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Study on State aid for access to finance for social enterprises and for the recruitment of disadvantaged workers in the form of wage subsidies

Final Study

Deloitte

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List of abbreviations

Abbreviation	Meaning
CEE	Central and Eastern Europe
EC	European Commission
ESEM	European Social Enterprise Monitor
ESF+	European Social Fund Plus
ESUS	Solidarity Enterprise of Social Utility
EU	European Union
GBER	General Block Exemption Regulation
MS	Member States
RFG	Risk Finance Guidelines
SEs	Social enterprises
SGEI	Services of general economic interest
SMEs	Small and Medium-Sized Enterprises
TFEU	Treaty on the Functioning of the European Union
WISE	Work integration Social Enterprise

Abstract

This study examines the application and impact of the General Block Exemption Regulation (GBER) in supporting social enterprises (SEs) and the recruitment of disadvantaged workers across European Union (EU) Member States (MS). Findings reveal that national authorities often prefer alternative funding sources over GBER, citing reasons such as low awareness of State aid rules, the complexity of the GBER, and administrative challenges. SEs face barriers to accessing finance, including limited legal status recognition and complex regulatory environments. SEs rely heavily on de minimis State aid schemes, but this may impede their growth. State aid rules for access to finance, particularly relating to age limits and private investment requirements, may pose hurdles for SEs' financial access. Services of General Economic Interest (SGEIs) are underutilized by SEs, one reason reported being the difficulty in formulating public service obligations by public authorities. Addressing these barriers requires simplifying State aid rules, enhancing awareness, and creating supportive regulatory frameworks tailored to SEs' needs. Additionally, efforts to improve access to finance should prioritize reducing complexity and fostering an environment conducive to both SMEs and SEs. As regards to disadvantaged workers, there are support schemes in all the countries surveyed, both within and outside the social economy. In most countries, the support does not constitute State aid in the view of the national authorities or falls under *de minimis* ceilings. The GBER rules could however be improved by an extension of the list of disadvantaged workers and of the timeframe for the recruitment of disadvantaged workers (to 24 months) and severely disadvantaged workers (to 36 months).

Executive summary

This document presents the results of the *Study on State aid for access to finance for social enterprises and for the recruitment of disadvantaged workers in the form of wage subsidies* commissioned by the Directorate-General for Employment, Social Affairs and Inclusion. The presented findings and conclusions are based on an analysis of primary data obtained via various research methods including desk research, more than 40 interviews with representatives of international organizations, EU and national umbrella organizations of Social Enterprises (SEs), SEs in different EU MS, national authorities in selected EU MS, financial intermediaries and other relevant stakeholders conducted between July 2023 and February 2024. The Primary objectives of the Study were to research:

1. The extent to which conditions enshrined in the **General Block Exemption Regulation**[1] known as GBER (particularly Articles 21 on Risk finance aid SMEs and Article 22 on finance aid for startups) or other **State aid rules facilitate access to finance for SEs.** To what extent State aid rules effectively address market failures and other relevant obstacles to access to finance for SEs, and to what extent it leverages private resources.
2. The extent to which the respective durations of **1 and 2 years** allowed by the GBER (Articles 32 and 35) provide a sufficient timeframe for the **recruitment of "disadvantaged workers" and "severely disadvantaged workers"**. Whether this timeframe allows for a sustainable entry or re-entry into the labour market of (severely) disadvantaged workers, which sometimes involves retraining or upskilling/reskilling.

The results of the Study revealed a generally limited application and impact of the GBER in supporting the finance of SEs and the recruitment of disadvantaged workers. National authorities more frequently and preferably use ESF+ (subsidies or financial instruments), other EU programmes, *de minimis* schemes or schemes not postulating State aid to support SEs.

According to the respondents and the overall analysis of the evidence collected, the following findings were identified.[2] They explain why the GBER is often unused and highlight the situation of SEs on the internal market.

General findings

- The predominant reason for the limited application and impact of the GBER is that the **majority of social economy actors lack knowledge and command of State aid rules in general.**
- **The GBER in particular is considered too complex and complicated** with far too many conditionalities and interdependencies, number of ceilings, limits and conditions in different articles. This leads to a lower level of knowledge of the GBER among public authorities in all MS and therefore a lower level of ability, interest, and willingness to apply it.

[1] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. Consolidated text after the amendment from June 2023: [EUR-Lex - 02014R0651-20230701 - EN - EUR-Lex (europa.eu)]

[2] Interestingly the EASPD study from 2023 concluded with the same or very similar findings. European Association Of Service Providers For Persons With Disabilities (EASPD): Impact of State Aid on the Development of the Social Economy and on Service Providers for Persons with Disabilities, 2023.

