn in mainstream economic activity.

A lack of coordinated action in this field would lead to – (i) lack of capital commitments preventing capital from professional and institutional investors to flow more efficiently to undertakings that produce the desired social impacts (ii) high transaction costs and lack of liquidity for endeavours in the social field, (iii) a less diversified and less innovative financial system for the social sectors and (iv) foregone opportunities to pool risk in order to achieve social impact, (v) a less resilient economic infrastructure, (vi) diminished capacity to withstand economic and societal tension.

4.7. What is the added value of early EU action in relation to the above problems

Apart from tackling the issue of market fragmentation in the field of 'private placements' outside a social venture fund's home jurisdiction (this problem is akin to the one faced by the venture capital industry), the creation of a fully fledged EU framework for social investment funds is motivated by a preventive approach - trying to address certain issues before they emerge into full view. This is particularly true for the pre-emptive intervention in relation to the classification of social undertakings, the definition of benchmark criteria for measuring social impacts and the creation of a harmonised 'EuSEF' label. If the European legislator waits too long before clarifying and harmonising such matters at EU level, it might be very difficult to retrieve the situation at a later stage.

The pre-emptive approach is motivated by several considerations: (i) historic experience in the area of investment funds and (ii) recent experience gained in the more mature area of venture capital funds and (iii) experience in the field of investor protection.

4.7.1. *Historic experience in the area of investment funds*

The European legislator did not await significant proliferation of divergent retail schemes before embarking on the UCITS regulation. As early as 1985, a common approach to investor protection was taken in UCITS. Action in harmonising the key features of retail investment funds were therefore taken already in the run-up to the creation of a single market by the end of 1992. The wisdom of this approach is borne out by the difficulty that the legislator would have faced in creating a common UCITS brand, if this task was left for a stage when Member States have acted unilaterally and thus have created national preferences and entrenched regulatory cultures. Experts in the field of investment management services would converge in agreeing that a common UCITS brand could no longer have been introduced, with any promise of success in take-up, at a later stage, say in 2000.

Experience therefore militates in favour of early action, when markets are still emerging and when differences in regulatory cultures have not yet taken hold. Especially when regulation at EU level aims to launch a new market (such as UCITS did for pan-European retail investment funds which were safe and liquid enough to be suitable for all retail clients across Europe) intervention has to be times carefully so as to <u>achieve maximum effect and take-up</u> in the market. This issue of potential take-up is crucial for voluntary schemes, such as UCITS, which coexist alongside national schemes and apply only to those operators who wish to engage in cross-border activities.

To a large extent, the early success of the UCITS brand (which has lost none of its appeal over the three decades of its operation) can be attributed to the fact that national regulators had not, in 1985, developed significant and divergent approaches on their own. Also, there was no jurisprudence in place that would have given rise to reticence over the new investment fund rules. While it is appreciated that experience in emerging markets is a valuable tool in formulating a regulatory response, waiting too long risks increase the cost and effort of adapting national schemes to the proposed EU approach. Also, waiting too long makes it more difficult to integrate the EU approach into established national ways of conducting fundraising in respect to social business. All of these factors will make early adoption of the new rulebook and its ultimate take-up by the relevant economic operators less likely, especially if the scheme is not imposed on all investment funds that exist at the time of adoption, but is one that provides new extraterritorial marketing and distribution opportunities once an investment fund complies with the new rulebook.

4.7.2. *Recent experience gained in the area of venture capital funds*

Examples for a possible baseline scenario (should no pre-emptive action be taken) can be gleaned from events in the area of venture capital: already eight out of 27 Member States have established different and mutually incompatible schemes to foster the promotion of venture capital funds. As described in the IA report on venture capital funds, many of these schemes – essentially on account of their limitations in terms of territorial reach - have produced little effect in establishing bigger and more diversified venture capital funds. On the contrary, as national fund schemes only facilitate private placements to investors in the respective national territories, the proliferation of national schemes has resulted in a proliferation of small funds that operate at sub-optimal sizes.

In addition, several of the venture capital schemes examined in the IA report on venture capital funds face additional limitations as to the eligible investment targets: often a fund that wants to benefit from the special rules on venture capital placements needs to invest all or a certain percentage of its aggregate capital commitments in companies active nationally or in certain (eligible) regions within a Member State. All of these constraints have resulted in national venture capital schemes having little result and often very low take-up. For example, stakeholders report that the constraints placed on venture capital funds by the German WKBG (investments only in entities with less than € 10 million in annual turnover, less than 10 years of existence and registered office in Germany only) have led to no venture capital fund taking up the opportunities associated with compliance with the WKBG[35].

4.7.3. Experience in the field of investor protection

Another example concerns 'packaged' investment products offered to retail customers (PRIPS) where certain Member States have forged ahead with particular approaches to investor protection. Evidence for the fragmentation of investor protection in this area is the fact that packaged products are regulated differently, in dependence on which channel of distribution is used. For example, insurance products have different requirements from those that are offered by banks or by the asset management industry. Different rules apply depending on whether such products are offered as investment funds, investments packaged as life insurance policies or retailed structured products, including bank deposits where the return is exposed to the performance of assets or reference value other than an interest rate.

This fragmentation has proliferated despite the fact that 'packaged' investment products aim for the same result: to provide investment opportunities for retail clients. In these circumstances, it has proven very difficult, if not impossible, to 'turn back the wheel' and create a common and coherent EU view on the disclosure rules applying to packaged investment products offered by different suppliers in the financial services industry.

On the other hand, there are important opportunities associated with early intervention in a nascent marketplace, the development of which the European policymaker wishes to foster. These include: (i) the early establishment of a trusted notion of what constitutes a 'social undertaking'; (ii) an early approach to avoid investor confusion; (iii) an early opportunity to decisively influence (and harmonise) metrics for social impact assessments.

4.7.4. An early approach on 'social business' provides a distinct profile to this sector

As explained in this IA report, a first step in identifying a 'social business' is to have recourse to certain essential features which, also in the stakeholder community, are already used to distinguish social businesses from other lines of commerce. An operational definition of social business would rely on three planks: (1) Social goals or impacts are part of the undertakings articles of association; (2) a majority of the surplus achieved by the undertaking is reinvested in the social business; and (3) the undertaking is managed in a transparent and accountable manner, involving employees, customers or other stakeholders.

This definition sets out the core parameters of what makes a social business different from other commercial actors; an early agreement on these features as differentiating criteria would allow European policy to shape the field's further development, give it a distinct and operational profile and, on this basis, allow for a more rapid development of the sector and the financing tools that are at its disposal.

4.7.5. An early approach pre-empts investor confusion

In addition, as potential investors are confused by the proliferation of so-called social investment propositions, labels, certificates and other means to promote the social credentials

[35] Cf. Section 5.1.1 of the IA report on venture capital.

of various investment strategies, this confusion must be addressed early on and before it becomes a serious disincentive against investing in the social business sector. Already, there are signs that social business is struggling to gain investors attention and that the divergent investment policies offered under its tent are leading to investors holding back (see potential investor's statements in Section 4.3).

If this confusion were not addressed at this early stage, European policy forfeits an opportunity to create clear rules on what a social investment strategy should be, what the characteristics of a social investment fund should be (e.g., portfolio composition, investment tools and target undertakings) and how the desired social impacts are measured. Clear and transparent EU rules on these matters would create investor confidence and be an incentive for more funds being channelled into social investment. Waiting until the market develops these criteria on its own might have serious repercussions on the attractiveness of investing in social business.

4.7.6. An early approach allows common metrics for the measurement of social impact

In this respect, the IA report concludes that a first step would be to require social investment funds to give an account of their investment strategies, screening criteria for selecting target undertakings and their criteria for measuring the social impacts achieved by their target undertakings. On this basis, measurement tools and methodologies to precisely determine social impacts can be developed. Here again, if disclosure requirements are allowed to develop in an uncoordinated manner, they will be of little value as a basis for developing a common approach to social impacts and the metrics used for their measurement.

4.7.7. Risks of intervention

While it is clear that there are risks related to a failure to intervene now – and higher costs with intervening later – there are also of course risks with any early intervention.

Notably, shaping a market now as it develops could lead to distributional impacts, supporting social businesses and the funds investing in them that fall within the scope of the new approach, while reducing support for those that do not fall within the scope. This militates in favour of a wide definition of the scope of the initiative – supported by monitoring, evaluation and better specification of the scope over time to ensure its appropriateness. On this basis it should be possible to mitigate such risks of intervention over time, as the market evolves and grows.

Another notable possible risk relates to an intervention reducing levels of philanthropic giving, channelling such towards investments. SEF however can be seen as an additional channel for such giving: the choice over how to give and where to give remains, as it should, a personal matter. Indeed, better clarity in relation to SEF should in practice enable those wishing to undertake philanthropic activities to do so in a more effective manner.

4.8. EU’s right to act and justification for acting

The 17 June 2010 European Council endorsed the Commission proposal for a Europe 2020 Strategy for jobs and smart, sustainable and inclusive growth. Social enterprises can act as drivers of a social change by offering innovative solutions and therefore and therefore make a valuable contribution to meeting the objectives of the Europe 2020 Strategy. The European Council’s conclusions call for the mobilisation of all EU instruments and policies to support the achievement of these objectives. Measures to improve the quality, clarity and comparability of information about such investments as a means to further develop the market of social investment funds and to better channel money to social businesses constitutes an important step towards achieving these objectives.

According to the principle of subsidiarity laid down in Article 5(3) of the Treaty, action on EU level should be taken only when the aims envisaged cannot be achieved sufficiently by Member States alone and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the EU.

The key added value of EU action is better coordination and coherence compared with action purely at the Member State level. In addition, given the development of EU rules already on fund transparency, EU steps in this regard are likely to be more efficient and potentially effective than steps at the Member State level.

In addition, EU action would provide a basis for and impetus to the emergence of a stronger and more effectively regulated social business sector, a key priority for the EU. This is particularly important given the nascent form of this sector: action by the EU now is likely to be more efficient than action later, after increasing divergences in national or sectoral approaches to transparency.

Increasingly investors are looking to achieve positive social outcome through their investments beyond the generation of financial returns. Investment funds targeted at social enterprises are one important form of such investments. It can be observed that different labels, designations, descriptions and understandings are emerging across Member States for such types of investments. Such differences lead to investor confusion and can therefore impede efficient flows of money to social enterprises. They also create an obstacle to the further cross border development of the market for social investment funds.

A response by Member States to increase the clarity, comparability and credibility of the information on social investment funds is necessarily limited in its geographical scope and cannot be compared with or substitute a coordinated or systematic response on the EU level. Furthermore, investment funds, and more particularly transparency requirements for such funds, are now regulated under EU law to create a Single Market for investment funds (Alternative Investment Fund Managers Directive 2011/61/EU (AIFMD)). These requirements limit the possibility of Member States to act on a national level in relation to transparency measures also for investment funds investing into social enterprises.

In respect of cross-border access to investors interested in investing in social businesses, the VC IA outlined how a solution based on action by Member States had already been tested, and failed to achieve the intended goal.[36] The conclusion that only targeted action on the European level can address the existing regulatory fragmentation of European venture capital markets along national lines and identified weaknesses in existing EU law stands also for funds targeting social businesses

The principle of proportionality as articulated by Article 5(4) of the Treaty will be at the heart of this initiative. The European market for funds investing into social business is still young and developing. Unnecessary burdens to the social enterprises themselves should also be

[36] It notes: "[b]acked by the Member States, The Commission proposed in 2007 mutual recognition of venture capital funds by Member States as the way forward in the short term to reduce the regulatory fragmentation of venture capital markets in the EU. However, in a report of December 2009 the Commission concluded that this process based on mutual recognition has not contributed to a reduction of the fragmentation of venture capital markets in the EU and has not brought the expected results."

avoided. Given the underlying objective, the success of this initiative will to a large degree depend on achieving the right balance between proposed rights and obligations.

5. OBJECTIVES

5.1. General objectives

(a) The contribution of social businesses and entrepreneurship to EU goals on inclusive, sustainable growth should be fully realised.

(b) Social businesses should be able to flourish across the EU and fully take part in the benefits of the single market.

5.2. Specific objectives

(a) EU investors should have confidence and trust in the social investment funds offered to them. This requires that such funds have defining characteristics differentiating them from other alternative investment funds.

(b) Social investment funds should have better access to interested investors across the EU.

(c) Better allocation of existing capital to social businesses.

5.3. Operational objectives

(a) Improve clarity and comparability of social investment funds.

(b) Improve tools for assessing and analysing social returns.

(c) Ensure regulatory frameworks across EU are proportionate and effective for maximising fundraising opportunities for social investment funds.

6. IDENTIFICATION OF POLICY OPTIONS

Policy options on content will be examined separately from the issue of instruments that might be used for delivering these options.

Policy options on content are presented with the principal aim of establishing a framework defining the essential characteristics differentiating social investment funds from other alternative investment funds. This differentiation is introduced at four distinct levels: (i) the group of investors that are eligible to invest in social investment funds; (ii) the clarity and comparability of investment strategies pursued by social investment funds; (iii) the tools to measure social impacts to be achieved by target undertakings of social investment funds; and (iv) the regulatory framework most conducive to increase the capital inflow to social investment funds.

Policy options are identified against each of the three operational objectives outlined above. However, these options interact strongly and overlap with one another. They are kept separate for analytic purposes, to clarify the most effective and efficient package of interventions. In particular, measures to improve transparency combine with steps on analysis of social returns, while measures to ensure proportionate and efficient fund frameworks would entail steps on transparency, as disclosures and reporting requirements are also a key element of fund frameworks.

Voluntary nature of measures: given the youthful nature of the SEF market, all options identified are being conceived as voluntary in nature. That is, the intention is to create new opportunities or conduits for financing, not to impose or disrupt existing ones. The options identified here should complement existing structures, and should be developed in a carefully phased way so as to allow unintended consequences and possible disruptions to existing business to be monitored and addressed.

Phasing of options: also, given the youthful nature of the SEF market, all options will be considered in relation to measures that might be usefully taken now and measures that might need to be taken in the future.

Definition of social businesses: For the purpose of assessing options, the definition set out in section 4.1.1 is employed as a legal definition of the target undertakings for investment funds. However, it is important that the impact of measures introduced on its basis be subject to further assessment and monitoring, precisely so that the definition might be refined and developed in the light of the further evolution of the market.

