

## InvestEU Scoreboard<sup>1</sup>

### Presentation of the financing or investment operation:

**Implementing Partner:** European Investment Fund (EIF)

**Name of the Operation:** Second Framework Operation under Social Impact Equity Product

**Type of approval:** Framework Operation

### Type of Financial Intermediaries:

Typically venture capital funds, established in EU27 with strategies pursuing any of the Target Areas under the Social Impact Equity Product.

**Type of Final recipients:** social enterprises, impact-driven enterprises and social sector organisations.

**Country(-ies) of implementation of the operation:** EU27

### Short description of the financing or investment operation:

Framework Operation supporting investments into financial intermediaries which in turn target:

- Social enterprises
- Impact-driven enterprises
- Social sector organisations
- Any of the above in the area of skills, education and training

### Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

#### Item 12 of Annex II of the InvestEU Regulation:

*Social investments, including those supporting the implementation of the European Pillar of Social Rights*

The following additionality considerations apply to the Framework Operation.

#### Item (b) of Annex V A (2) to the InvestEU Regulation:

*Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources*

The European landscape for impact businesses and impact investing at large looks different compared to a decade ago. The growing numbers of intermediaries in the equity space supported by the EIF (from 1 in 2013 to more than 30 in 2021, including first institutional impact funds) confirms that impact entrepreneurship is on the rise. However, there is still a mismatch between capital need of impact companies/social enterprises and the availability of impact funding in the market.

Data on the size of the impact investing market in Europe is limited due to lack of commonly agreed indicators and definitions. Based on some internal EIF data, there is an estimated unmet demand of impact-driven companies of at least EUR 3.4bn per annum.

<sup>1</sup> This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

Further development of the impact investing market will therefore depend on two critical factors: (i) the availability of sufficient capital to develop impact-driven enterprises, and (ii) the establishment of impact intermediaries equipped with skills and competences towards their portfolio companies in the development of their business models. The absence of either components could lead (i) to the failure of impact businesses due to insufficient funding, or (ii) to the failure of social impact intermediaries due to weak capital absorption capacity of suitable investment targets.

Thanks to the provision of risk capital via InvestEU, the EIF can play a pivotal role on two dimensions: (i) support the establishment, growth and development of impact intermediaries equipped with skills and competences towards their portfolio companies, and (ii) increase the availability of capital inflow towards impact driven enterprises. In particular, focus will be placed on supporting first-time teams and emerging managers to ensure the market enjoys a sufficient level of diversification and sophistication, as well as providing capital to established managers to accelerate the roll out of impact investing strategies, including in novel types of interventions such as Social Outcome Contracts.

**Item (c) of Annex V A (2) to the InvestEU Regulation:**

*Support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations*

This Framework Operation is addressing significant social issues by investing in innovative companies focused on solving social issues. Such social issues are addressed by implementing investment and impact strategies that cannot be implemented without the commitment of InvestEU, even more so in the current difficult fundraising environment.

**Item (e) of Annex V A (2) to the InvestEU Regulation:**

*Support that catalyses or crowds in additional private or public financing and is complementary to other private and commercial sources, in particular from traditionally risk-averse investor classes or institutional investors, as a result of the signalling effect of the support provided under the InvestEU Fund*

EIF can play the role of cornerstone investor, thus triggering a catalytic effect on institutional investors in support of the existing or novel funds.

**Item (f) of Annex V A (2) to the InvestEU Regulation:**

*Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets*

The dissemination and the scaling up of social impact businesses remains very challenging without access to suitable intermediaries to cover their financing needs. The unmet demand is, therefore, a direct consequence of the low number of specialised impact-driven investors in the market, which often face difficulties in reaching critical mass themselves. Some particular geographies are still lagging behind in terms of access to venture capital and private equity in Europe in general and to the social impact investment market in particular. Impact investing is often considered as an emerging investment approach even in very advanced ecosystem.

Via this Framework Operation, EIF intends to pursue investments aimed at setting best practices for the European impact investing space to flourish in core markets, while at the same time building on all existing leads in emerging markets to develop a complete infrastructure market and best serve European impact companies and social enterprises.

The following market failures are addressed by the Framework Operation:

**Item (a) of Annex V A (1) to the InvestEU Regulation:**

*Have the nature of a public good for which the operator or company cannot capture sufficient financial benefits (such as education and skills, healthcare and accessibility, security and defence, and infrastructure available at no or negligible cost)*

Social impact businesses are placed in a strategic segment of the European economy, finding innovative, agile and often prevention-based solutions to societal issues, especially in the field of access to affordable and quality healthcare services, education and lifelong learning, employment, social and financial inclusion, civic empowerment, food waste and improvement on the food systems. These areas are all undergoing substantial changes, because of widespread social challenges faced by European societies. Social enterprises and impact companies, often relying on technological breakthrough, play an important role to foster more socially mindful approaches on the sectors mentioned above.

For instance, impact companies focused on access to quality healthcare provide immediate relief on the European ageing population by enabling longer home stay rather than placement in elderly care centers, which has a direct impact on public budgets.

