

European social entrepreneurship funds

2011/0418(COD) - 07/12/2011 - Legislative proposal

PURPOSE: to provide support to the market for social businesses by improving the effectiveness of fundraising by investment funds that target these businesses.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: increasingly, investors are pursuing social goals and are not only seeking financial returns. In this way, a social investment market has been emerging in the Union, **comprised in part by investment funds targeting social undertakings**. According to the Global Enterprise Monitor 2009 report, between 3% and 7.5% of the workforce in selected EU Member States were employed in various forms of social businesses. Some estimates suggest social investments could grow rapidly to become a market well **in excess of EUR 100 billion**.

Social businesses are almost exclusively SMEs and 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**, since a market for investment funds whose main objective is investing in social businesses has taken shape. In order to distinguish such targeted funds from wider social investment funds, these targeted funds are referred to as “social entrepreneurship funds” in this proposal.

Evidence on regulatory and market failings shows **two problems are limiting the growth of social entrepreneurship funds**: (i) regulatory requirements at EU and national levels are not tailored to facilitate the raising of capital by these kinds of funds; (ii) social entrepreneurship funds are not flourishing across all Member States, but are currently geographically uneven in their distribution.

Accordingly, it is necessary to lay down **a common framework of rules** regarding the use of the designation “European Social Entrepreneurship Fund”, in particular on the composition of the portfolio of funds that operate under this designation, their eligible investment targets, the investment tools they may employ and the categories of investors that are eligible to invest in such funds by uniform rules in the Union.

In the [Single Market Act](#), the Commission undertook to put in train several measures to ensure EU social businesses can flourish, including by tackling such financing weaknesses. The current proposal is one initiative that delivers on that commitment. It forms part of the Commission's [Social Business Initiative](#), which aims to tackle wider issues in this sector. It is complementary to the [proposal 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.

IMPACT ASSESSMENT : the impact assessment identified two key problems:

(1) information made available to investors pertaining to social undertakings, the investment policies and screening procedures followed by social entrepreneurship funds and the measurement of social impacts is either insufficient or not presented in a comparable manner;

(2) regulatory approaches to the fundraising of organisations specialising in investments in social businesses were not sufficiently tailored to the specific needs of social entrepreneurship funds.

The assessment identifies **three key objectives**: (i) improving the clarity and comparability of investment funds targeting social businesses; (ii) improving tools for assessing and analysing social impacts; and (iii) better reflecting the needs of social entrepreneurship funds in the rules applying to such funds across the Union.

The impact assessment concluded in favour of a standalone framework for defining the funds and the rules applying to them, to facilitate national and cross border fund- raising including the development of a **European 'brand' of social entrepreneurship funds** supported by strong transparency measures.

LEGAL BASIS: Article 114 TFEU.

CONTENT: the aim of the proposed Regulation is to create **a legislative framework tailored to the needs of social undertakings**, investors seeking to fund such undertakings, and the specialised investment funds that seek to mediate between the two. It aims to achieve **a high level of clarity as to the characteristics that distinguish social entrepreneurship 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 entrepreneurship funds.

The proposed Regulation aims to address the problems identified by introducing:

- uniform requirements for the managers of collective investment undertakings that operate under the designation "European Social Entrepreneurship Fund";
- requirements as to the investment portfolio, investment techniques and eligible undertakings that a qualifying social entrepreneurship fund may target;
- uniform rules on which categories of investors a qualifying social entrepreneurship fund may target and on the internal organisation of the managers that market such qualifying funds.

The proposed Regulation also takes the special characteristics of social undertakings into account. Social undertakings have the achievement of positive social impact as their principle objective. Therefore, this Regulation requires that a qualifying portfolio undertaking should have a **measurable and positive social impact**, use its profits to achieve its primary objective and that it is managed in an accountable and transparent way.

As managers of collective investment undertakings that operate under the designation "European Social Entrepreneurship Fund" will be subject to identical substantive rules across the EU, they will benefit from **uniform requirements for registration and an EU-wide passport**, which will help create a level playing field for all participants in the market for the funding of social entrepreneurs.

BUDGETARY IMPLICATIONS: there are no budgetary implications.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the EU.