6.1. Options in relation to eligible investors

Objective	**Options identified**	
G – Types of investors to be addressed	G1	No policy change
	G2	<u>Align with the approach identified in the VC IA</u>: *The VC IA supports an approach for VC funds whereby VC funds are opened to certain groups of qualified investors (family offices, angel investors, sector experts, wealthy individuals) and professional investors as defined in MiFID. This harmonises different notions on how to determine who are qualified investors under existing national VC regimes, applying some key criteria to exclude retail investors.*
	G3	<u>Align with MiFID rules on professional investors</u>: *As the VC IA has set out, MiFID classifications of investors exclude certain qualified investors typically investing in venture capital in some of the national VC regimes.*
	G4	<u>Include retail investors</u>: *Retail investors are a potential future growth area for SEF. However, developing options for improving the EU SEF market that target retail investors raises particular challenges.*

6.2. Options on transparency on investment strategies related to social business

A – Improve clarity and comparability of social investment funds	A1	No policy change
	A2	<u>Develop a non-binding approach on information that should be provided about investments targeting social businesses:</u> *More consistency and harmonisation in identifying social investment strategies could be achieved through dialogue with stakeholders, workshops to be hosted by the Commission, memoranda of understanding and codes of conduct. The topics to be covered in the various stakeholder for a would be possible additional criteria that could be applied to distinguish social businesses from other forms of commercial activity, investment strategies and portfolio composition of social investment funds, the screening of social business, continuous monitoring of social impacts.*
	A3	<u>Establish a EU label or brand for social investment funds and linked measures on transparency (phased approach)</u>: *This would entail establishing a common designation for EU SEF, and applying consistent criteria for transparency for all funds using the designation. This option would also require that the social investment fund entertains a regular dialogue with the target undertakings in relation to the*

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		latter's social goals and the measurement of their impacts. This option therefore interacts strongly with the selection under objective C (steps to create a common EU framework for EU SEF would include standardising the notion of what a EU SEF does), and practically entails determining a common standard for the investment strategies of EU SEF. [Common portfolio for EU SEF of a high percentage of committed capital into social businesses]. *A phased approach can be envisaged: the designation and transparency requirements would not need to be strongly harmonised in all respects initially, but standardisation could be developed and assessed in the future if necessary.* *Information covered would include: the fund's investment objectives and strategy for delivering on those objectives (for instance the kinds of social businesses it will focus on, the extent to which the fund concentrates on supporting such social businesses or combines such investments with other investments); how the fund goes about choosing social businesses to invest in and how these investments are made and monitored; any support or other activities undertaken to aid the social businesses; and assessments of possible social impacts, to aid comparisons of different investments.*
	Options are mutually exclusive.	

6.3. Options on the measurement of social impact

B – Improve tools for assessing and analysing social impacts	B1	No policy change
	B2	Establish a forum or group for stakeholders to coordinate development of tools on social impacts
	B3	Launch a study assessing possible approaches to assessment and analysis of social impacts for investment funds
	B4	Set common measurement approach for social impacts across EU
	Note options 2 and 3 are not mutually exclusive.	

6.4. Options on an European regulatory framework for social investment funds

C – Ensure regulatory frameworks across EU are proportionate and effective for maximising fundraising opportunities for social investment funds	C1	No policy change
	C2	Encourage development of funds targeting social businesses under existing frameworks: *Funds would be encouraged to target social businesses under the proposed VC passport, but without any tailoring of that regime for the purposes of SEF. This Option would essentially entail that registered venture capital funds could also use the venture capital passport to target social business. The qualifying investment tools would, however, be limited to those permitted under the VC passport (equity and quasi-equity issued by unlisted SMEs).*
	C3	Develop targeted amendments to existing frameworks: *Under this approach, targeted amendments could be proposed to existing EU asset management frameworks, notably the framework established for venture capital funds. Building on the rules on investment targets, portfolio composition, eligible investors that were developed in the IA on venture capital, a special chapter on 'social venture capital could be introduced. Instead of targeting unlisted SMEs in the early phases of their development (achieved by requiring equity investments), the chapter dedicated to social ventures would target social undertakings. The latter would be defined undertakings whose primary and statutory objective was the pursuit of social impact, whose business strategy consisted in the widest possible reinvestment of profits (no dividends) and whose organisational structure reflected social inclusion of employees in matters of defining business policies. In analogy to venture capital funds, the social investment fund would need to invest at least 70% of capital committed by investors into such social undertakings. As social undertakings are defined as a tight category of undertakings, investment tools could target these undertakings at any stage in their existence and comprise equity, quasi-equity or debt instruments.*
	C4	Create a standalone EU regime alongside the VC regime, including passport for social investment funds: *This would establish a bespoke EU framework, containing the core*

		rules needed to ensure an effective EU-wide passport for EU SEF. Since SEF can be considered a sub-set of VC funds, this stand-alone framework would be modelled on the same essential features as that for venture capital (see Option C3 and the IA on venture capital funds). The essential challenge of a stand-alone framework would be a definition of social business as the intended investment target that allows differentiating those businesses from other undertakings in the area of production and commerce. The key elements of this definition would be the same as those described in Option C3 above.
	Options are dependent on options A3, A4, B2 and B3 under Objectives A and B.	

7. ANALYSIS AND COMPARISON OF POLICY OPTIONS

7.1. Options on types on investors to be addressed

Identified options

G1	No policy change
G2	Allow investments from certain High Net Worth Investors and other professional investors as under MiFID rules
G3	Align with MiFID rules on professional investors
G4	Include mass-market retail investors

Effectiveness of options

These general options impact all other options. There are two levels to options in this area.

The first level relates to the extent to which SEF would solutions should be developed for retail investors. The consultation revealed rather mixed views on this point.

Many stakeholders considered that retail access will be important for the further development of the SEF market and that retail investors should not be excluded from the participation in the development of the market. More specifically, a few stakeholders including one key Member State in the current market, took the view that retail cross-border access should be specifically facilitated through targeted adjustments to the UCITS retail framework. (The UCITS retail framework, as set out in Annex III, is not currently used for funds targeting social businesses).

However, other stakeholders thought that the UCITS framework and its key rules designed to ensure the retail suitability of UCITS funds, for instance regarding risk diversification, liquidity and redemption rules, would not be an appropriate framework for investment funds targeting social businesses. Some noted immediate challenges with developing a common EU retail fund regime, e.g. as regards appropriate liquidity and redemption rules in order to ensure efficient funding for social businesses.

Given that social investment funds have the potential to be high risk, low return investments, other stakeholders were concerned about providing for retail access to such funds, and were sceptical as to whether the necessary investor protection measures could be calibrated in a way which did not undermine the efficiency of financing social business.

The VC IA has also outlined how investments targeting SME entrepreneurs – which have a similar profile to investments in social businesses -- have typically been viewed as *per se* unsuited to mass retail access. The same case holds for investments into social businesses as a subset of SMEs. This is mostly due to their illiquidity (the need for long-term investments or 'patient capital' necessary to support the development of a social enterprise), but also due to the uncertainty (risk) that characterises such investments.

As EVPA put it in their consultation response: "due to the inherent characteristics of these types of investments (requiring both patient capital and capacity building support) and their underlying investees, EVPA believes that they are best served through close-ended long-term funds managed by professional teams and in turn funded by institutional investors with a clear investment mandate to do so and/or other professional and qualified investors."

On this basis, this impact assessment has ruled out option G4 at this stage, but notes that this should be considered for future development as the SEF sector becomes more mature. Given the investor protection issues raised, a regime for retail investors may need to include additional rules.

The second level of issues relate to the choice between the two remaining options – G2 and G3. These follow the same logic as examined in the VC IA, since, as noted, the market for SEF can be seen as a specific sub-set of that for VC funds. That is, the key investors in SEF are high net work individuals, business angels and venture philanthropists – restricting permitted investors solely to professional investors as under MiFID, or those that can elect to be classified as such under MiFID, would potentially narrow the investor base for SEF too strongly, undermining take up and effectiveness of any new measures on SEF. On this basis, the same conclusions stand under the same considerations and based on the same evidence as set out more fully in the VC IA: broader investor base necessary for driving take up, without generating material regulatory costs compared to current conditions; option **G2** is preferred.

Efficiency and stakeholder analysis

	Costs / Benefits			
	Investors	**Funds**	**Social Businesses**	**Society**
G1	n/a	n/a	n/a	n/a
G2	+ reflects current state of play in SEF market (same as VC market)	+ builds on existing frameworks + ensures can use lightweight / efficient fund structures	+	+
G3	- would restrict HNWI investors, key source of capital	- reduced capacity to target high net worth indivuduals (HNWI), could undermine efficiency of funds - reduced uptake of any new regime	- lower capital flows	
G4	- short term: investment propositions may be too risky / illiquid for retail investors + longer term: could be strong source of growth in future	- short term: investment funds to target retail market more complex, more costly + longer term: could be strong source of growth in future	- short term: investment funds to target retail market more complex, more costly, reduced efficiency in targeting social businesses + longer term: could be stron source of growth in future	- risk over investor detriment greater, may undermine further development of sector at this stage + longer term: could be stron source of growth in future

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Summary of analysis

Policy option	EFFECTIVENESS	EFFICIENCY	COHERENCE
G1	0	0	
G2	+	+	Aligns with approach for VC funds outlined in the VC IA
G3	-	-	
G4	-	-	

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Option G2 is preferred, for reasons related to coherence with the approach adopted for VC funds more widely, and to reflect the current predominant role of HNWI finance in this market.

7.2. Options for Objective A – Improving clarity and comparabilty of investment propositions

Identified options

A1	No policy change
A2	Develop a non-binding approach on information that should be provided about investments targeting social businesses
A3	Establish a EU label or brand for social investment funds and linked measures on transparency (phased approach)

Effectiveness of options

Existing fund regulation and national requirements already require transparency and disclosures for investors and supervisors.

As set out in the problem description, there is already work underway within the fund industry on self-regulatory steps to improve transparency and classification of funds and to seek to provide effective information about the investment strategies of those funds that are targeting social investments.

Option A2 seeks to build on these existing self-regulatory and national initiatives, for instance by providing fora for improved dialogue to better coordinate these.

In so far as stakeholders engage with this process, this could lead to a greater degree of consistency and coherence across competing transparency approaches. It could also minimise cost impacts of change for market participants, though remaining competing approaches would likely lead to continued inefficiency (e.g. for funds supporting multiple approaches or developing their own, for social businesses).

However, there would be no guarantee that fragmentation would be reduced, which would in turn lead to continued confusion amongst investors. Consultation respondents underlined that conflicting and patchy information continue to threaten to undermine confidence, comparability and trust. Many products claim to offer 'social' benefits or to target social outcomes, but as the problem analysis above noted, investors face difficulties in assessing these claims or comparing between these products.

Notably, experience from other areas in the fund industry is that while self-regulatory measures can be effective in tackling issues in isolation, across the EU divergences would continue and these would reduce the scope for integration and emergence of cross-border activity.

Option A3 is a stronger intervention. Unlike A2, it would create an easily identifiable EU SEF designation. The only funds that could use the designation would be those that predominantly focus on investments in social businesses, which means this is a simple but strong tool for focusing attention on such funds and introducing clarity into the SEF market. A designation of this kind would provide a strong focal point for market intermediaries and fund providers, investors and social businesses. This would effectively increase potential investment flows.

The use of the EU SEF designation would be supported by wider transparency requirements: to use the designation, a fund would need to make available wider information about its purpose, the target undertakings it invests in, the criteria for choosing these undertakings, the regular dialogue the fund entertains with the management of these undertakings on their social impact, the techniques it uses, and its approach to supporting the businesses it invests in.

These requirements would fall under the supervision of the competent authorities, as further coordinated by ESMA, to ensure the necessary compliance with these requirements.

Given the developing nature of the EU SEF market, a phased approach can be envisaged, whereby only common foundations are laid down at this stage (a flexible framework and principles on transparency), to be followed by more detailed measures on the content and presentation of such information as these may become necessary. (Such measures would be subject to separate impact assessment). This coordination at the Community level under a staged approach could provide an impetus to further work, helping steer it towards common goals, without forcing standardisation at this stage.

Establishing a common designation and supporting disclosure measures entails risks related to the determination of the scope and supervision of the designation, as it would be important for the credibility of the designation that it was widely seen to apply only to an appropriate set of target businesses, and to guard against regulatory arbitrage.

Such risks can be mitigated, as in other areas of the financial services, through supervisory support, with clear and strong responsibilities for national and EU supervisory authorities, building on capacities that have been developed in regards other sectors of the asset management sector.

In addition, a staged approach supported by careful monitoring and *ex poste* analysis could reduce risks by allowing for careful calibration and harmonisation of criteria for the application of the designation in the light of experience.

One advantage of a labelling approach would be synergies with other steps being taken on the Social Business Initiative more widely, including on the provision of public money directly to certain investment funds that are targeting social business. A label would highlight such investment funds and confirm their value as conduits for funding social businesses.

All labelling requirements – irrespective of their source in self-regulation, national rules, or EU rules – entail costs for social businesses themselves, not only for fund managers. The businesses ultimately are the source of much of the information that needs to be provided or verified under different approaches. A common approach to labelling in this area, coordinated or set at the EU level, could therefore reduce costs for social businesses by reducing competing claims on them. However, the calibration of detailed requirements needs to be carefully undertaken with full consultation with social businesses themselves to ensure minimal negative impacts.

Efficiency and stakeholder analysis

	Costs / Benefits			
	Investors	**Funds**	**Social Businesses**	**Society**
A1	n/a	n/a	n/a	n/a
A2	+ Some increased comparability of information + Some better comprehension + Leading to greater trust - Inconsistencies remain in approach, reducing trust	≈ Improved consistency reduces costs + Self-regulatory approaches may minimise costs of change for firms - Continued costs assessing information approach ? Costs where conflicting standards remain in place, e.g. in cross-border context	≈ Greater consistency may reduce costs when becoming investment ready - Costs for social businesses in meeting information needs ? Lack of alignment in requirements	≈ Greater support for social business sector ≈ Improved efficiency in allocation of capital
A3	++ Strong focal point, stamp of approval on market segment + Easily communicated + strongest basis for ensuring growing consistency and comparability in information - Common label could increase risks if not strongly policed	++ Strong focal point, stamp of approval on market segment + more consistent / defined requirements could streamline work of investment firms +/- Costs for fund industry implementing label and supporting transparency requirements (direct costs only borne where business case can be made for individual funds) - Common label could increase risks if not strongly policed	++ Strong focal point, stamp of approval on market segment + Greater support for social business sector - Costs for social businesses in meeting formation needs - Common label could increase risks if not strongly policed	++ Strong focal point, stamp of approval on market segment + Greater support for social business sector + Improved efficiency in allocation of capital - Common label could increase risks if not strongly policed

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Summary of analysis

Policy option	EFFECTIVENESS	EFFICIENCY	COHERENCE
A1	0	0	
A2:	+	+/-	Inconsistent with options under C to create framework for EU SEF
A3	++	+/-	Greatest likely support for SBI and SMA objectives Consistent with options under Objective C Can be developed in a phased approach

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Given that option A3 is likely to drive the greatest impacts in terms of improved clarity and comparability, it is the preferred option.