- State aid procedures have been found to be **demanding and difficult to administer** on the national level (both for public/state authorities and for beneficiaries). The setting of conditions, the administrative complexity of reporting on the State aid provided, and, above all, the risk of unauthorised provision, subsequent invalidity of contracts and the enforcement of the recovery of the aid provided discourage a significant number of authorities from the State aid schemes.
- The **GBER does not take into account the specific business case and operating model of SEs**. While the business model of SEs usually focuses on social impact[3], the business model of non-social-economy SMEs usually focuses on profitability and attractiveness to investors. State aid rules may not significantly hamper, but do not improve, SEs access to finance either.
- Besides the GBER, notification of State aid schemes remains possible. However, the **demanding process of formal notification** including preparation of documentation, justification, negotiating and approving State aid schemes before the European Commission, the fear of possible errors and mistakes, may in some cases be an *a priori* reason not to use the formal notification procedure.
- The same administrative burden and fear of failure apply to the same extent to the possibilities of entrustment of Services of General Economic Interest (SGEIs) .
- In some cases, support for SEs or the recruitment of disadvantaged workers takes place without granting State aid in the sense of Art. 107 (1) TFEU. The argument is often made that public support from public authorities to SEs does not have the potential to distort competition and does not favour any company.
- **Low awareness and recognition of the principles and benefits of SEs among national authorities and the general public** leads to low public support and low consumer preference.
- Low awareness, combined with the inherent fear of litigation by unsuccessful tenderers, leads to a **widespread lack of socially responsible public procurement** from which SEs could benefit.
- In order to take advantage of available State aid and public support, SEs often tend to secure financing streams by employing disadvantaged workers if State aid or public support for relevant wage costs is available, thus moving these workers into the "protected" labour market and work integration *modus operandi*. In some countries, a certain threshold of employed disadvantaged workers or people with disabilities is a condition to be considered as an SE and to be eligible for specific support.
- **The complexity, difficulty and limitations of State aid rules lead to an overuse of public support under *de minimis* rules**. On one hand, given the average annual turnover, capacities and capabilities of most SEs, the *de minimis* rule seems to be sufficient and more efficient for most SEs. Also, the administration of *de minimis* aid is considered to be much simpler for both public authorities and beneficiaries. On the other hand, the small amount of support under the *de minimis* rule hinders further growth and expansion of SEs, preserves the current scope of activities and thwarts aspirations. The announced increase of the *de minimis* and SGEI ceiling was therefore warmly welcomed by the respondents hoping for positive effects on the SEs growth.
- **State aid rules, as laid out in the GBER, are not used to their full potential within EU MS**. The national authorities of the EU MS tend to scrutinise the rules and

[3] Measuring social impact is often being identified, particularly by the public, State authorities – less by SEs themselves, as one of the key challenges to verify the undertaking as a genuine SE.

conditions, making some of the possibilities not available at all, e.g., downsizing the eligibility period for providing wage subsidies to recruit disadvantaged workers.

On access to finance for SEs

SEs face barriers in development and access to finance due to the lack of specific legal status in most countries, hindering access to private investment. While progress has been made in regulatory frameworks in some nations, such as Italy, Lithuania[4] and outside of the EU in the United Kingdom, some EU MS have created legal statuses available to one or several legal forms that meet specific criteria (e.g. Denmark, Luxembourg and Slovenia), others lack advantageous legal or tax statuses for SEs. This lack of recognition leads to reliance on limited public subsidies, donations, and foundation funding, which restricts scalability.

Also, common barriers to access to finances include low returns on investments, profit distribution limits, unattractive tax policies, and complicated legislative frameworks.

Additionally, challenges like lack of funding for startups and patient capital further impede SEs development. SMEs, including SEs, also face general barriers such as high interest rates, uncertain funding environments, and decreased financial instrument availability.

Access to finance for SEs across the EU is hindered by a lack of comprehensive data and varying regulatory frameworks among MS. Many countries, including Finland, and the Czech Republic, lack specific legal structures for SEs. Many others do not maintain compulsory registers, making it challenging to accurately assess SEs activities. In some countries, e.g., Lithuania, regulatory frameworks are under development. Differences in regulatory environments between Western and Southern Europe, where there is a stronger tradition of social economy, and Central and Eastern Europe (CEE), which has a socialist legacy, impact the development of SEs. In CEE countries, SEs often rely more on State subsidies and grants, while Western European nations see greater involvement of cooperatives and associations in the social economy.

Public support for SEs is often provided through *de minimis* Regulations, which are easier to implement than the GBER. *De minimis* schemes allow for simpler access to finance for SEs, but they may also have limitations that hinder the growth and scalability of these enterprises.

While most conditions set out in the GBER (on aid for access to finance) do not significantly impede access to finance for SEs, challenges remain. These include the required private investment share and the 10-year age limit in Article 21 GBER.

Overall, addressing these challenges and fostering a more supportive regulatory environment could enhance access to finance for SEs across the EU, promoting their growth and impact in addressing social and environmental challenges.

On Services of General Economic Interest (SGEI)

[4] Lithuania is currently updating the legal definition of social enterprises in the legal framework. This definition will not only distinguish social enterprises from traditional for-profit enterprises, but also take into account their unique characteristics, objectives and contribution to society. The updated legal framework will be compatible with Council recommendation developing social economy framework conditions and will provide clearer criteria for granting social enterprise status, thus ensuring transparency, accountability, and sustainability.

SEs face challenges in being entrusted with SGEI due to the unclear definitions of public service obligations by public authorities and the difficulties in demonstrating their capacity to provide required services. Systemic exceptions exist in countries like Belgium, Greece and Germany, where some categories of SEs receive funding for SGEI. Despite the widely used SGEI across EU MS, it was not in the scope or ability of this Study to encrypt the role of SEs.