The tension existing in the public budgets dedicated to welfare system is also publicly acknowledged in the majority of the EU countries and the innovation fostered by impact companies in this field may partially compensate for a reduction of public budgets towards this area, besides promoting a better quality of the welfare system.

This Framework Operation will entail strategies targeting the field of education and skills, including ed-tech. This sector is particularly important for the future of the European economy but, still, there is an important number of flaws in Europe's education and training offering: 20% of 15 year olds in the EU27 have poor reading skills, c.13% of EU27 students drop out of school, in science costly laboratory equipment creates an equity gap among schools according to their spending capacity and 40% of adults in the EU27 lack basic digital skills.

Moreover, the education sector is underdigitised and poised for its digital transformation: in 2020 only 2.5% of global education spending was digital, vs. 20% for retail and 50% for media.

The deficiencies in the educational and lifelong training spaces, call for innovation, which is best spawned by start-ups that either enable traditional actors (e.g. governments, schools, publishers, companies) to move online and scale their current offering or disrupt the incumbents. According to Preqin studies, Ed-tech sector is growing at 16.3% and will grow 2.5 times from 2019 to 2025, reaching EUR 420 billion in total global expenditure. Even at this level, Ed-tech and digital expenditure will only make up 5.5% of the EUR 7.5 trillion global education market in 2025.

Finally, social and impact-driven enterprises will play an important role especially in countries with high unemployment rates<sup>2</sup>.

**Item (c) of Annex V A (1) to the InvestEU Regulation:**

*Information asymmetries, in particular in case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities*

<sup>2</sup> [eif working paper 2021\\_75.pdf](#)

According to a European Commission study, the average funding gap of equity investments in the European Union for social enterprises is estimated around EUR 6.7 billion for the period from 2021 to 2027<sup>3</sup>.

Despite their positive impact generation, social impact businesses in Europe face even more challenges than standard SMEs in accessing finance due to the lack of a global ecosystem and a suitable funding infrastructure

**Item (e) of Annex V A (1) to the InvestEU Regulation:**

*Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology*

The social impact and skills investment space is still perceived by investors as a risky market segment from a financial perspective, because of the double bottom line approach taken by impact fund managers i.e., generating positive social and/or environmental impact, while at the same time delivering financial performance. This perception leads to difficult fundraising environment generated by a subscale commitment of private investors.

It should also be acknowledged that this perception is evolving for a number of reasons e.g., the urgency of the social and/or environmental challenges, the activism of European civil society (through entrepreneurship) on social and/or environmental topics, or the emergence of impact success stories in the headlines. This evolution requires significant public funding to catalyse private investments that still represent a minority of investors in the impact investing space.

InvestEU is designed to address this market failure and plays a crucial role in nurturing the growth of a European social impact investing ecosystem. Such European social impact investing ecosystem would not be able to operate without the existence of InvestEU.

Building on the market infrastructure created to date, via the Sub-Projects falling under the Social Impact Equity, EIF expects to:

- bring emerging intermediaries to institutional investment standards
- select quality impact fund managers who can prove access to a quality deal flow
- equip impact funds with an adequate capital base that allows them to execute their investment strategy in the long term;
- provide social enterprises and impact-driven enterprises with funding opportunities at par with those for other SME across Europe, in order to support them both in their incubation stage as well as in their path to scale
- promote innovative investment instruments, such as Social Outcome Contracts
- provide social enterprises and impact-driven enterprises with funding opportunities at par with those for other SME across Europe, in order to support them both in their incubation stage as well as in their path to scale.

**Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (Excellent)**

**Pillar 4 - Financial and technical contribution by the Implementing Partner (Excellent)**

**Pillar 5 - Impact of the financing or investment operation (Very Good)**

<sup>3</sup> Social enterprise finance market: analysis and recommendations for delivery options. [Publications catalogue - Employment, Social Affairs & Inclusion - European Commission \(europa.eu\)](#)

**Pillar 7 - Complementary indicators<sup>4</sup>**

<b>Key characteristics</b>	<b>Expected as of time of submission</b>	<b>Comments</b>
Leverage Effect	Indicative average of c. 4-4.5x	Preliminary estimation
Multiplier Effect	Indicative average of c. 10x	
Expected amount of investment mobilized	Indicatively 12x of EIF investment expected to be mobilized at the level of final recipients of the Sub-Projects	
<b>SISW specific Indicators</b>		
(b) social enterprise finance: social enterprises/impact-driven enterprises	Indicatively between 250 to 350	Preliminary estimation

**ESG aspects**

Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.

By its own nature, impact investing goes beyond ESG practices, as it seeks to generate quantifiable benefits to society through investment instruments that consider social and/or environmental impact as an investment criterion at least at-par with the financial risk/return profile. However, given their sensitivity to societal issues in their very investment strategy, impact funds typically attribute a higher degree of importance to overall ESG criteria than mainstream VC fund managers do.

<sup>4</sup> The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.