7.3. Options for Objective B – Improve tools for assessing and analysing social impacts

Options related to improving tools for assessing and analysing social impacts are linked to those on improving transparency more generally. Information on social impacts is crucial part of disclosures about social investments. The focus under this objective is on developing better and more coordinated and widely applicable tools for assessing and analysing such information, so as to allow better comparability and clarity in the information provided 'upstream' under options under Objective A.

Measures envisaged under options B are not a pre-condition, note, for the transparency measures under Objective A. They provide a basis for further developing the impact of options under Objective A.

Analysis and comparison of options

As noted in the problem description, there is currently a plurality of competing methodologies developing for assessing the social impacts of investments. Improving confidence in and comparability of information in this area can be considered a key driver of growing trust in social investments and understanding of and familiarity with the social investment sector. Such developments could also raise competitiveness and efficiency in the market.

The plurality of methodologies reflects a rapid growth of academic, industry and regulatory thinking. This is an area where approaches have been evolving quickly. It may be that heterogeneous approaches are necessary for assessing social returns, which vary depending on the kinds of social businesses in question. Qualitative assessments could well be a strong part of the way forwards. To this end there are potential risks associated with moving too quickly to harmonise all details on common frameworks without strong supporting work on their content or the extent to which harmonisation of measures is possible.

It seems clear therefore that further work is needed on social performance measurements. Options B2 and B3 offer two approaches to facilitating just such further work. A study commissioned by the Commission under option B3 would offer a good, independent way of establishing the state of the art and the prospects for developing common approaches to measurement for the purposes of investment fund disclosures. Such a study could be used by the Commission to assess the value of further additional steps, including the formation of a stakeholder group or forum as set out under option B2.

As noted, option B4 would appear to carry too many risks at this time for the standard-setter.

Summary of analysis

Policy option	EFFECTIVENESS	EFFICIENCY	COHERENCE
Option B1: No policy change	0	N/A	N/A
Option B2: Establish a forum or group for stakeholders to coordinate development of tools on social impacts	+/ ≈ + Builds on existing measurement / rating work); organic growth - May not strongly reduce overlapping or competing measurements / ratings	≈ Continued competing and uncoordinated approaches could continue to drive costs for social businesses	Consistent with options under objectives A and C, especially under a 'phased' approach
Option B3: Launch a study assessing possible approaches to assessment and analysis of social impacts for investment funds	+ + Builds on existing measurement / rating work organic growth - May not strongly reduce overlapping or competing measurements / ratings	≈ Continued competing and uncoordinated approaches could continue to drive costs for social businesses	Consistent with options under objectives A and C, especially under a 'phased' approach
Option B4: Set common measurement approach now for social impacts across EU	- + Common framework ensures greatest consistency in approach - Framework may need to be too high level to achieve consistency in approaches at this stage -- Risks increase for standard setter over maturity / quality of measurement techniques	- / ≈ Costs for industry from changes	Consistent with options under objectives A and C, but not under a 'phased' approach

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Both options B2 and B3 are preferred. Steps consistent with both options should be developed further in order to facilitate further developments in this vital area, and to better establish the scope for future harmonisation of measures.

7.4. Options for Objective C – Ensure regulatory frameworks across EU are proportionate and effective for maximising fundraising opportunities for social investment funds

Identified options

C1	No policy change
C2	Encourage development of funds targeting social businesses under existing frameworks
C3	Develop targeted amendments to existing frameworks
C4	Create a standalone EU regime alongside the VC regime, including passport for social investment funds.

Effectiveness of options

Note – all of these options follow the preferred option under G – G2, a regime for professional and qualified investors only.

Option C2 has significant limitations. Existing EU frameworks – UCITS and AIFM-D – are not proportionate for SEF for a number of reasons. In regards UCITS, the eligible assets rules mean that this framework does not permit SEF that target social businesses. As regards AIFM-D, this framework is designed to address systemically important funds using complex investment strategies and investment instruments. SEF are by comparison extremely small and do not use complex instruments or strategies. (Mostly they operate without using leverage, for instance).

The argument in this case is identical to that set out in the VC IA: the implementation of AIFM-D will not put in place a framework that will be effective in addressing the cross-border problems faced by the SEF market: opting into AIFM-D is likely to disproportionate for SEF managers (these managers will almost entirely be 'sub-threshold' in relation to their SEF business, given the small size of the funds).

The VC framework might be relevant for some SEF. As set out in the VC IA, the preferred framework would:

- introduce a simple registration, as a basis for a EU-wide passport;
- introduces a common notion and designation for these funds (each fund must invest 70% in the equity or quasi-equity of unlisted SMEs, and each fund should not employ leverage);
- sets some common standards for the conduct of business and organisation of the fund managers;
- sets some common transparency and reporting requirements on the features of these funds;
- requires cooperation and coordination amongst relevant competent authorities, and requires deregistration of VC fund managers where they are not compliant with the legislation.

As this outline shows, however, the VC framework is restrictive in terms of the forms of investment it intends to allow (equity and quasi-equity only) (and it also does not specifically address the specific transparency and reporting needs of SEF and their investors, as addressed above under option areas A and B). This means this framework would not be useful to all SEF, so its benefits would be curtailed for some.

As the EIF have noted: "Social enterprise funds serve their investees through a wide range of instruments of traditional equity, hybrid structures, and debt products including micro-finance instruments especially in the start-up phase. The funding needs of social enterprises range from start-up capital to growth and expansion type capital for funding projects and/or associated working capital but in a different way than that applied to traditional private equity or venture capital funds' investees."

In addition, the VC and existing fund frameworks do not address the issues addressed above under options for objectives A and B: they do not contain specific rules on transparency in relation to particular investment strategies (such as venture capital or social business), and do not allow an efficient 'ring fence' of SEF from other kinds of funds. Attempting to deliver on objectives A and B whilst working with the VC and existing fund frameworks as they are would likely increase confusion and fail to effectively demarcate and identify SEF from other fund types. (Even if legislation was brought in to address the designation of a SEF in a cross-cutting manner).

In these circumstances, Option C2 will suffer from enforcement complexities that are linked to the fact that the distinct group of SEF will have to be subsumed within the more general rules that apply to venture capital. Trying to evaluate whether a particular SEF respects the confines of the venture capital 'rulebook' will take up considerable regulatory resources. Supervision issues may not be very prevalent in relation to the determination of the SEF's portfolio composition, or the eligible investment instruments, but the proper identification of a social enterprise will require considerable expertise. It is exactly in this respect, that a combined approach will give rise to potential regulatory arbitrage and attempts to offer a non-qualifying fund under the EU SEF label.

Option C3, while more 'made-to-measure' for SEF, still has important drawbacks. While it might appear theoretically possible to create a bespoke SEF framework inside the general rules applicable to venture capital, the risk remains that the specific 'SEF' chapter would not be sufficiently separate to provide social investment funds with a profile that is sufficiently distinct from venture capital. As mentioned throughout this report, while venture capital and social business share some important features (both sectors are made up almost exclusively of unlisted SMEs that have an insufficient financing mix), important differences exist (the need to define to give 'social business' very clear contours and the concomitant need to develop transparency tools in relation to social investments and metrics to measure social impact). The need to provide detailed rules on these differentiating aspects militates in favour of a stand-alone legal framework for SEF.

It should also be noted that Option C3 will suffer from enforcement complexities that are comparable to those described in relation to Option C2. Trying to differentiate between venture capital and social business propositions will take up considerable regulatory resources. Supervision issues may not be very prevalent in relation to the determination of the SEF's portfolio composition, or the eligible investment instruments, but the proper identification of a social enterprise will require considerable expertise. It is exactly in this respect, that a combined approach will give rise to potential regulatory arbitrage and attempts to offer a non-qualifying fund under the EU SEF label.

Finally, the signal that a bespoke, stand-alone initiative on SEF can give to the investor community and society at large should not be underestimated. The benefit for a vibrant social business market may not be fully exploited if SEF does not have a stand-alone platform with tailor-made rules that make a distinction between venture capital firms and social business.

Option C4 would likely have the greatest impact: taken together with options under objectives A and B, this would establish a clear notion of EU SEF with a proportionate regime applying. As it exhaustively addresses all aspects relevant for the emergence of a true social business fund, notably investment targets, investment instruments, portfolio composition and the tools used to measure social impacts, it stands the best chance of creating a specific platform for maximising potential positive benefits for social businesses, society, SEF and investors. While not entirely avoiding the issue of regulatory arbitrage that arises in relation to Option C3, the creation of a stand-alone rulebook that pertains only to EU SEF will pose the stark choice for a fund to either register as fund compliant with the rules on venture capital or with those on SEF.

As already noted, a phased approach may be envisaged, given the youth of this sector and uncertainties over potential take up of proposed changes, notably in regards cross-border business. A framework would be established at this stage as a foundation for future growth, while the take up of that framework, impact on existing business, and proportionality of the elements of the framework, would be carefully monitored and made subject to ex-post analysis.

Efficiency and stakeholder analysis

	Costs / Benefits			
	Investors	**Funds**	**Social Businesses**	**Society**
C1	n/a	n/a	n/a	n/a
C2	- use of VC framework may limit range of different forms of funding available ≈ change to investment options	- existing fragmentation in rules, costs would continue - use of VC framework may limit range of different forms of funding available + not disruptive - Possible investor confusion as there might be no bright line between SEF and VC	- lower impact on cross-border trade - use of VC framework may limit range of different forms of funding available + not disruptive - potential for regulatory arbitrage between VC and SEF (VC funds could misuse SEF label as their target company's social goals are not clearly circumscribed	≈ more widespread, sustainable social business sector across EU; however contribution of SEF sector likely sub-optimal Benefit for a vibrant social business market not fully exploited if SEF does not have a stand-alone platform with tailor-made rules that make a distinction between venture capital firms and social business
C3	~ emergence of a European notion of what constitutes a social investment fund is not optimal when SEF become a sub-category of VC funds	- Clarity as to investment strategy, portfolio composition and target companies does not emerge so clearly when integrated into the general VC framework	- Social business will still lack a distinct framework and profile if integrated into VC rules - possible regulatory overlaps and frictions when SEF and VC are contained in the same	Benefit for a vibrant social business market not fully exploited if SEF does not have a stand-alone platform with distinct profile

		- Possible investor confusion as there might be no bright line between SEF and VC	'rulebook' - potential for regulatory arbitrage between VC and SEF (VC funds could misuse SEF label as their target company's social goals are not clearly circumscribed	
C4	+ emergence of a European notion of what constitutes a social investment fund increases investor confidence and willingness to invest in SEF + access to wider range of SEFs (range of markets, more efficient specialisation) + SEFs cheaper (Benefits likely to be long term rather than short term)	+ Clarity as to investment strategy, portfolio composition and target companies (70% in business that follow the above described 'social business' strategy) provides EU SEF with a clearer profile	+ more vibrant SEF market leads to better, more varied financing + more vibrant SEF market leads to richer, deeper eco-system + may facilitate access to wider / deeper capital pools (e.g. for geographically disadvantaged social businesses) - may lead to additional reporting, other costs ? may be disruptive (Benefits likely to be long term rather than short term)	+ more vibrant social businesses + inclusive, sustainable growth and jobs (Benefits likely to be long term rather than short term)

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Summary of analysis

Policy option	**EFFECTIVENESS**	**EFFICIENCY**	**COHERENCE**
C1	0	0	
C2:	-	-	Needs of SEF not fully coherent with existing regulation (AIFM-D, UCITS), limiting effectiveness Limits to extent to which VC framework is fully coherent with goals of SEF (i.e. permitted investment instruments, designation of funds)
C3	≈	≈	
C4	++	+	Coherence with SBI and SMA commitments Coherence with VC by following – in most part – same structure, minimises impact Consistent with options under Objective A

Magnitude of impact as compared with the baseline scenario: ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable

Option C4 is preferred. A standalone passport for SEF offers greater effectiveness, efficiency. It is particularly coherent with Commission objectives under the SBI and SMA.

7.5. Choice of instruments

Option C4 must take the form of legislation in order to ensure the basis for rights to passport (market) cross-border can be achieved. The choice of instrument should be consistent with that adopted for the VC framework; see the IA for that initiative for a discussion of the instrument.

Option A3 could in principle either the take the form of a recommendation or a legislative instrument (Directive, Regulation).

There is however a **very strong dependency** between **option C4** and **option A3 –** a new fund framework would **entail** a label and linked transparency measures, so that *prima facie* the instrument required for option C4 should also be used for delivering option A3. This is particularly the case in regards a label attached to rights afforded to funds under a new legislative framework as under C.

A recommendation could be used for transparency measures to reduce fragmentation and achieve greater consistency and comparability in information, thereby raising comparability and clarity. For such a 'soft-law' intervention there would be some scope for further development and the EU would retain the option of hard law intervention later if this proved necessary. Such an approach could thereby take due account of the fact that the social investment market is still emerging and developing.[37] However, as a soft-law intervention, there would be limits on the scale of benefits, due to likely variations in national implementations. This could increase confusion.

For this reason, a legislative instrument seems appropriate for all aspects of delivering on option A3.

Legislation for transparency measures could take a 'framework' approach, allowing for detailed implementing measures or supporting technical standards and guidance to be developed where needed for achieving tailoring and adaptations, as and where necessary. Establishing common EU requirements through binding measures could also reduce inconsistencies, and hence compliance costs. Also legislative measures could better guard against regulatory arbitrage.

As to options B2 and B3, further work needs to be undertaken on how existing informal structures could be used to establish a forum or arena for further debate amongst stakeholders. If there is a need for a more formal instrument this would be accompanied by further IA work. Launching a study would follow the normal Commission procedures.

7.6. Summary of Retained Options

Option	**Description**
G2	Allow investments from certain High Net Worth Investors and other professional investors as under MiFID rules

[37] It has also been argued that non-binding rules can have the same political and social effects and benefits as hard law. Borchardt, G. M. and Wellens, K. C., Soft Law in European Community Law, European Law Review, 1989.

A3	Establish a EU label or brand for social investment funds (with supporting transparency measures)
B2 and B3	Establish a forum or group for stakeholders to coordinate development of tools on social impacts Launch a study assessing possible approaches to assessment and analysis of social impacts for investment funds
C4	Develop passport regime for European Social Investment Funds, based on VC passport

As noted, option A3 and option C4 fit together and practically should be delivered together, to provide a single package in the form of a new legislative instrument (under the VC IA a regulation is proposed). (Options under B2 and B3 can be developed separately.)