On recruitment of disadvantaged workers

As regards to disadvantaged workers, there are support schemes in all the countries surveyed, both within and outside the social economy. In most countries, the support does not constitute State aid in the view of the national authorities or falls under de minimis ceilings.

The conditions outlined in the GBER for State aid regarding the recruitment of disadvantaged workers are not significant obstacles. However, for some EU MS and stakeholders, the GBER could however be improved by an extension of the list of disadvantaged workers and of the timeframe for the recruitment of disadvantaged workers (to 24 months) and severely disadvantaged workers (to 36 months).

*

1. Introduction

This document presents the final results of the *Study on State aid for access to finance for social enterprises and for the recruitment of disadvantaged workers in the form of wage subsidies* under the Service contract no. VC/2023/0215 awarded by the Directorate-General for Employment, Social Affairs and Inclusion. The presented findings are based on the results of an analysis of secondary and primary data collected via various research methods conducted between June 2023 and January 2024. The Study provides evidence for two main research questions:

1. Do the conditions enshrined in the **GBER**[5] (particularly Articles 21[6] on Risk finance aid for SMEs and Article 22[7] on finance aid for startups) and other **State aid rules facilitate access to finance for SEs?** To what extent do State aid rules effectively address the market failures and other relevant obstacles to access to finance for SEs? Does it help to leverage private resources?
2. Do the respective durations of **1 and 2 years** allowed by the GBER (Articles 32 and 35)[8] provide a sufficient timeframe for the **recruitment of "disadvantaged workers" and "severely disadvantaged workers**"? Does this timeframe allow for a sustainable entry or re-entry into the labour market of (severely) disadvantaged workers, which sometimes involves retraining or upskilling/reskilling?

The aforementioned objectives were divided into the following research tasks that guide the structure of the document:

Figure 1 Research tasks overview

Task 1	Study the extent to which social enterprises are able to finance themselves and the way Member States financially support social enterprises and, where such financing is State aid in the sense of Article 107 (1) of the Treaty, if and to what extent Member States are using the possibilities under the GBER, in particular Articles 17 (SME investment aid), 21 (risk-finance aid), 22 (start-up aid);
Task 2	Examine if the maximum aid amounts or the eligible age of the beneficiary enterprises, as set out in these Articles, allow proportionate support;
Task 3	Collect evidence as regards the funding gap at the level of social enterprises and if it exceeds the caps fixed in the GBER

[5] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. Consolidated text after the amendment from June 2023: EUR-Lex - 02014R0651-20230701 - EN - EUR-Lex (europa.eu)

[6] The objective of Article 21 is to incentivise private investment in riskier but commercially viable SMEs. The private investors receive an advantage that constitutes State aid, because, for example, the public co-investor accepts more risk or delayed remuneration, but the investments are expected to be profitable. The text of Article 21 has been updated extensively over the years. The presentation of its main provisions below considers the revision operated by the Regulation of 23 June 2023. There are several conditions to be met, e.g., the risk finance must be provided via financial intermediaries or fund managers for undertakings not older than 10 years, not exceed EUR 16.5 million and the participation of private investors must exceed certain thresholds. See more information under Annex 2.

[7] GBER defines start-ups as small, unlisted undertakings that, in general, are registered for less than five years. The maximum amounts of aid fixed by the June 2023 amendment of the GBER are as follows: grants (up to EUR 0.5 million), loans (up to EUR 1.1 million), guarantees (up to EUR 1.65 million), equity (up to EUR 0.5 million) or tax incentives (up to EUR 0.5 million). Higher amounts are allowed for investments in start-ups located in assisted areas under Article 107(3)(a) or (c) TFEU. See more information under Annex 2.

[8] Aid under Article 32 consists in a wage subsidy of up to 50% during one year for the first and two years for the second category of workers. Aid under Article 35 can subsidise up to 50% of the costs related to staff assisting the (severely) disadvantaged workers during 1 respectively 2 years. See more information below or under Annex 2.

Task 4	Study the way Member States financially support social enterprises under the specific State aid rules applicable to compensation granted for the provision of services of general economic interest (9);
Task 5	Examine if national authorities would find useful to notify the Commission, of aid measures in favour of social enterprises, which do not meet all GBER conditions and thus would have to be assessed under other State aid rules such as the Risk Finance Guidelines.
Task 6	Study the way Member States use the possibilities under Articles 32 and 35 of the GBER, within and outside the social economy;
Task 7	Investigate whether the currently allowed 1 or 2-years eligibility periods demonstrably were sufficient or too short to allow the beneficiary undertaking to offer the disadvantaged worker(s) continuous employment;
Task 8	Examine the solutions aid granting authorities implemented in order to resolve any issue with the implementation of Articles 32 and 35;
Task 9	Develop meaningful benchmarks on the duration of aid provided for recruitment (existing practice and possible changes desired by stakeholders).