As noted, this would be a **voluntary regime**. No fund would be forced to follow the regime, including funds already being sold cross-border under existing arrangements.

Those who wish to use the new passporting rights and/or label themselves as a 'European social investment fund' would be required to follow the regime. The key content of these requirements would be:

- the fund manager would need to register in order to market his funds throughout the EU;
- for each EU SEF, the fund manager would follow simple portfolio investment rules (the fund would be invested at least 70% in social businesses, and would avoid the use of leverage at the level of the fund);
- the fund manager would need to follow some key rules on his conduct of business and organisation;
- competent authorities would need to coordinate and cooperate their supervision of the funds and mangers, and would have the power to deregister any manager who is not complying with the requirements of the framework;
- for each fund, the manager would need to make available key information as regards the social investment, as set out in the option description. These requirements are likely to have impacts for social businesses themselves as well as the fund.

There are therefore two crucial distinctions with the VC passport regime. First, EU SEFs would be able to invest through a wide range of instruments, so as to reflect financing innovations in the social business market that distinguish this market from the wider SME market. Second, EU SEFs would be required to comply with specific transparency measures related to their social objectives.

Phased approach

Given the youthful nature of this market, measures for improving transparency, the understanding and communication of social returns, and the proportionality and effectiveness of fund rules should be taken in a careful and incremental fashion.

There are two ways in which this can be achieved:

- Detailed measures should be developed subject to further analysis in regards their appropriate content, as is possible through the legal technique of Level 2 implementing measures. These will be subject to separate impact assessment, and developed with the benefit of advice from the European Securities and Markets Authority (ESMA). Such measures should be developed so as to be readily open to review and assessment in the light of experience in the development and application of the framework.

  Such measures can be envisaged in particular in relation to detailed requirements on transparency and reporting, including on the possible content and presentation of these, and on the clarification of the criteria for identifying social businesses.

  The calibration of such detailed requirements needs to be carefully undertaken with full consultation with social businesses themselves to ensure minimal negative impacts on them.

- The design and implementation of some measures should be phased, with certain steps taken now and other steps reserved for the future once the market has developed further.

  The aim at this stage should be to set in place a broad, principles-based framework, rather than resolve all detail on all elements.

  This then can be used as a platform for ongoing debate with stakeholders on the best overall development of this sector, and can be elaborated or adjusted over time as the market evolves and innovates. To support this, robust commitments to review and monitoring and ongoing work are necessary.

Measures envisaged under options B2 and B3 are not a condition, note, for the transparency measures under option A3. Transparency measures can be developed and will be efficient without harmonising at this stage the methods on measuring social impact. As evidenced by work in other areas on disclosure (e.g. PRIPs), more standardised disclosure as such will already increase reliability of information. Within the phased approached as set out above it will be possible to lay down a common framework which can then complimented by more harmonised methods on measurement at a later stage.

Summary of timing of measures and their content

Option	**Proposed solution**			**Magnitude of impact**
	Now	**Level 2 measures**	**Future development**	
G2 – Investors	Institutional investors + some HNWI		Assess measures / scope for widening for retail access?	**Significant over longer term.**
A3 – Label	Set common framework for EU label *Content:* Common designation for	Set out precise application of criteria on which social businesses are in scope	Assess measures / scope for widening for retail access?	

	EU SEF that meet minimum standards (70% investment in social businesses)			
A3 – Disclosures	Common principles for disclosures, but not complete standardisation of content	Set out details on application of principles	Increased standardisation of information *Content:* Stronger standardisation of disclosure requirements, specification of content of these disclosures and mechanisms for supporting reporting. Build on work on social returns. Assess new measures to support widening for retail access?	
B2, B3 – Social Returns	Study / working group	May feed in to Level 2 measures in the future?	Standardised measures comparable across all Funds?	**Medium to significant over longer term.**
C4 – SEF passport regime	New passport attached to EU label – does not displace existing funding conduits, but adds a new conduit		Assess measures for widening for retail access?	**Incremental now; medium over longer term.**

7.7. Cumulative assessment of preferred options

7.7.1. Assessment of take-up of the proposed EU framework for SEF

An essential consideration in structuring the preferred instrument is the maximisation of <u>take-up</u> by fund operators and their sponsors. Therefore, the regulatory framework for social investment funds should be carefully conceived so as to provide the maximum expectation of take-up by the relevant operators. Several considerations are relevant in this respect: (i) the rules on portfolio composition should be ambitious and realistic at the same time; (ii) the qualifying investment instruments should correspond to the identified financing needs of social business; (iii) the creation of a sufficiently large investor base; and, last but not least, (iv) the creation of a framework where investors can trust social investment propositions and the stringency with which their success is monitored. In order to demonstrate the efficiency of the policy choice, the fours aspects will be assessed in turn.

7.7.1.1. Ambitious, but realistic rules on portfolio composition

The issue of the optimal composition of a social business fund's portfolio will evolve in parallel to the debate on the optimal portfolio composition of a venture capital fund. Many of the considerations of the venture capital IA report will therefore be relevant in the context of the social business fund as well. As with venture capital, a key concern in devising the appropriate fund regulations for social business funds is to make these funds sufficiently distinct from other investment propositions in the alternative fund sector. Should the envisaged regulatory framework fail to achieve the requisite level of distinction, investors will not trust it and unscrupulous fund operators are prone to use the special social business framework as a tool to circumvent the stricter rules on operating conditions, reporting obligations, valuation or risk management that they would have to comply with under the AIFMD.

Therefore, a very high percentage of capital committed by socially motivated investors should indeed be invested in those businesses that qualify as social businesses that fulfil the essential characteristics of such businesses, as described in on assessing Section 4.1 of this IA report. A high percentage is necessary to comply with the very specific expectation of this particular investor group. Ideally, therefore, 90% of all capital committed to a social investment fund would be invested in social businesses. This would leave the fund operator with a 10% margin to manage daily liquidity needs (liquidity in relation to a social investment fund is not comparable to that required of other alternative investment fund as social investors constitute patient capital that remains invested during the entire lifetime of the fund which is usually seven to ten years).

But, as pointed out in the IA report on venture capital, there are some important drawbacks to a 90% investment threshold. In particular, stakeholders point to the fact that initial take-up might be maximised if the investment target was somewhat below 90%. Especially in an initial phase, the sponsors of a social business fund will need more latitude in their investment policies. They will also need to establish an image of reliability and, despite the expectation of predominantly social return, of a certain profitability of their funds. This is because even socially motivated investors remain interested that their capital is professionally managed and that there will be some return on invested capital at the end of the commitment period.

These considerations militate in favour of granting the social venture fund a higher degree of latitude in respect of their investment portfolio. It is therefore proposed that at least 70% of capital committed by investors is invested into social businesses, the remainder being at the fund manager's disposal to manage liquidity of the fund but also to enhance its initial profitability.

On the other hand, the lower threshold of 50% of committed capital dedicated to social business would dilute the profile of a social investment fund. Dilution would run counter to the stated aim to increase the distinct identity of a social investment fund and differentiate such funds from the wider population of alternative investment vehicles. This is because many alternative investment funds would be tempted to align their investment policies with this threshold without developing the experience and dedication necessary to fulfil the envisaged profile of a social investment fund. In this context it should not be forgotten that a social investment fund plays an important role in providing expert advice and managerial competence to many of the social businesses it invests in. this focus on the social business, its success and also the monitoring of the intended social impacts, might be lost if the investment quota would be lowered to 50% of investors capital.

In light of these consideration an investment quota of 70% seems, on the one hand, sufficiently ambitious to create a distinct profile differentiating a social investment fund while, on the other hand, providing a realistic expectation that the proposed scheme will command a high initial take-up by specialised fund operators.

7.7.1.2. Qualifying investment tools need to correspond to the identified needs of social business

As this IA report describes, the investment needs of social business are somewhat more differentiated than those in the area of venture capital. As section 4.1.2 of this IA report explains, a wider range of instruments than equity or quasi-equity is necessary to ensure the operation of a wide variety of social business. While it may be the case that some social businesses are start-up ventures that are most heavily dependent on the 'patient capital' that an equity investment provides, other social enterprises might find themselves at other stages in their lifecycles where recourse to debt instruments would provide a more suitable financing tool.

Therefore, while the analogy with the venture capital rules on equity investments might be tempting to delineate a clear and distinct profile for social investment funds as well, current business practice in the social business sector relies also on debt and even, as the French example cited in Section 4.1.2 shows, on non-transferable debt instruments. On the other hand, as the rather narrow circumscription of what constitutes a social business, coupled with a reasonably ambitious percentage threshold of investments in such businesses (70%) provides criteria which allow a distinction between social investment funds and other investment vehicles that purport to engage in 'socially responsible' investments, the additional criterion of clearly delineated investment instrument does not appear indispensable to characterise a social investment fund.

In light of these considerations, initial take-up by operators and sponsors of social investment funds would be enhanced by allowing a variety of debt instruments as qualifying investment tools for social investment funds without risk of diluting their distinct characteristics. A decision is therefore taken to allow that a social investment fund may invest in securitised and un-securitised debt instruments, issued by a qualifying portfolio undertaking and shall be allowed to grant medium to long term loans to such undertakings.

7.7.1.3. A sufficiently large investor base

Another essential tool to maximise initial take-up of the proposed framework for social investment funds is that the proposed rules create a funding vehicle that is accessible to a sufficiently large group of socially motivated investors. As this report demonstrates, take-up for the proposed funding vehicle can be enhanced by opening this vehicle to a group of investors that goes beyond the group commonly described as professional investors in Mifid, Annex II. This broader scope of investors would comprise other groups of socially motivated investors such as social investment entrepreneurs, family offices; wealthy individuals, industry sector experts, angel investors under two conditions: these investors are sufficiently apprised of the investment risk associated with social business and their minimum initial investment is not below EUR 100.000. Including these investor groups would augment the potential social investor base by at least 15% to 18%. This is because wealthy individuals currently account for around 10% of all social investments, family offices 5% and asset managers for another 3%.

7.7.1.4. Creation of investor trust

As this report shows, the measurement of social impacts is important but metrics and tools in this area are still at an early phase in their development. Take-up of a proposed scheme can therefore be enhanced in two distinct ways.

First, the new framework can enhance investor confidence by requiring basic elements of transparency in relation to the investment strategies pursued by social investment funds. Such elements would comprise the following:

– a description of the investment strategy and objectives of the EU SEF, including a description of the types of the qualifying portfolio undertakings and the process and criteria which are used for identifying and selecting them;

– the positive social outcome being targeted by the investment policy of the EU SEF, including where relevant, projections of such outcomes as may be reasonable and information on past performance;

– the methodologies which will be used to measure social outcomes;

– a description of the assets other than qualifying portfolio undertakings and the process and the criteria which are used for selecting these assets unless they are cash or cash equivalents;

– a description of the risk profile of the EU SEF;

– a description of the procedures by which the EU SEF may change its investment strategy or investment policy, or both.

These requirements would also be subject to supervision by competent authorities, coordinated further by ESMA, in order to ensure compliance. This will also help to increase the trust in these increased requirements.

Secondly, parallel work should be carried out in developing commonly accepted and uniform metrics for the measurement of social impacts. These developments are undertaken largely with the aim of making social investment propositions comparable on their respective merits. Such tools would therefore have to focus on impacts such as 'outreach' (e.g., how many people are covered by a particular business, how many people with difficulties in accessing the labour market have been employed by a social business, how many people with certain disabilities have received goods and services by social businesses that have enabled them to participate in society, e.g., in terms of access to higher education, vocational training or health care).

With this phased approach, consisting of an immediate set of requirements that ensure transparent screening and selection of social undertakings, followed by a more in-depth development of assessment methodologies to measure social impact, the immediate framework for a substantial take-up, also from the investor's perspective, is achieved. In order to ensure the sustainable nature of the initial take-up, it is important to stress the coordinated work that will take place, by virtue of delegated acts the Commission shall be empowered to adopt, to develop more comparable measurement tools.

7.7.2. Benefits

Fund Industry

A new European brand and passport would contribute to increased investor confidence and activity, while providing new marketing opportunities for the sector, and so contribute to greater fund flows. (The new label in particular might be expected to have a strong effect of this kind). This could improve economies of scale and thereby reduce costs for the funds that succeed in attracting capital.

A more effective cross-border market would support these impacts, and help such funds develop a strong identity across the EU. The VC IA estimated that a 1% increase in cross-border trade in the VC market more widely would result in an additional EUR 50 million investments being directed to SMEs in given year or the additional amount would increase the amount invested to existing SMEs.[38]

Improved trust in the sector could have strongly positive benefits for fund inflows, though these are difficult to model given uncertainties. Growing trust could be 'catalytic' – spurring the emergence of financial intermediaries with expertise and knowledge of the needs of social businesses, of information and exchanges so that social businesses themselves can prepare themselves for investments and are aware of the funding options available to them, and, with this, growing understanding and appreciation on the part of investors of the options available and the differences between them. Better descriptions of and ultimately pricing of the positive externalities targeted by social businesses are central to this. For this reason, the eventual fruition of steps on options B2 and B3 would be central to maximising this benefit.

Benefits are expected to be incremental to begin with. In the medium to long term, as the market matures, the advantages of a common framework are likely to become increasingly substantial (as experienced in the development of the UCITS fund 'brand' over almost three decades).

More efficient passporting of funds may particularly benefit funds operating in small domestic markets, by allowing these funds to draw on investments from larger, better capitalised national markets. It is not expected that the location of funds themselves will be impacted, as these in general tend to be located close to the social businesses they are investing in.

Investors

Improved labelling and transparency would aid investors in identifying appropriate investments, allowing for more efficient capital allocations and better investment choices. B2 and B3 could lead to the emergence of a new asset class, as some evidence suggests that assets that focus on positive externalities are not correlated with many other traditional assets.

Growing trust in relation to the social investment market would also likely to wider availability of and marketing of products, and thereby more choice for investors who seek to make social investment part of their wider investment strategy.

Improved cross-border trade would likely contribute to a more vibrant and competitive market, with a wider range of options available to investors. This could also allow better scaling of funds and thereby economies of scale.

The scale of such benefits is difficult to assess at this stage. Benefits are expected to be incremental to begin with, but could be substantial as the market matures.

Social Businesses

A vibrant cross-border social business investment market, could significantly improve the investment capital available to social businesses. Improved transparency and greater trust would also support and contribute to the emergence of a more robust and effective eco-system supporting social businesses. This would help this sector develop the necessary forms and mechanisms for supporting social businesses, and social businesses in identifying sources of capital and exploiting these.

[38] Based on last 4 years' average of VC investing €5bn on annual basis to approximately 3.000 SMEs.