Definition of a Social Enterprise (SE)

This Study refers to the definition of an SE as laid out in Regulation 2021/1057 and ESF+ programme documentation. **An SE is an undertaking**, regardless of its legal form, including social economy enterprises or a natural person that:

a) in accordance with its articles of association, statutes or with any other legal document that may result in liability under the rules of the Member State where an SE is located, **has the achievement of measurable, positive social impacts, which may include environmental impacts, as its primary social objective** rather than the generation of profit for other purposes, and which provides services or goods that generate a social return or employs methods of production of goods or services that embody social objectives;

b) **uses its profits first and foremost to achieve its primary social objective**, and has predefined procedures and rules that ensure that the distribution of profits does not undermine the primary social objective; and

c) **is managed in an entrepreneurial, participatory, accountable and transparent manner**, in particular by involving workers, customers and stakeholders on whom its business activities have an impact.

Definition and assessment of State aid

For a measure to qualify as “State aid” as laid out in the Treaty on the Functioning of the European Union (Art. 107(1)), different criteria must be fulfilled:

- **State aid** as a transfer of State resources **favouring an undertaking** or a group of undertakings **must not distort, or threaten to distort, competition or affect trade between MS.** State aid can take many forms (subsidies, granting of loans with preferential interest rates, tax breaks, etc.).

In principle, State aid is prohibited, but this prohibition is not absolute. Providing State aid is acceptable only when specific conditions are met. Possible justifications may be environmental protection or recruitment of disadvantaged workers. Such specific criteria are detailed in several EU texts.

- National authorities in EU MS that want to implement a State aid measure have to **notify the European Commission** for prior authorisation. However, **many types of State aid measures can be implemented directly if they comply with the conditions detailed at the EU level in the GBER.**

De minimis Regulations

De minimis aid measures are aid with a low amount, which are by Regulation not considered State aid under EU law provided they do not exceed a specific threshold. There is one general *de minimis* Regulation and several specific ones applicable to determined sectors. For the purpose of this Study, only the general *de minimis* Regulation and the specific one applicable for SGEIs are considered. Both Regulations were revised recently. In particular the ceilings were increased to adjust for inflation and a mandatory *de minimis* register at the national or EU level will be set up to increase transparency and relieve companies of the obligation to keep a record of the *de minimis* aid they received.

Under the general *de minimis* Regulation[9], MS can provide aid without a specific justification up to a specific ceiling, calculated over a period of three years. Until 31 December 2023, the ceiling was EUR 200,000, and on 1 January 2024 it was increased to EUR 300,000.

Under the SGEI *de minimis* Regulation[10], MS can provide aid up to EUR 500,000 (over three years) before 1 January 2024 or up to EUR 750,000 from 1 January 2024 to any enterprise entrusted with a SGEI for compensation.

Most of the research and stakeholder interviews in this Study were conducted before the end of 2023. However, the latter were aware of the Commission's intention to increase the ceilings.

Definition of Services of General Economic Interest (SGEI)[11]

The Study also explores the extent to which SGEI is used to provide finances to SEs or to recruit disadvantaged workers. The European Commission defines SGEI as "economic activities which deliver outcomes in the overall public good that would not be supplied (or would be supplied under different conditions in terms of quality, safety, affordability, equal treatment or universal access) by the market without public intervention". Specific EU rules allow the provision of State aid to entities that are entrusted with this kind of specific mission. The basic principle is that public funding can compensate for the costs of a specific mission but that overcompensations should be avoided.

State aid in the form of SGEI can be provided and SGEI entrusted if all the following criteria are in place:

- the **entrustment act**, a public service assignment that defines the obligations of the service provider(s) and of the public authority;

[9] https://eur-lex.europa.eu/eli/reg/2023/2831
[10] https://eur-lex.europa.eu/eli/reg/2023/2832
[11] In the sense of the Communication from the Commission on the application of the European Union State aid rules to compensation granted for the provision of services of general economic interest, OJ C8, 11.1.2012, p. 4; Commission Decision of 20.12.2012, on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, OJ L7, 11.1.2012, p. 3; Communication from the Commission, European Union framework for State aid in the form of public service compensation (2011), OJ C8, 11.1.2012, p. 15; Commission Regulation (EU) No 360/2012 of 25.4.2012, on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid granted to undertakings providing services of general economic interest, OJ L 114, 26.4.2012, p. 8. https://competition-policy.ec.europa.eu/state-aid/legislation/sgei_en

- the method for calculating the **compensation**, which has to be established in advance in an objective and transparent manner. No specific formula is required, but how the compensation will be calculated must be clear from the outset;
- no overcompensation, the level of compensation must not exceed what is necessary to cover all or part of the costs and a reasonable profit; and
- the selection of a provider and the calculation of the compensation, either under an appropriate tendering procedure or through a benchmarking exercise.

According to the 2003 Altmark judgment[12] of the Court of Justice of the European Union (CJEU), **public service compensation** does not constitute State aid when four cumulative conditions are met:[13]

- the recipient service provider must have **clearly defined public service obligations**;
- the method for calculating the compensation must be **objective, transparent and set out in advance**;
- the compensation cannot exceed the **relevant costs and a reasonable profit**, i.e. no overcompensation; and
- the provider is either chosen through **a public procurement procedure** or the level of compensation is calculated based on an analysis of the costs of an **average "well-run" business** in the sector concerned.

For better understanding of the definition of an SE and the aforementioned Articles, see "*Annex 2 – GBER & social enterprises, basic concepts*" prepared by the services of the European Commission and provided to the study's respondents.