Since investment funds targeting social businesses typically place reporting requirements on those businesses, coordination and reduced overlaps or conflicts in reporting obligations across the EU for the investment funds could reduce costs for social businesses themselves, and lead to the development of a more robust eco-system supporting social businesses in satisfying common reporting obligations.

The scale of such benefits is difficult to assess at this stage. Benefits are expected to be incremental to begin with, but could be substantial as the market matures.

Wider benefits: impact on sustainable and inclusive growth, environmental impact

The likely wider 'social impacts' of measures are of central importance.

Social businesses act as 'multipliers', that concentrate on developing and delivering 'positive externalities'. Social businesses are defined in terms of their concentration on and capacity for delivering such social 'impacts'. These businesses focus on addressing the social challenges brought on by exclusion, poverty, disability, stretched public services, and environmental challenges, such as regards dwindling resources, pollution, and climate change. Supporting those businesses seeking to find innovative and sustainable solutions to these challenges offers therefore a direct opportunity for building EU capacity for positive social, environmental and economic development.

One of the challenges being addressed in this IA itself is the difficulties currently faced in assessing such externalities. Developing and facilitating tools for assessing and analysing social impacts is one of the options highlighted here as a preferred next step. Once such work has been developed to fruition better tools for outlining and assessing the social impacts of investments in social businesses will naturally be possible.

A thriving social business sector across the EU can be expected to directly contribute to more sustainable, inclusive, and environmentally sound growth.

The scale of such benefits is difficult to assess at this stage. For the VC IA it was estimated that for every additional EUR 1 billion, around 10.000 jobs might be created.[39] Given social businesses are also SMEs, this estimate could hold for EU SEF. The quality of the impact of the investment needs also to be taken into account: social businesses seek to provide jobs and growth that are strongly inclusive, strongly sustainable.

Benefits may be incremental to begin with, but could be substantial as the market matures.

7.7.3. Costs

Fund Industry

Transparency measures would incur direct compliance costs for the fund industry.

These costs relate to changes to systems and procedures for gathering and providing information, and costs related to the publication of information (including redrafting of information).

Disclosure costs for firms have typically been seen as major costs. Data collected on costs of the introduction of key investor information disclosures for UCITS funds estimated one-off costs of between EUR 290 and 730 million (depending on factors that remained open at that

[39] [Reference to be inserted to final VC IA].

time).[40] This is for an industry of around EUR 7 trillion; for perspective, these one-off costs were around 0.016% of assets under management. However, these are estimates for measures applying to the universe of UCITS funds which required complete replacement of (retail facing) investor disclosures for these funds.

Transparency measures would not require wholesale revision and replacement of disclosures. In addition, 'business as usual' or national or self-regulatory costs will be incurred already in the area of transparency. Requirements already apply on all funds to provide fair, clear and not misleading information in relation to their strategy and objectives, and to report on their performance. Those funds targeting social businesses already need to provide information in the area covered by option A3. Self-regulatory initiatives also currently are likely to be applied.

Greater consistency and harmonisation of transparency measures under a common framework could therefore reduce costs for funds over time, particularly where they are operating across different markets, as they would have greater certainty over what is required for them, and an eco-system of supporting professionals and service providers would likely become available familiar with the common standards. Developing common transparency measures in a phased manner (as intended for the preferred options) could reduce impacts on existing funds, by allowing these to make use of a common framework with minimal changes at this time. Under such an approach costs of greater standardisation of transparency measures could be absorbed into existing ongoing costs of updating and reviewing disclosures, with little incremental impact.

However, funds might in face some possible additional data collection and analysis costs related to social performance in particular. Such costs can only be fully assessed in the context of detailed implementing measures as may be developed in the future, and should be subject to additional impact assessment at that time.

Importantly, the funds impacted by a new European social investment fund framework would only be those that chose to use the new framework and label, and existing funds that chose to ignore the initiative would not be impacted. Complying with these proposals would be a business decision for the fund.

Note, that registration and notification requirements under option C4 are expected to be minimal in cost impact and certainly lower in cost than current arrangements, as under the assessment in the VC IA.

Options B2 and B3 would incur no direct costs for the industry. Any proposals for harmonisation of methodologies that emerge from such work would of course need to be subject to impact assessment. Option B2 might however incur some marginal costs for industry participants who wish to participate.

Investors

It would not be expected that investors would bear additional costs, though costs borne by funds could be passed onto investors through higher charges to the fund.

Supervisors

[40] CSES study on costs for the UCITS industry from introduction of Key Investor Information document proposals.

New requirements might increase costs for supervisors, including ensuring cooperation in ensuring effective supervision of funds that make use of the EU SEF designation and cross-border marketing possibilities. However the assessment of this depends on the relevant benchmark: as the SEF market develops, it is likely that competent authorities would be increasingly subject to costs related to emerging problems in the market; acting now to coordinate the market is likely to reduce such costs over the long term by providing for a common platform from the beginning.

Option B2 might incur some marginal costs for public authority participants who wish to participate.

Social businesses

New requirements could increase costs for social business who wish to receive funding from investment funds subject to more stringent transparency and reporting requirements. (The passport under C3 itself would likely have no cost impact on social businesses).

Costs would be driven mostly by requests for reports and data related to the transparency measures, and would include associated systems or data gathering costs. However, it is unlikely that these costs would be incrementally larger than those borne under business as usual, as social businesses that seek to make themselves investment ready are already subject to costs associated with satisfying investors in precisely the areas of reporting envisaged under the preferred options identified here. The measures envisaged here can be considered more as providing for a common platform or foundation for future harmonisation, in the interest of establishing a more coordinated approach to supporting social businesses through investment funds.

This coordination could indeed serve to reduce costs for social businesses. Greater consistency and legal certainty as to requirements would aid social businesses in identifying the steps needed to become 'investment ready' and overcome possible overlapping or competing requirements from different social ratings entities or other financial intermediaries as may currently apply. The extent of impact here depends on the extent to which the financial eco-system that supports social businesses seizes the opportunities presented by the new European social investment fund framework. This is difficult to assess.

Options B2 and B3 would incur no direct costs for social businesses. Any proposals for harmonisation of methodologies that emerge from such work would of course need to be subject to impact assessment. Option B2 might however incur some marginal costs for social business participants who wish to participate.

The phasing of identified measures is vital, as it allows for the cost impacts for social businesses of different approaches to be carefully taken into account as more detailed harmonising measures are developed or considered alongside the growing maturity of the market.

7.7.4. Impacts for other stakeholder groups, Employment, SMEs, and Third Countries, including assessment of administrative burden

As noted these proposals can be expected to have net positive impacts on employment, SMEs (given most social businesses are SMEs), and, indirectly, on the environment (mediated through the environmental mission of certain social businesses). Also, as noted, quantifying the scale of such impacts is not possible at this stage, given that steps to improve investment fund transparency and cross-border marketing only influence the evolution of these wider developments indirectly.

Note, the value of investments in entrepreneurship is clearly established, as a frame for this: according to latest research (outlined in the VC IA) it is estimated that an increase in equity investments of 0.1% of Gross Domestic Product (GDP) is statistically associated with an increase in real GDP growth of 0.30 percentage points. Early-stage investments have an even bigger impact of 0.96 percentage points.

In relation to third countries, the application of steps in the EU to improve transparency is envisaged as a voluntary regime, which would not constrain access to EU capital markets for third country social investment funds. While funds investing in social businesses are likely to concentrate on investment targets located in EU, the options identified here would not constrain funds from pursuing investment targets outside the EU.

Administrative burden

In regards administrative burden, improved transparency measures imply better data flows in the investment market for social businesses, and these could entail certain costs over and against business as usual costs for both SMEs and investment funds. These would relate to record keeping, information gathering, and information analysis. Greater consistency in requirements could however lead to some reductions in costs for some social businesses.

As a voluntary regime costs would only be borne those seeking access the funding that the regime makes available. Evidence from the evolution of the microfinance funding market, and the development of labelling and transparency measures in that area (such as under 'Luxflag' quality standards as developed by the Luxembourg fund industry),[41] seems to suggest that benefits are considered to outweigh costs from the perspective of the funds and funding recipients. Market evidence suggests such labels have not faced difficulties in acquiring members (informal estimates suggest Luxflag may cover 20% of the microfinance fund market).[42] Participants in the Luxembourg initiative support this view, but have not been able to confirm specific details on the scale or nature of the costs of complying with the quality standards.

The issue of reporting costs for social businesses was addressed above under section 7.7.3.

For further details, see Annex V.

Impact on other fund types and investment sources

EU SEF do not directly compete with other types of conventional investment funds, given their specific focus on providing investors with a way of combining social and financial returns. EU SEF may compete however with certain kinds of 'social investment' funds that are seeking to offer such a combination, but which are not directly limited to targeting social businesses. They may also compete with national funds that are not designated as EU SEF but are targeting social businesses.

Given the incremental expected impact of the measures assessed here, and also given the existing scale of the SEF market and the extent to which EU SEF currently compete on an unlevel playing field (facing particular costs as set out in the problem definition in this impact

41 http://www.luxflag.lu/MIV_listingProcedure.htm.
42 Source: ALFI.

assessment), the consequential impact of the measures to support the SEF market on these other kinds of funds is expected to be minimal. In addition, it can be argued that building trust in the SEF market will in practice be complimentary for all other social investment propositions, bringing greater trust and clarity to this market sector. A better founded SEF market would also be less likely to have unintended impacts on conventional investments.

In terms of funding within the SME sector, it is not expected that these measures would have any material impact on the VC market more widely, given the specific focus of the measures here on funds targeting social businesses.

While the development of a more vibrant SEF market in the EU might lead to reduced philanthropic giving, evidence from the UK – a developed market in this respect – does not support such a conclusion. As noted above, it is possible growing trust would in practice enhance a complimentary and integrated approach on behalf of investors and donors, and in practice foundations and other charitable organsiations are key investors in EU SEF.

Impact on EU budget

This initiative will have no impact on the EU budget.

Impacts on Member States

Providing an EU-wide framework for access to investors for SEF could have some impacts on specific Member States. In general, it is expected that funds would remain 'local' to the social businesses they support, with some small exceptions. The closeness of funds to the businesses they support – supported by the close relations between SEF and venture capital and 'business angel' activities – implies that this 'localness' would not change rapidly or materially. However, the measures envisaged in this impact assessment would allow for SEF to draw on investments more widely. This can be expected to allow viable SEF to exist in smaller Member States, so long as they are able to find willing investors elsewhere. Evidence from discussions with stakeholders, including EVPA, suggest that there are investors who will be willing to operate in this way – cross-border. To the extent that this is the case, then, the measures could see increased investment flows between Member States to the benefit of small funds in Member States without current SEF activity.

There is little evidence to suggest this would harm existing SEF activity in Member States where this sector has been developing already in a strong fashion. As the market evolves, its geographic dispersion should however be subjected to further assessment, to ensure the benefits of this sector extend across the EU and an effective single market in capital exists to the benefit of the sector.

8. SYNERGIES AND RISKS

8.1. Effectiveness of phased approach

As set out in section 7.6, a 'phased' approach to the various selected options is envisaged. Under this approach uniform rules as are necessary to establish a EU notion of SEF would be established now. These would govern the use of the designation, and ensure effective transparency around the designation.

Additional steps would then be envisaged to further elaborate and standardise the disclosures and the application of the criteria for the identification of social businesses to existing and emerging forms of such businesses. These would include work to develop level two measures (implementing measures) within the frame and timing set for the coming into effect of the new uniform rules, which would be subject to further impact assessment work. They would also include further steps, subject to further assessment and analysis work, to develop and deepen methodologies for the calculation of social performance and to assess the grounds for widening access to the EU SEF to retail investors.

This approach allows a proportionate impact to the growth and development of the market, while effective and efficient measures to be taken now to address the problems identified in this impact assessment. While initial impacts might be incremental, the development of a EU notion of SEF and stronger investor trust and confidence in this brand, could strongly aid the emergence of the social business sector in the EU, and lay the basis for much greater impacts in the future on this sector, for instance through measures to widen access to retail investors.

A phased approach could, in theory, lead to additional costs due to sequential and incremental changes over time. The approach envisaged here would however be to build on a framework over time, and to not wholly replace existing requirements with new ones incurring wholesale costs of change for all existing funds. This is particularly relevant given the way in which future refinements and changes might impact existing funds: grandfathering and transitional provisions can be designed so that new requirements apply only to new funds. Any steps to apply new requirements should of course be subject to additional and separate impact assessment, so as to consider any such future costs. In practice, a phased approach is appropriate for a growing and developing market, as it should allow proportionality of measures.

8.2. Interaction with parallel proposals on Venture Capital

As has been noted throughout this report, the notions of innovative SMEs and SMEs that have set themselves the goal to work as a social undertaking overlap, at least to some extent. Both types of enterprises tend to be small and medium sized and face issues in obtaining the requisite level of 'patient capital' that remains invested for a seven to ten year period. This implies that there are strong synergies between this work to support social businesses, and steps on improving the EU framework for venture capital funds. Social businesses are effectively a sub-set of SMEs.

However, there are a series of distinguishing features that prevent social businesses from being the primary targets for a typical venture capital fund. The notion of "social business" comprises a broad range of companies that aim to achieve 'social returns' over and above the generation of profit. This ambition, as stressed throughout the IA report, requires dedicated reporting and disclosure requirements tailored demonstrating the social investment strategy as well as tools and methodologies to measure social impacts. Both elements are not in evidence when investments are considered into venture capital funds.

In addition, the expertise to support a social business will often be different from that required to advise start-up entities in the venture capital field. Investors in social business are often going to be different to those under the wider VC work. Indeed social business and venture capital investments, although sometimes overlapping, can be seen as largely complementary; the promotion of one type of investment does not diminish funding available for the other.

Finally, while social businesses are also SMEs, and the funds targeting social business also operate beneath the asset-based thresholds of Directive 2011/61/EC, the range of eligible financing tools proposed in the Regulation on Social Investment Funds go beyond equity finance - the typical instrument for start-up enterprises in the technology sector. Apart from equity finance social undertakings also have recourse to other forms of finance, combining public and private sector financing, debt instruments or small loans. The proposed rules on social investment funds therefore provide for a larger range of qualifying investment tools that are available for social investment funds.

The proposed fundraising framework for Social Investment Funds is therefore construed to be complementary to the proposed framework on Venture Capital Funds. Both proposals aim to achieve different goals and both proposals, if adopted, will coexist as autonomous legal acts in mutual independence.