Social Economy

In some passages the Study refers also to social economy as a broader category than SE. For the purpose of this Study, "**social economy**" means a set of private law entities providing goods and services to their members or to society, encompassing organisational forms such as cooperatives, mutual societies, associations (including charities), foundations or SEs, as well as other legal forms, that operate in accordance with the following key principles and features:[14]

a) the primacy of people as well as social or environmental purpose over profit;

b) the reinvestment of all or most of the profits and surpluses to further pursue their social or environmental purposes and carry out activities in the interest of their members/users ('collective interest') or society at large ('general interest'); and

c) democratic or participatory governance.

[12] Avalable at: EUR-Lex - 62000CJ0280 - EN - EUR-Lex (europa.eu)
[13] https://eur-lex.europa.eu/EN/legal-content/summary/state-aid-application-of-rules-for-services-of-general-economic-interest-sgei.html
[14] For more information visit: Council Recommendation of 27 November 2023 on developing social economy framework conditions

Disadvantaged workers

Disadvantaged worker:

a) has not been in regular paid employment for the previous six months;
b) is between 15 and 24 years of age;
c) is over 50 years of age;
d) has no secondary or professional qualifications;
e) is single with dependents;
f) works in a sector or profession in a Member State with a gender imbalance; or
g) is a member of an ethnic minority.

For the purpose of this Study the category of "disadvantaged workers"[15] follows strictly the definition as of the GBER Article 2(4):

[15] "Disadvantaged workers" cannot be interchangeable with "disabled workers" for which other (more generous) State aid possibilities are spelled out in the GBER.

Severely disadvantaged worker:

- has not been in regular paid employment for at least 24 months; or
- has not been in regular paid employment for at least 12 months and belongs to one of the categories (b) to (g) of ‘disadvantaged worker” above.

Aid for the recruitment of disadvantaged workers may be granted in the form of wage subsidies, up to 50% of the eligible costs.

The eligible costs are the wage costs over a 12-month period or a 24-month period in the case of severely disadvantaged workers, such as those that are not in regular employment for at least 24 months. If the period of employment is less than 12 or 24 months, the aid must be reduced *pro rata*. However, recruited workers must be entitled to employment for at least the minimum period that is stated in national law.

The Commission must be notified about individual aid for the recruitment of disadvantaged workers if it exceeds EUR 5.5 million per undertaking, per year.

2. Methodological approach of the study

This chapter describes the methodological approach taken during the implementation of the project. It includes:

- Desk research and meta-analysis of existing documents, studies, assessments and surveys
- A survey among national authorities, EU umbrella organizations and international organizations
- A survey among SEs
- Interviews with representatives of national authorities, international organizations and umbrella organizations
- Case studies (additional interviews with SEs, national umbrella organizations, associations, financial intermediaries, investors)
- A validation workshop with the Commission representatives and stakeholders

In addition to conducting a broad analysis of access to finance for SMEs throughout the EU, the study primarily concentrated on examining access to finance for SEs and the recruitment of disadvantaged workers in 12 specific EU MS. The selection process for these states took into account various criteria to reflect the diverse approaches and contexts within the EU. Specifically, the selection aimed to encompass all regions of the EU, including Northern, Western, Southern, and Eastern Europe, thereby implicitly addressing other relevant criteria:

- Long-term unemployment rate in %
- Youth unemployment rate in %
- Level of development of social economy
- Estimated share of employment in social economy in %
- Funding gap in reverse % values (based on ECSF[16] data)
- Regional coverage (3 MS per region: Western Europe, Northern Europe, Southern Europe, Central and Eastern Europe)
- Maturity of the social economy sector[17]
- Traditionally liberal and post-socialist countries
- Countries with smaller and larger populations
- Countries covering the whole spectrum, including the best, worst, and average indicator performance

The initial selection of MS for this analysis had to be subsequently revised and adapted to the actual answers of the respondents, while maintaining the original rationale of the selection criteria. Furthermore, from these countries, a shortlist of six countries was selected using the same logic, where case studies were conducted to provide a more in-depth analysis of additional documents, supplementary interviews with other stakeholders from national authorities and SEs. Most case studies were conducted between November 2023 and January 2024. The draft Final study was shared with the interviewed representatives of national authorities for their review and was validated during a workshop at the end of February 2024.

[16] European Center for Social Finance: https://www.ecsocfin.com/
[17] Social Economy Gateway: https://social-economy-gateway.ec.europa.eu/index_en

Surveys

Two surveys covering the two main themes of the Study were launched at the beginning of September and closed at the end of December. The target group of the first survey was mainly representatives of national authorities responsible for the State aid agenda, SEs and the recruitment of disadvantaged workers. The first survey also targeted the representatives of umbrella organisations of SEs, cooperatives, associations and other stakeholders active in the social economy.

The target group of the second, slightly adapted, survey was SEs. The aim was to gather evidence directly from the final beneficiaries of the GBER. The table below shows the number of responses collected. It is not possible to calculate the response rate since the survey's wide dissemination made the final number of organisations that the survey reached unknown.

Table 1 Number of survey responses

Type of Survey	Number of responses in total	Number of EU MS covered
Survey among national authorities, umbrella organizations	56	20[18]
Survey among SEs	58	18

Interviews

The aim of the interviews was to obtain primary and indirectly secondary data from representatives of relevant international organizations, European institutions, umbrella organizations, as well as from representatives of national authorities and local stakeholders. The core consisted of a series of interviews with respondents from the selected 12 MS. The table below showcases the selected EU MS for interviews. Six countries were subsequently selected for more in-depth analysis through case studies including additional desk research, interviews with other stakeholders, other national authorities, umbrella organizations, financial intermediaries, and SEs. The selection of case studies was prioritized by the regional coverage and availability of respondents.

Table 2 Selected EU MS for interviews and case studies

EU MS	Interviews	Case study
Czech Republic	✓	✓
Denmark	✓	Not selected
Finland	✓	✓
France	✓	✓

[18] In addition, there are 7 responses representing the view of European umbrella organizations in Survey 1.

EU MS	Interviews	Case study
Germany	✓	✓
Greece	✓	Not selected
Italy	✓	✓
Lithuania	✓	Not selected
Netherlands	✓	Not selected
Poland	✓	Not selected
Slovenia	✓	Not selected
Spain	✓	✓

Figure 2 Visualisation of the EU MS selection for interviews and case studies

The Final Study analyses findings from 39 interviews across 14 EU MS with more than 40 respondents[19] representing national authorities, international and umbrella organizations, SEs, cooperatives, financial intermediaries, and other relevant stakeholders. Interviews were conducted online via MS Teams. The table below provides the overview of interviews conducted.

Table 3 List of conducted interviews

Name of organisation	Type of organization	Country coverage	Date of interview
Bruxelles Économie et Emploi Service public régional de Bruxelles	State/public authority	Belgium - Brussels	23.10.2023
Flanders, Department of work and social economy	State/public authority	Belgium Flanders	19.10.2023
Thematic network for social economy (Tessea - national network of social entrepreneurship)	Social enterprise	Czech Republic	24.10.2023
National development bank	Financial intermediary/ Investor	Czech Republic	23.10.2023
Socialni druzstvo Stabilita, Olomouc (Social cooperative)	Social enterprise	Czech Republic	25.10.2023
Ministry of labour and Social Affaires	State/public authority	Czech Republic	23.10.2023
Danish Ministry of Employment	State/public authority	Denmark	13.12.2023
Organisation for Economic Co-operation and Development (OECD)	International organization	EU	1.12.2023
EUCLID Network	Umbrella organization	EU	11.9.2023
Social Service Europe	Umbrella organization	EU	2.10.2023
European Centre of Social Finance (ECSF)	Umbrella organization	EU	24.10.2023
CEFEC - Social Firms Europe (network of Social Firms)	Umbrella organization	EU	25.10.2023

[19] Some interviews were individual, some were group interviews.

Name of organisation	Type of organization	Country coverage	Date of interview
Financer Accompagner Impacter Rassembler (FAIR)	Financial intermediary/ Investor	EU	27.7.2023
European Microfinance Network	Umbrella organization	EU	6.10.2023
European Network of Social Integration Enterprises (ENSIE)	Umbrella organization	EU	9.10.2023
Re-Use and Recycling European Union SEs (RREUSE - international network for SEs active in the circular economy)	Umbrella organization	EU	23.10.2023
Erste Group	Financial intermediary/ Investor	EU	19.10.2023
Ministry of economic affairs and employment	State/public authority	Finland	24.10.2023
The Finnish Association of SEs (ARVO)	Umbrella organization	Finland	8.1.2024
Ministry of employment	State/public authority	France	15.11.2023
Ministry Of the Economy, Finance and Industrial and Digital Sovereignty	State/public authority	France	17.11.2023
Chambre Française de l'Economie Sociale et Solidaire (ESS)	Umbrella organization	France	8.1.2024
Yunus Environment Hub	Umbrella organization / Social enterprise	Germany	13.11.2023
Federal Ministry for Economic Affairs and Climate Action	State/public authority	Germany	20.11.2023
Sozial Akademie	Umbrella organization / Social enterprise	Germany	4.12.2023
Social Entrepreneurship Akademie	Umbrella organization / Social enterprise	Germany	4.12.2023

Name of organisation	Type of organization	Country coverage	Date of interview
Social Entrepreneurship Netzwerk Deutschland	Umbrella organization	Germany	28.11.2023
The Society of Social Psychiatry P. Sakellaropoulos	Social enterprise	Greece	25.10.2023
Duemilauno Agenzia Sociale (social cooperative)	Social enterprise	Italy	25.10.2023
Consorzio Nazionale Idee in Rete	National consortium of social cooperatives	Italy	1. 3. 2024
Ministry of social affairs and employment	State/public authority	Lithuania	2.10.2023
Ministry of the Economy and Innovation of Lithuania	State/public authority	Lithuania	10.10.2023
Stichting Social Enterprise Netherlands	Umbrella organization / Social enterprise	Netherlands	20.11.2023
Social Capital Netherlands	Financial intermediary/ Investor	Netherlands	24.11.2023
Ministry of Social Affairs and Employment	State/public authority	Netherlands	1.12.2023
Ministry of Economic Affairs and Climate	State/public authority	Netherlands	1.12.2023
Ministry of Family and Social Policy	State/public authority	Poland	16.11.2023
Bucovina Institute	Social enterprise	Romania	25.10.2023
Ministry of Economy, Tourism and Sport: Ministry of Industry, Entrepreneurship and Internationalisation Directorate, Social Economy Division	State/public authority	Slovenia	24.10.2023
Ministerio de Trabajo y Economía Social	State/public authority	Spain	20.10.2023
Ministerio de Trabajo y Economía Social	State/public authority	Spain	27.10.2023