8.3. Interaction with the general rules on alternative fund managers (AIFMD)

Social Investment Funds focus on providing equity or debt finance to social undertakings but typically do not meet the asset-based threshold that defines the passport available for large fund managers under Directive 2011/61/EC (on Alternative Investment Fund Managers). More extreme still than venture capital funds, where 98% of managers operate beneath the threshold, this IA report has not identified a single social business fund whose aggregate assets under management would exceed the AIFMD threshold (as Section 3.3 points out, the biggest social business fund (Bridges Ventures) manages assets of around € 115 million).

In addition, the transparency issues raised by investments into social businesses are distinct from the general reporting obligations that are provided in the area of both venture capital and in the wider range of alternative investment funds. Social investments target a form of ‘social return’ or positive social impact. The proposed rules on social investment funds therefore contain special sections that focus on information pertaining to social impacts, their measurement and the strategies employed to foster their achievement.

The proposed fundraising framework for Social Investment Funds is therefore construed to be complementary to the general rules covering alternative investment funds (AIFMD). The special framework on social investment funds, being confined to sub-threshold fund managers, is entirely autonomous to the general rules and therefore avoids any regulatory friction between the two sets of passports and their respective conditions.

8.4. Interaction with work under the Social Business Initiative more widely

The steps explored in this impact assessment clearly have very strong synergies with other steps to improve the wider eco-system for social businesses, addressing professionalism, capacity and infrastructure building, awareness of funding and growth opportunities. These have been set out in the Communication on Social Business.

Of particular relevance in this regard will be the Programme for Social Change and Innovation, under which a dedicated instrument will be established in order to improve access to finance for social enterprises. This will provide for greater public funding. EU funding is expected to leverage funding from other sources.

In addition, the new Regulation for the European Social Fund (2014-2010) lists "Social Enterprises" as an investment priority. Member States can, for instance, set up a specific investment fund and use their ESF funds for social enterprise support.

Linked to this are possible steps by the EIF to provide public money through a fund-of-funds structure to specific funds that are targeting social businesses.

Steps on transparency and a label for private investment funds, and on improving measures on social returns or impacts, should be coordinated so as to ensure the greatest degree of coherence between different initiatives.

8.5. Risks linked to creating a EU brand for SEF

A specific risk relates to the possibility, through the label and passport, of creating a EU brand that could be tarnished if strong measures are not in place to ensure it is protected from mis-use.

This could occur where the funds able to use the label or passport are not sufficiently delineated or transparent, so that investors mis-understand what the label is seeking to indicate (for instance, funds that do not invest a majority in social businesses labelling themselves under the label). It could also occur where the label is not sufficiently clearly developed.

The positive impact of a new European social investment fund label and institutional passport, with supporting transparency and performance analysis measures, depends therefore on their careful development in full dialogue with stakeholders and experts, and careful and strong *ex post* monitoring and assessment.

This is a key reason for adopting the phased approach identified above. The key to any meaningful action resides in the establishment of transparency on investment strategies, screening of investment targets and a tri-partite dialogue between investors, SEF managers and target companies on the way in which social impacts are achieved. The phased approach, based on exacting reporting standards on the screening of social businesses and the evaluation of their social impacts, is also a key reason for ensuring measures are effectively supervised and enforced by national competent authorities.

This is an area characterised by new concepts and analytic tools. Coordinating developments effectively will therefore depend on a carefully calibrated approach, building on the established concepts and consensus. Measures on information that do not cohere with emerging needs of investors or social businesses would likely have little impact, as they would be discarded in favour of more relevant approaches.

On the other hand, if disclosure requirements are allowed to develop in an uncoordinated manner, they will be of little value as a basis for developing a common and calibrated approach to social impacts and the metrics used for their measurement.

Common approaches to the application of the definition of 'social business' and careful supervision of funds that target these businesses are therefore of paramount importance.

8.6. Risk associated with early action

As mentioned above, a key plank of policies pursued in relation to the establishment of a tailor made framework for social investment funds is motivated by a preventive approach - trying to address certain issues before they emerge into full view. This is to some extent different to the 'catch-up' approach that the parallel initiative on venture capital funds pursues. As explained in Section 4.8 ("the value of early EU action) there is considerable merit in adopting a pre-emptive approach, especially in markets where the EU regulator pursues the positive goal of establishing an innovative and well-recognised investment vehicle that will coexist as a European alternative alongside existing national schemes. In support of early intervention, Section 4.8 cites the experience gained with the early establishment of a UCITS vehicle for retail investments.

Nevertheless, a complete analysis of risks must also comprise the risk that early intervention crystallises the emerging marketplace and prevents innovation in the regulated field. There is a risk that early action, when markets are still emerging and when differences in regulatory cultures have not yet taken hold, prevents other promising approaches from emerging. However, as the envisaged European framework is conceived as an additional framework that will exist alongside national or emerging frameworks, this risk appears remote.

An additional risk is that premature action will limit initial take-up of the new funding framework. If the new framework meets with little take-up, there is the concomitant risk that average fund sizes are not increased and economies of scale foregone. However, this risk is more than eclipsed by the reverse risk that the absence of a harmonised approach will lead to little change in the already small sizes of the present generation of SEF that have been described throughout this impact assessment. In addition, as Section 7 explains, the key parameters of the envisaged fund framework have been tailored so as to maximise take-up.

A further risk is that the rules on eligible investment targets (social undertakings) is too narrow and prevents certain valuable businesses form being eligible. This risk is linked to the emerging nature of the concept of 'social undertakings'. This risk is addressed by the fact that the notion of social undertaking is currently defined with reference to three key parameters that are sufficiently generic to comprise a vast array of undertakings and fields of activity. As the proposed rules on SEF in other respects (e.g., location of the target, absence of turnover requirements or requirements on the duration of corporate existence) not very prescriptive, the risk that socially valuable undertakings are excluded from the scope of eligible investment targets appears rather remote.

9. MONITORING AND EVALUATION

In line with the objectives underpinning the Commission's policy choice, the post-adoption monitoring and evaluation will focus on three issues: (1) has the new framework established a sufficiently precise European notion of what constitutes a social investment fund investing primarily in 'social business'; (2) has the new framework contributed to a common regulatory approach governing clarity and comparability of investment proposals offered by social investment funds; and (3) has the new framework contributed toward the improvement of tools to analyse social returns.

Harmonised European notion of what constitutes a 'social entrepreneurship fund' and 'social business'

A core plank of the Commission's monitoring activities in relation to the regulatory framework for social investment funds will consist in verifying whether the operational provisions adopted are specific enough so that investments channelled through the new regulatory framework reach the intended beneficiaries (social business).

– It is therefore important to monitor that the investment strategies of those funds that operate under the EU passport are sufficiently tailored toward the acquisition of equity stakes or debt instruments issued by businesses that have a proven track record in achieving the targeted social impacts (see social impact monitoring below) and that the portfolio composition of a social investment fund reflects the regulatory target percentage (70%).

– Should empirical data gathered as part of this monitoring (monitoring will be conducted in cooperation with ESMA who is tasked with keeping a register of registered social investment fund managers) reveal that the chosen portfolio composition is not optimal in creating a workable notion of a European social investment fund, the regulatory target percentage in favour of investments in social business might be revised. Revisions might lead to both an increase (to 90%), or a decrease (to 50%) of this target percentage.

– Should empirical data reveal that the description of the target undertakings is not sufficiently precise in relation to the intended social impacts, the essential characteristics defining a social undertaking (i.e., (i) statutory goal of achieving social impact over and above profit, (ii) large-scale reinvestment of surplus into the social business and (iii) socially inclusive governance of the target undertaking) will be reviewed.

– Should empirical data reveal that the available investment instruments (equity, quasi-equity and debt instruments) are not sufficient to provide finance to social undertakings, the Commission, in cooperation with ESMA, shall review the range and breadth of qualifying investment tools.

– The Commission will also monitor that the applicable rules adequately reflect the evolution of the social investment sector. In this respect, the Commission will regularly assess whether the core definitions underpinning a social investment fund's eligibility for the new EU passport evolve in line with changing business practices, at European and international levels.

A review date is envisaged four years from the new rules coming into force to assess their effectiveness in targeting social businesses.

Clarity and comparability of social investment propositions

With respect to the emergence of an enhanced clarity and comparability of social investment propositions, the Commission will regularly assess the success of the cross-border fund-raising passport, both in terms of increased investor contributions to social investment funds and in terms of aggregate capital raised by such funds across national borders.

– The Commission, in close cooperation with ESMA (*who will be tasked with maintaining a central register, publicly accessible by internet, which lists all social investment fund managers registered in the Union in accordance with the proposed Regulation*), will monitor the amount of fund managers that are registered as operating a qualifying 'European social entrepreneurship fund' (EU SEF) in the European Union.

– With a view of enhancing the effectiveness of the registration-based passport, the Commission and ESMA will also monitor 'de-registrations' and their probable causes.

– The Commission, in cooperation with ESMA and the social investment sector, will regularly assess the impact that the European passport rules have on:

  - the amount of capital raised by the social investment funds;

  - the financing mix available to social businesses;

- The average size of assets under management in a social investment fund; and
- the compliance costs (especially in relation to social impact measurement and reporting) related to the new social investment fund.

– The Commission shall furthermore assess regularly whether, or to what extent, the EU passport scheme is misused to raise capital for investments, beyond the permitted portfolio threshold, that do not target 'social undertakings' within the parameters of the proposed rules.

– The Commission will also assess whether the creation of a special regulatory framework for social investment funds (that would otherwise operate within the framework of national private placement, possible rules on venture capital funds or within the rules of the AIFMD) has led to regulatory arbitrage.

A review date is envisaged four years from the new rules coming into force to assess their effectiveness in improving the clarity and comparability of investment propositions.

Measurement of social returns

The Commission will monitor whether and to what extent the work launched as part of the proposed Regulations have improved the development of metrics to capture the incidence of 'social returns'. In this context:

– The Commission, in close cooperation with ESMA and the national authorities that will be responsible for supervising compliance with the new EU SEF fundraising passport, will monitor externalities achieved with social investment funds in terms of

  - Environmental impacts (e.g., reduced use of pollutants);
  - social impacts (e.g., jobs created for socially marginal groups, products and services offered for socially marginal groups);
  - ethical impacts (e.g., jobs created for people with a disability, special products or services offered that cater to people with a disability).

Measures to develop better methodologies will be assessed over the following years, to feed into the envisaged review date four years following coming into force of the new rules.

GLOSSARY OF TERMS

Abbreviations

AIFMD	Directive on Alternative Investment Fund Manager
ALFI	Association of the Luxemburg Fund Industry
BPCE	Group BPCE (Banque populaire/Caisse d'épargne)
Eurosif	European Sustainable Investment Forum
EBAN	The European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players
EVPA	European Venture Philanthropy Association
FSUG	Financial Services User Group
GEM	Global Entrepreneurship Monitor
GIIN	Global Impact Investing Network
IA	Impact Assessment
MFI	Microfinance Institution
NGO	Non-governmental organisation
KPI	Key Performance Indicators
OECD	Organisation for Economic Co-operation and Development
SB	Social Business
SIB	Social Impact Bonds
SEF	Social Investment Funds
SRI	Socially responsible investment
STR	Pounds Sterling
SME	Small-medium enterprise
VC	Venture Capital
UCITS	Undertakings for collective investment in transferable securities

Definitions of terms

Asset allocation

A fund manager's allocation of his investment portfolio into various asset classes (e.g. stocks, bonds, private equity).

Asset class

A category of investment, which is defined by the main characteristics of risk, liquidity and return.

Capital market

A market in which long term capital is raised by industry and commerce, the government and local authorities. Stock exchanges* are part of the capital market.

Closed-end fund

A fund with a fixed number of shares. These are offered during an initial subscription period. Unlike open-end mutual funds, closed-end funds do not stand ready to issue and redeem shares on a continuous basis.

Fund-of-funds

A fund that invests in other investment funds.

Listed company

A company whose shares are traded on a stock exchange.

Microcredit/Microfinance sector

Small loans, usually smaller than €25 000, granted most often by specialised institutions.

Social enterprise

An enterprise whose primary objective is to achieve social impact rather than generate profit for owners and shareholders. It operates in the market through the production of goods and services in an entrepreneurial and innovative way, and uses surpluses mainly to achieve social goals. It is managed in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.

Social entrepreneurship funds

Private investment funds that target as their core invesetment activity the funding of social enterprises, whether through equity investments or by buying debt instruments or providing loans.

Social investment

Investments – whether directly or through financial instruments such as funds -- that are oriented towards social as well as financial outcomes.

SME – Small and medium-sized enterprises

Under European rules an SME should have less than 250 employees, an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 m.

Stock exchange (stock market)

A market in which securities are bought and sold. Its basic function is to enable public companies, governments and local authorities to raise capital by selling securities to investors.

UCITS - Undertakings for Collective Investment in Transferable Securities (acronym in EU legislation)

Investment funds (for retail and institutional investors) that are harmonised at EU level.

Venture Capital (VC)

Investment in unquoted companies by venture capital firms who, acting as principals, manage individual, institutional or in-house money. In Europe, the main financing stages included in venture capital are: early stage, covering seed and start up, and expansion. Strictly defined, venture capital is a subset of private equity. Venture capital is thus professional equity coinvested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of higher than average return on the investment.

Venture Capital Funds

Investment funds which invest into venture capital.

ANNEX I -- EMERGENCE OF A SOCIAL INVESTMENT MARKET

A 'social investment market' has taken shape in Europe over the last decade. The market brings together investors and investment targets, either through the 'linkage' provided by financial intermediaries or directly.