Name of organisation	Type of organization	Country coverage	Date of interview
ESADE Ramon Llull University (Academic institution)	Academic institution	Spain	5.12.2023

Desk research

For desk research, a comprehensive approach was taken to gather information from a variety of sources. This included EU-wide studies and country reports provided by European networks, the European Commission, OECD, and other relevant organizations. These sources covered a range of topics such as SEs, social economy, State aid, access to finance, and other pertinent areas. This method ensured a broad overview of the available literature and research on the subject matter. The scope of documents was continuously expanded over time. The full list of documents analysed can be found in Annex 1.

Case studies

Of the twelve EU MS selected, six were chosen as case studies for further in-depth analysis. The selection was primarily guided by an intention to cover different regions of the EU. The case studies complemented the interviews with national authorities by additional desk research, interviews with other stakeholders, i.e. financial intermediaries, other ministries in charge of State aid or social economy, representatives of national or regional SEs umbrella organisations or representatives of selected social entrepreneurs recommended by the national authority. The case studies were conducted between October 2023 and January 2024 in the Czech Republic, Finland, France, Germany, Italy and Spain.

Validation workshop

A validation workshop was held on 28 February 2024 with the participation of DG EMPL, DG COMP, DG GROW and various stakeholders[20]. The objective of the validation workshop was to present and discuss key findings and recommendations of the Study with a wide range of stakeholders. Among other things, participants agreed on the prevalent overuse of support under *de minimis*, including its likely negative impact on undertakings´ growth potential; underuse of SGEI and the overall need for greater awareness raising and capacity building of national and also local[21] authorities. Most of the participants also deemed the GBER to be too complex and difficult to understand[22], not only for SEs, but any other enterprises as well. The workshop confirmed the prevalent funding gap for primarily small and young SEs. Due to the slow return on investment, the 10-year eligibility age was considered limiting. Participating stakeholders also affirmed the inquired share of private investors may be a barrier in accessing finance and could be capped at 30% maximum.

Introduction of specific exemptions for SEs implicitly contains the potential risk of isolating SEs and social impact to SEs, instead of mainstreaming social impact objectives and social economy principles more widely among all enterprises as a general principle. An alternative way forward may be a more precise and transparent system of measuring and monetizing social impact.

[20] Euclid, ENSIE, FASE, Pulse/SOS Group, Phitrust and Clayton&Segura.
[21] Quite significant number of SEs are active on local level, affecting local markets and competition. Awareness raising efforts should therefore not neglect this target group.
[22] Recognizing number of amendments that led to the exuberance of some Articles but also growing complexity of the economy and markets.

Concerns and considerations

The Study encountered four main difficulties during its implementation:

Firstly, reaching out to interview and survey **respondents** proved to be the most demanding obstacle throughout the Study. Deloitte had to allocate additional time and capacities to reach out to relevant respondents, due to limited access to their contact details, fluctuation of staff due to changing political contexts (e.g. following the elections in Greece), or rotation of national authorities' staff. In some cases, the responses came late, or there was no response at all[23]. Thus, reaching out to the respondents spanned a longer period of time than originally anticipated.

The second main obstacle was the **respondents' limited knowledge about the GBER**. GBER, particularly Articles 21 and 22, were often considered to be complicated and complex. SEs, umbrella organizations, and in some cases even national authorities were not aware of all the conditions and technical requirements for the provision of State aid under the GBER. A number of this Study´s respondents representing national authorities (interviews as well as surveys) did not have information on which GBER articles are used for the provision of State aid in their country, or the GBER's concrete conditions and requirements.

The third main obstacle was the **division of the two topics** – State aid for SEs/SMEs and State aid for the recruitment of disadvantaged workers – **between two or more ministries**, and in some cases between several departments within one ministry. This further increased demands on reaching out to the correct respondents and should be considered in any further study.

The fourth and last obstacle was in many cases **insufficient statistical data and information on SEs**. In most countries there is no legal, regulatory framework for SEs and no registry of SEs. Therefore, the numbers of SEs, their annual turnover, number of employees, areas of operations, and age are based on estimations.

[23] In some cases probably due changing government after parliamentary elections, e.g., Greece.