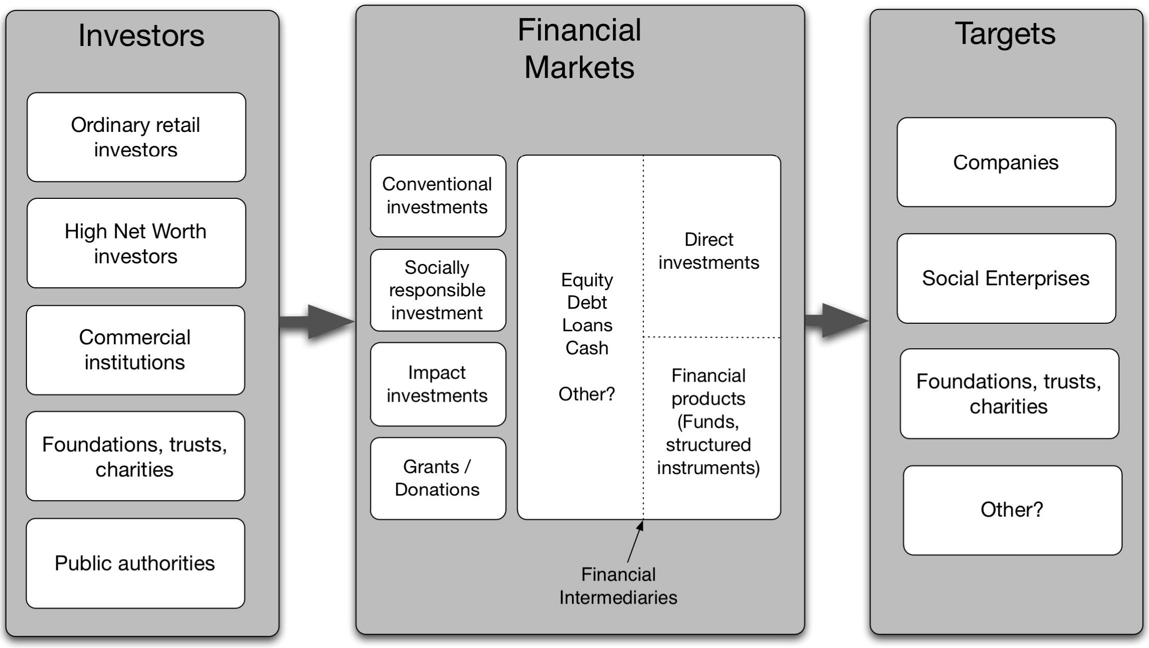

Diagram 1: Key players in an emerging social investment market

A social investment market have been emerging which shares similar features to other financial markets: investors seek to place capital with investment targets, and financial services entities broker or manage such investments.

Key financial intermediaries operating in the social investment market include certain niche banks, venture philanthropy funds, social investment funds and bespoke venture capital funds, funding consultancies and intermediary platforms, and emergent social stock exchanges. These intermediaries typically manage and broker investments through financial instruments (including investment funds) that act as conduits. Funding can range from conventional investments (whether equity or debt based), to grants or donations where no return of capital is made, to mixed instruments that combine these other instruments in innovative ways.

Indications are that many of these intermediaries are specific operators who concentrate on the social investment market, separate from conventional financial services providers.

Broad types of social investment

This is an emerging sector, so there is a great degree of variety in the vocabulary or concepts used for describing the field, the strategies that can be adopted, the targets of investments that can be selected, and the instruments that can be used.

- **Conventional investments** typically take the form of different kinds of investment funds, direct or indirect investments through securities or certificates (taking either equity or debt/bond forms), or a wide range of emerging structured products.

- The most currently most widespread form of investment with a social aspect is **'socially responsible investment' (SRI)**. (Such investments are typically in the form of investment funds and can be seen as part of the particular company's CSR strategy).[43]

  Investments of this type range from what are termed 'negative SRI' (investments that apply a variety of criteria to rule out certain investments through a simple screening process, e.g., avoiding companies that do not fulfil certain CSR / ESG criteria), to 'positive SRI' strategies (seeking out specific companies that actively pursue goals in line with the overall investment strategy being targeted, offering a more concentrated and intensively managed product).[44]

  These overlap strongly with conventional investments. Those making SRI investments will typically do so with in consistency with a focus purely on financial returns, though some positive SRI strategies may entail a stronger focus on social returns than is consistent with normal conventional investments. The investment targets of SRI are not necessarily firms that possess a social, environmental or ethical 'mission', though they may be. For instance, SRI targets could include a conventional for-profit company that fulfils certain criteria, e.g. relating to its governance structures. (Such firms might fall under category 5 in diagram 3 below).

- A more specific form of investment than SRI has emerged, termed '**impact investment**'.

  These can either specifically targets enterprises or businesses (outlined in more detail in the next section) that have as their primary mission social, ethical or environmental goals, or focus more on identifying and achieving specific outcomes and leave the investment targets more open.[45] Both of these kinds of social investment overlap with SRI, and can under some interpretations be viewed as forms of SRI.

  The impact or social investment category extends beyond the limits of conventional investment, to reflect the importance of social returns for these investments, and the fact that social returns do not form part of the typical conventional investment decision process.

Social entrepreneurship funds, as set out in this impact assessment, can be characterised as a form or subset of impact investments.

[43] See http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/new-csr/act_en.pdf. .

[44] See Eurosif 2010 survey of European SRI landscape: http://www.eurosif.org/research/eurosif-sri-study/2010.

[45] Given that such investments focus on outcomes the strategies could in principle be neutral as to the formal nature, governance or other aspects of the investment target, and might not always be a form of SRI as conventionally understood. However, strong and convincing methodologies for assessing impacts and demonstrating the effectiveness of the strategies in supporting the identified impacts might be particularly necessary for such strategies where this is the case, alongside clarity as to the outcomes being sought be the strategy.

Note that neither SRI investment nor impact investing, as conventionally understood, concentrate on targeting of social businesses, as defined in this impact assessment and as determined in the Commission's Social Business Initiative.

What social businesses are targeted?

Discussions with stakeholders show that a spectrum of enterprises focus to varying degrees on 'social returns' and are already targeted by social investors precisely for their provision of such returns.

In general terms, these enterprises are most typically classified according to their 'mission' or focus.[46] They extend all the way from foundations, charities or trusts (entities which are not run for-profit, and typically will fall under specific national rules relating to not for-profit entities), through a range of types of business that target a social mission but also seek commercial success, up to businesses that do not directly target a social mission, but instead have a normal commercial mission.

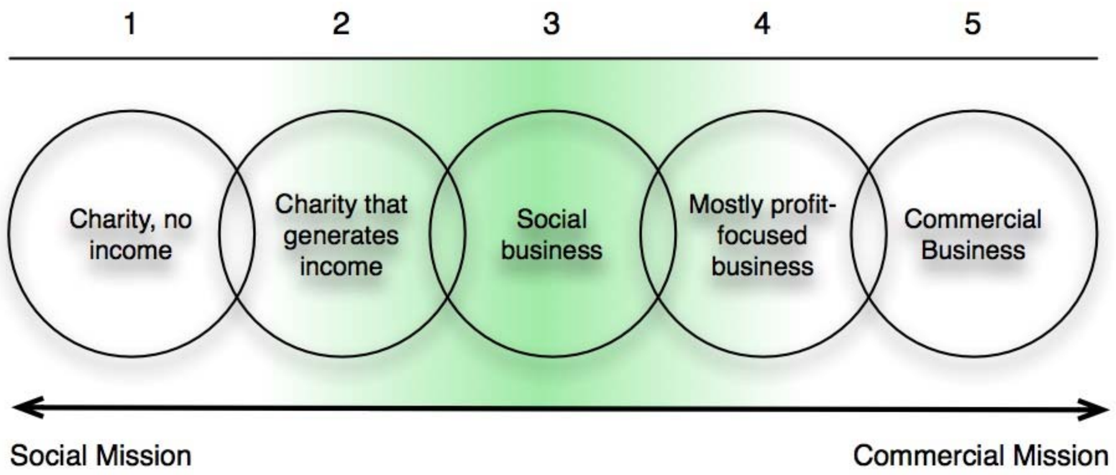

Diagram 2: Investment targets in the social finance market [After CAF et. al.]

Note that all of these entities could be targets to a degree for investors or investment intermediaries seeking to achieve social returns with their money.

However, since investors are, by definition, not purely philanthropic donors but seek investment returns, their focus is likely to mostly concentrate on categories 3, 4 and 5, or enterprises in such categories are likely to form the bulk of any investment portfolio, since only these categories provide investment returns.

Social businesses – the focus of this impact assessment – are those enterprises that explicitly combine social returns with financial returns, but with social returns as the dominant mission of the enterprise.

Two vital distinctions exist that are important for this impact assessment.

- The first is between *investing* and *making donations or grants*. Investments are characterised by the expectation of a return of capital and on capital (however modest this might be).

46 See, e.g., *NESTA2* p.12, *ClearlySo* p.14. Adapted from CAF Venturesome: *Financing the Big Society* (CAF), 2009.

- The second is between (mass-market) **retail investors** and **institutional investors**. In general terms, retail investors are less able to take on financial risks, and in addition financial instruments or services targeting retail investors are subject, at both national and European level, to more stringent regulatory requirements for purposes of protecting the interests of those investors. Such requirements carry costs.

Who are the investors?

Different investors have typically different expectations and needs in relation to such trade-offs. The following broad classes of potential investors in social businesses can be identified:

Retail investors	**Mass market**	Typically have low risk tolerance or appetite. May need high degree of liquidity (e.g. access to savings due to unexpected changes in circumstances). Some appetite for investments that target social returns and willingness to forgo financial returns for this purpose. Some view the retail market as the most likely to grow over the longer term.
	High net worth	Mainstay source of philanthropic capital and demonstrated early interest in social investments. Currently a core capital source for social investments (see EVPA, EBAN). May have higher risk tolerance, less need for liquidity. May have access to non-retail investment products due to profile.
Institutional investors		Some institutions possess missions that call for social investment (or donations) on their own account. Institutional investors may also invest as intermediaries for other clients, or as part of products to be offered to other clients.
Foundations / trusts or value or faith-based investment networks		Source of philanthropic capital, grants, loans and investments.
Public bodies		Source of grants, loans, seed investments, loan guarantees, tax and other incentives.

Estimate of growth of market

There are contrasting estimates on future potential for growth in this sector. For instance, the growth of the wider SRI market has been very strong – Eurosif calculate EUR 5 trillion of assets under management could be assigned to this market in 2009, which is a large proportion of total assets under management (EUR 9 trillion in funds as of 2009).[47]

This might imply great potential; however a more prudent analysis would consider the rapid growth in the SRI market only as a loose proxy for corresponding growth of social business. Following SRI principles can be considered as 'good prudent investment practice' for all investors, and investment funds that target accreditation as SRI as simply seeking to follow best practices themselves. However, it would be fair to assume that the rapid growth in the SRI market reflects a broader interest amongst investors of all types in taking non-financial aspects of investments into account when taking investment decisions. Investment funds targeting social businesses could be expected to benefit from a wider appreciation of and understanding of the role of non-financial aspects of investments.

[47] See http://www.eurosif.org/research/eurosif-sri-study/2010.

Estimates from JPMorgan are that an 'impact investment' asset class (which would include investments targeting social businesses, but would extend wider than this to include investments in ordinary businesses that might exhibit positive externalities) could hit between USD 400 billion and USD 1 trillion globally by 2020.[48] The EU proportion of this could be around EUR 100 billion and EUR 242 billion, once a rough adjustment for the scale of the EU asset management sector has been made.

The experience in the French market with growth in investment flows into so-called *épargne solidaire* is also indicative of strong potential. This sector has grown rapidly: according to AFG: "en 2010, l'encours de l'épargne solidaire représente 3,15 milliards d'euros soit une augmentation de 31% par rapport à 2009". This growth is partly triggered by the adoption of measures to promote active distribution of social investments: "l'épargne salariale représente désormais la moitié des encours de l'épargne solidaire, avec des montants en progression rapide (+100% en 2009, +50% en 2010), atteignant 1,5 milliard d'euros au 31 décembre 2010".[49] While the scope and focus of these investments is not totally equivalent to investments into social business, the growth of *épargne solidaire* suggests a potential of growth in the social business sector. .

Another proxy for a possible evolution of the SEF sector is the growth trajectory of microfinance funds, which in thirty years has grown into a global sector with approximately USD 6.6 billion assets under management;[50] this trajectory is in step with JPMorgan estimates.

[48] See JPMorgan p. 6.

[49] AFG response to Commission consultation on Social Investment Funds.

[50] Microcredit services represent USD 50 billion worldwide, with 15,000 microfinance institutions (MFIs) serving more than 150 million clients. Microfinance funds link international capital investors to these MFIs – there are 103 such funds worldwide, with USD 6.6 billion of assets under management. Investors in these are primarily institutional investors, foundations, NGOs or networks (42%), with retail investors providing 34% and Development Finance Institutions 21%. Analysis draws on figures from *Technical note on microfinance funds,* 11.12.2009, submission by Action Group 'Microfinance funds' of European Microfinance Platform during debate on the AIFMD.

ANNEX II -- FEEDBACK FROM CONSULTATION ON SOCIAL INVESTMENT FUNDS

General

The Commissions' initiative is welcomed by the majority of respondents.

Stakeholders stress that this is a very important initiative/action at the EU level given the fact that this is an emerging market. EU action is mostly warmly welcomed as a sign that the EU supports this specific market and many stakeholders underline growing appetite for investments into this sector and support for steps to help the emergence and growth of the sector.

Stakeholders are keen to engage further as thinking develops.

Responses show a wealth of (hetereogeneous) experience and strong engagement; many however seek further dialogue and time to continue to think through issues, options and next steps.

Respondents stress that since the market structure is developing in this emerging segment that the Commission should act very carefully and seek to deepen its insights further before drawing strong conclusions. They advise the Commission to engage in further research and investigation and dialogue with stakeholders in order to estblish better the emerging needs of this market. The Commisison should not move too quickly so as to have unintended impacts on the market.

A number characterised this sector as being now similar to the early years of the venture capital sector. A number underlined how social businesses do not only need capital but also other non-financial support; addressing matters at the EU level could trigger wider steps to support social businesses and have a positive impact on the development of the market. A benefit of taking steps at the the EU level would ultimately be, however, the leverage this could give to social businesses, allowing successes to more easily be replicated across Europe.

What is a social business?

Respondents noted a lack of clarity or transparency with respect to what a social business or enterprise is. It was underlined that there was much heterogeneity at present: for instance, different investment tools or market segments use different terms or understand the same terms in different ways. This creates a major challenge for investors; those who are seeking to invest in this market can become confused and end up mistrusting the terms used by different parts of the industry. This can reduce or limit inflows of capital. For this reason, many of the respondents have underlined their view that transparency is extremely important, information (to investors) about what a social business is precisely doing or standing for is vital, as is clarity from funds and investment vehicles over their strategies, role and actions in this regard.

The Commission's definition was felt by a number of respondents to be not precise enough or as was seen to cover the wrong areas; it was recognised that the pace of changes in the emerging market made this difficult. Some respondents claimed that if the Commission took too restrictive a stance, there would be a risk that important and valuable businesses would not be covered; however some respondents argued in favour of a tightly defined definition along the lines exposed in the consultation paper. Views varied on how a definition could work; for instance, some felt that public authorities across the Member States should be the final arbiters.

Related to this topic is the question about re-distribution of profits: most larger industry and public authority stakeholders emphasized that re-distribtuion of profit should not be excluded because this could have a negative impact on investors' appetite to invest (limiting as it would investment returns). It was noted that investors would vary in regards the return on investment they would be seeking in the social investment sector; for this reason transparency on the outcome or return on investment was seen as being of fundamental importance in developing the sector further. Some (smaller) respondents stressed that allowing for re-distribution raised the risk that interventions would not focus strongly enough on the core aim of social businesses (the social mission), diluting overall effectiveness.

Mismatch between supply and demand

It was noted by a number of respondents that social businesses do not have effective access to finance because of an under-developed market structure or a lack of appropriate market infrastructure in the social market area. It was felt that investors might be willing to invest in social businesses, but do not find appropriate tools or do not have sufficient information. Note that some respondents felt that supply of capital was less of a problem than demand: that the targets for social investment could be difficult to locate / engage.

SRI

Some respondents noted it was very important to be clear as to the distinctions between this work on investments in social businesses and wider 'socially responsible investing' steps.

Small market

A number of respondents noted a lack of interest on behalf of major financial players due to the small size of the market and its particularities (low levels of liquidity, possible low returns, lack of a visible track record, lack of familarity with market players and concept of social return, etc). This hampered market infrastructure development and reduced levels of instutional investment.

Is an investment fund the appropriate tool for dealing with challenges faced by social businesses?

A few respondents felt that action on European funds was not needed; to this view the market was predominantly local, so no cross-border issues arose, while it was also questioned whether investment funds were the most relevant funding tool. Issues with funding from banks, for instance, were highlighted.

Most respondents however appreciated the focus on investment funds, and considered this a relevant and appopriate focus. It was underlined often, however, that non-financial support for small social entrpreneurs was likely to be as important if not more important than financial support.

Retail vs institutional investors

Many respondents viewed retail access as important in the long run, noting that:

- institutional investors (such as pension funds) may not be allowed to invest into social businesses due to their fiduciary duties / focus on financially competitive returns on investment; and

- retail investors are more likely to be committed to supporting social businesses.

The concept of a passport for retail investors was thereby welcomed. However, many respondents also noted a number of issues with retail access:

- the focus should be on "sophisticated" high net worth individuals, because these are more able to take the risks and possible losses linked to these kinds of investments;

- the high risk and low return on investment made such investments less suited to retail retail investors – they should not be encouraged to invest in such funds, or, where they do, necessary safeguards must be in place, notably disclosure steps to ensure awareness of the specific features of these investments and what they entail;

- encouraging retail investors to invest in such funds might run counter to other policy initiatives designed to provide greater retail investor protection;

- the requirements of developing products for a mass retail market would not well match the financial and non-financial needs of the social business sector itself.

Appropriate fund framework?

Many respondents noted that the AIFMD framework was likely to be too burdensome or costly for small social investment funds. Given investor protection requirements in UCITS, a number of respondents argued that a new framework might be best. In this regard, some respondents noted that the Commission should be vigiliant in setting up new structures so that they could not be used to circumvent requirements under other frameworks (notably, AIFMD).

Some respondents outlined that the Commission's work on venture capital might offer a useful framework also for encouraging investments into social businesses.

For a number of respondents including one Member State changes to UCITS should be contemplated as a way of raising investments in social businesses. Such changes might be relatively minor, for instance by allowing a certain proportion of non-transferable securities to be held, for instance through the 10 percent limit foreseen for non listed assets. Views varied on how easy this might be in technical terms. Some believed that UCITS could be used in this way without making changes; others noted that Commission has taken the view that the 10% limit is restricted in its effectiveness in this regard.

For some other respondents, it was felt that the risks of making changes to UCITS, and in particular altering its qualities as a liquid and transparent retail framework, would be too great. It was noted that social business need patient capital, which typically might best be delivered through closed-ended rather than open-ended (such as UCITS) fund structures.

EU label

Respondents supported the idea of EU intervention to reduce confusion and improve trust in the sector.

Some respondents noted however that it might be too early for the Commission to develop a specific label, since the market is still building up infrastructure and there is not yet common understanding to what a social business is. It was felt that public steps should not dominate or force the process, but should follow and support developments in the markets.

It was also noted that there was a risk that without strong supervision and controls a label could be misused to "whitewash" investments that are not appropriately 'social', potentially undermining the whole sector.

Transparency for investors was underlined once again, e.g. via a clear statement in marketing documentation that social investment funds may offer less liquidity and a different risk profile than more traditional investment funds. Transparency to investors in these points are crucial to avoid investors being disappointed.

Measurement of social performance

Respondents noted that valuing and evaluating performance of investments in social enterprises was difficult. Currently investment funds develop their own standards to measure social impacts, as no common defined standards exist yet; transparency is vital so that investors can make their own assessments (to a degree institutional and qualified investors might be expected to have the ability to enquire further if not satisfied).

The Commission should also take a closer look at market developments in this area, before taking steps itself; this is an area where market developments need to mature more first.

Elements of a possible future fund framework

Many respondents had also some concrete ideas as to some the possible elements of a fund framework to be developed in the long term. These ranged from suggestions as to the percentages of the fund portfolio to be invested into social business (e.g. 30 percent) to the frequency of redemptions as well as technical suggestions as to how to deal with the fact that returns might be lower than for traditional investments.

Tax treatment or other incentives

Many respondents were in favour of tax incentives and gave different views on how to structure these/who should profit from these (e.g. the investor or the social business.). Tax incentives were considered a good tool for boosting the market; financial guarantees were mentioned as another form of public incentive.

It was also underlined that establishing practical access to distribution was extremely important.

ANNEX III -- CURRENT EUROPEAN FUND REGULATION

The EU fund landscape is already very well established and mature, including, under the auspices of the Undertakings for Collective Investment in Transferable Securities (UCITS), a strong and demonstrably successful cross-border framework for retail funds. Steps are under way, under the Alternative Investment Fund Managers Directive (AIFMD) to also introduce a cross-border framework for institutional funds.

All investment funds in Europe will fall under EU laws on funds (following implementation of AIFMD). They will fall either under UCITS (which provides for a retail passport) or AIFMD (which provides an institutional passport for Alternative Investment Funds (AIF)). Options for a future regime for venture capital (VC) is also currently being assessed.

Note that while in general retail funds are UCITS and institutional funds are AIF, in certain Member States there are existing 'non-UCITS' retail frameworks in place alongside UCITS. These non-UCITS retail funds are normally only distributed nationally, (under national regimes that are often mostly the same as UCITS). While these funds will be AIF under AIFMD – which provides a mechanism for an institutional passport in some circumstances, they have no retail passport.

Due to the nature of SEF, these mostly currently take the form of what will be in the future AIF: there is no EU 'retail' passport that can be used currently by social investment funds. The UCITS framework is designed for retail customers, and in practice most investments in social businesses and enterprises are currently not possible under this framework. This is mostly due to requirements in the UCITS framework related to the liquidity of eligible assets – investments must take the form of transferable securities, and this limits the capacity of UCITS to invest in social enterprises as these are starting up.

While SEF would currently be AIF, most are likely to fall beneath the threshold for the full requirements of the AIFMD to apply (i.e. for unleveraged funds, EUR 500 million in assets under management). They would therefore currently fall mostly under national rules. To gain access to the AIFMD passport funds would have to opt to comply into the full AIFMD regime. The AIFMD regime is designed to address systemic risks raised by large and complex hedge funds, and is not suited to the needs of small SEF that use no complex investment strategies.

An additional fund regime – designed to provide a passport for venture capital funds without requiring them to satisfy the strict obligations linked to the AIFMD passport – is currently being developed. It is likely that SEF could make use of this venture capital passport, which allows for cross-border marketing to professional investors, but the regime is not fully suited to their needs (as set out in this impact assessment), notably in regards permitted investments and transparency measures.

Assessment of Regulatory Barriers

Institutional While the EU fund landscape (following implementation of AIFMD) lays a strong basis for a single market for institutional investors, this framework is not tailored to the needs of smaller SEF. It includes reporting, organisational and conduct of business requirements suited to addressing risks related to large hedge funds, rather than small long-only equity funds. As with venture capital,[51] costs for social investment funds in making use of the AIFMD passport are likely therefore to be disproportionate. No stakeholders operating funds in the EU institutional market have indicated that they would seek to make use of the AIFMD passport by 'opting' in.

In practice, therefore, there is currently no cost effective cross-border regime suited to the needs of SEF. These would rely instead on existing national private placement regimes and agreements for cross-border access. (Fund of fund structures and other forms of financial engineering could however mitigate some of the difficulties of access identified).

Retail There are currently limits to the development of a single market accessible for retail customers seeking to invest in SEF.

This is largely by design. The investor protection measures necessary for ensuring the broad suitability of a fund for retail customers place important limitations on the kinds of risk exposure that an investment fund can take on. Specifically, the measures ensure that the fund invests in assets which allow for a high degree of liquidity and a transparency in the pricing of the fund.

The nature of the SEF's participation in social businesses – where such funds are wholly or mostly invested in social businesses – could undermine these features. Participations in social businesses – as with other small enterprises – are likely by definition to be illiquid and difficult to price. For this reason social investment funds targeting social businesses would typically not take the form of a UCITS.

Retail access to such funds would therefore mostly be under national rules, subject to specific measures to address the additional possible sources of risk for the retail investor created by investments in social businesses.

[51] [Reference to be inserted once published].

ANNEX IV -- ISSUES WITH INVESTMENT FUNDS WHEN FUNDING SOCIAL BUSINESSES

Stakeholders and consultation respondents have highlighted a number of emerging issues in their view with the development of investment funds targeting social businesses:

Stakeholder	**Specific problems raised**
Investors	• Confusion over what is on offer / what 'social' means or connotes – mistrust in competing labels for products, competing marketing • Difficulties comparing products / offerings, reducing competition • Products do not offer clarity as to extent/nature of social returns or extent/nature of financial risk and/or return. • Market nascent, so track records may not exist. • For retail investors, retail funds targeting social businesses may not be available or allowed under national rules. UCITS rules establish a regulatory barrier to a EU passport for retail social investment funds.
Social Businesses	• Lack of awareness of different options for funding: • Social businesses can face specific challenges in getting 'investment ready' (See discussions in EVPA, EBAN, NESTA1 and NESTA2, ClearlySo; issues here are similar to those raised for SMEs in relation to Venture Capital funding; however the specific 'social' nature of social businesses is considered to raise additional challenges) • Existing networks or infrastructures might not be well adapted to identifying social businesses and supporting them. • Orientation is towards grants rather than capital markets. • Not enough 'patient capital' available (i.e. long term investments focused on the needs of the business to drive social returns, with strong practical support). • Status or legal form can sometimes limit options for gathering investments – charitable status might creates tax advantages, but prevent issuance of equity for gathering growth capital, for instance.

Fund & financial intermediaries	• Immature networks / infrastructure targeting social business, coupled with a lack of sensitivity to the needs of social businesses -- difficulties finding and assessing investment targets. • Normal sources of investment may shun social businesses; costing / pricing of social return as opposed to financial return. • Competing versions of concept of 'social' returns can impede transparency, trust in market: no shared answers to how funds might best pursue, document and demonstrate social 'value for money' from investments? • Advisors not aware of options, not informed on concept of 'social returns'. • Rules on the kinds of assets retail funds can invest in (at national and EU levels) can strongly limit their ability to target social businesses. • Inconsistencies in rules in different MS fragment retail market, limiting access to cross-border / single market pools of capital.

ANNEX V – ESTIMATING ADMINISTRATIVE COSTS AND BURDENS

The Commission Impact Assessment Guidelines define administrative costs as "the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties."

The preferred options emerging from this impact assessment include stronger standardisation and prescription at the EU level of information to be provided to investors by social investment funds, and measures on providing information to competent authorities in return for a right to market a fund cross-border. Under the Guidelines legal requirements on information disclosure to investors, as in the form of a financial prospectus, qualify as administrative costs.

Following the Guidelines, the key areas of costs for funds are likely to be from use of external advisors to fill in expertise gaps, putting into place systems in both human resource and IT terms for gathering and analysing data, and man hours for drafting and compiling information for investor disclosures.

As noted, existing transparency requirements at EU level require disclosures of the fund and on its investment strategy, and business as usual costs related to marketing the fund will inevitably incur costs precisely in the areas outlined above. Different expectations from investors may well accentuate these costs (leading to overlapping information being expected, and so costs raised delivering the information, e.g. under Eurosif-style guidelines – which can vary by Member State, trade body guidelines related to social investments or impact investing, etc.)

Given the nascent form of the social business sector, it is difficult to assess the scale of these different factors in order to estimate the incremental administrative costs and burdens pursuant to steps to enhance transparency measures. As noted, this initiative is a voluntary initiative: costs are only likely to be borne by those who believe the business case is such that marketing benefits outweight these costs. Existing labelling measures – such as Luxflag – incur comparable costs by standardising information requirements, and indeed include membership costs for the agency maintaining the label.[52] Market evidence suggests such labels have not faced difficulties in acquiring members (informal estimates by the Commission suggest Luxflag may cover 20% of the microfinance fund market).[53]

What might be the impact of Level 2 measures?

This impact assessment considers possible framework measures, to be supported at a later date by detailed implementing measures and technical standards and guidelines. Specific implementing measures and technical standards could have material cost and burden consequences, notably in the area of the measurement of social performance or impacts. This impact assessment does not seek to justify any specific standardisation or approach in such an area; such measures would necessarily be subject to further impact assessment work and supporting study work.

[52] http://www.luxflag.lu/MIV_listingProcedure.htm.
[53] Pending confirmation from Luxflag.

ANNEX VI – SUMMARY OF IA

Problems		Objectives			Proposed solution		Why current rules not good enough?	Magnitude of impact
		Operational	Specific	General	Now	Later		
Emerging market → market failings / regulatory failings	Lack of clear and comparable information	Improve clarity and comparability of social investment propositions	Raise confidence	Increased levels of investment in social enterprises	Basic EU label (c.f. energy labelling)	Full EU label Consider applying to some retail funds?	Self-regulation inconsistent across EU.	Significant over longer term.
					Common framework, but not fully standardised	Increased standardisation of information	MS regulation likely to develop in different ways as market grows.	
	Social performance hard to assess	Improve tools for assessment and analysis of social returns			Study / working group	Standardised measures comparable across all funds	MS regulation does not currently address transparency needs.	Medium to significant over longer term.
	Regulatory barriers / costly cross-border fundraising / no proportionate fund rules	Ensure EU fund regulations (cross-border) reflect needs of SB	Better access of institutional investors to range of funds	Ensure efficient and effective single market	New passport attached to EU label – does not displace existing funding conduits, but adds a new option	Consider developing for retail use?	EU-wide label not emerging	Incremental now; medium over longer term.

Over medium term, different parts of package support one another – emergence of strong EU brand supported by common rules and measures of social impact, similar to emergence of UCITS brand. Start by setting in place facilitating measures, which set a foundation which can be built on. More effective / efficient to do this at start rather than wait for fragmentation in growing sector.