3. Overview of the results

The results of the Study revealed a generally limited application and impact of the GBER in supporting SEs and the recruitment of disadvantaged workers. National authorities more frequently and preferably use ESF+ subsidies or financial instruments, other EU programmes, *de minimis* or schemes not postulating State aid to support SEs. According to the respondents and the overall analysis of the evidence collected, the following reasons were identified:[24]

- The predominant reason for the limited application and impact of the GBER is that the **majority of social economy actors lack awareness and knowledge of State aid rules in general and the GBER in particular**. State aid is often grouped together with all other types of support provided by the State/public authorities, including *de minimis*, grant and subsidy schemes, and European Structural and Investment Funds.
- **The GBER is considered too complex and complicated**, with far too many conditionalities and interdependencies, number of ceilings, limits, and conditions in different articles. The complexity and difficulty of the Regulation leads to a lower level of knowledge of the GBER and State aid rules among public authorities in all MS, and therefore a lower level of ability, interest, or willingness to apply them.
- State aid procedures have been found to be **demanding and difficult to administer** on the national level (both for public/state authorities and for beneficiaries). The setting of conditions, the administrative complexity of reporting on the State aid provided and, above all, the risk of unauthorised provision, subsequent invalidity of contracts, and the enforcement of the return of the aid provided discourage a significant number of authorities from State aid schemes.
- The **demanding process of formal notification** including preparation of documentation, justification, negotiating and approving State aid schemes before the European Commission, and the fear of possible errors and mistakes may in some cases be an *a priori* reason not to use the formal notification procedure. The same administrative burden and fear of failure apply to the same extent to the possibilities of entrustment of SGEI [25].
- The **GBER does not take into account the specific business case and operating model of SEs**. While the business model of SEs usually focuses on social impact[26], the business model of non-social economy SMEs usually focuses on profitability and attractiveness to investors. State aid rules may not significantly hamper but do not improve SEs access to finance either.
- **Low awareness and low recognition of the principles and benefits of SEs among national authorities and the general public** leads to low public support and low consumer preference.

[24] Interestingly the EASPD study from 2023 concluded with the same or very similar findings. European Association Of Service Providers For Persons With Disabilities (EASPD): Impact of State Aid on the Development of the Social Economy and on Service Providers for Persons with Disabilities. 2023

[25] In the sense of the Communication from the Commission on the application of the European Union State aid rules to compensation granted for the provision of services of general economic interest, OJ C8, 11.1.2012, p. 4; Commission Decision of 20.12.2012, on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, OJ L7, 11.1.2012, p. 3; Communication from the Commission, European Union framework for State aid in the form of public service compensation (2011), OJ C8, 11.1.2012, p. 15; Commission Regulation (EU) No 360/2012 of 25.4.2012, on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid granted to undertakings providing services of general economic interest, OJ L 114, 26.4.2012, p. 8. https://competition-policy.ec.europa.eu/state-aid/legislation/sgei_en

[26] Measuring social impact is often being identified, particularly by the public, State authorities – less by SEs themselves, as one of the key challenges to verify the undertaking as a SE.

- Low awareness, combined with the inherent fear of litigation by unsuccessful tenderers, leads to a **widespread lack of socially responsible public procurement** from which SEs could benefit.
- In order to take advantage of available State aid or public support, **SEs often tend to secure financing streams by employing disadvantaged workers if State aid or public support for relevant wage costs is available,** thus moving these workers into the "protected" labour market and work integration *modus operandi*. In some countries, a certain threshold of employed disadvantaged workers or people with disabilities is a condition to be considered an SE and to be eligible for specific support.
- **The complexity, difficulty and limitations of State aid rules lead to an overuse of public support under *de minimis* rules**[27]. On one hand, given the average annual turnover, capacities and capabilities of most SEs, the *de minimis* rule seems to be sufficient and more efficient for most SEs. Also, the administration of *de minimis* aid is considered to be much simpler for both public authorities and beneficiaries. On the other hand, the small amount of support under the *de minimis* rule hinders further growth and expansion of SEs, preserves the current scope of activities and thwarts aspirations. The announced increase of the *de minimis* and SGEI ceiling was therefore warmly welcomed by the respondents hoping for positive effects on the SEs growth.
- In some cases, support for SEs or the recruitment of disadvantaged workers takes place without granting State aid in the sense of Art. 107 (1) TFEU. The argument is often made that **public support from public authorities to SEs does not have the potential to distort competition and does not favour any company**. In many cases, due to a smaller number of employees and lower annual turnover, the amount of aid requested and granted do not exceed the limits of the *de minimis* Regulation, which is subsequently used instead of State aid. The use of *de minimis* aid to support SEs is therefore more widespread among EU MS than State aid under the GBER. *De minimis* schemes are simpler to administer for both the State/public authorities and the beneficiaries. The maximum amount of *de minimis* public support of EUR 200,000 (before the end of 2023 and then increased to EUR 300,000) is high enough not to limit the current activities of SEs given their average annual turnover. However, according to some respondents, the overuse of *de minimis* may lead to the preservation of enterprises and reduce their growth aspirations. Enterprises that have become accustomed to the support provided by *de minimis* may fall into a vicious circle of covering operating costs and losing ambitions for investment and growth.
- **State aid rules, as laid out in the GBER, are not used to their full potential within EU MS**. The national authorities of the EU MS tend to scrutinise the rules and conditions, making some of the possibilities not available at all or in some cases downsizing the eligibility period for providing wage subsidies to recruit disadvantaged workers.

3.1. Access to finance for SMEs

This chapter briefly describes the overall context for the accessibility of financial resources for SMEs, SEs and the recruitment of disadvantaged workers. It also summarises the most typical and common barriers faced by SEs.

Current situation on the financial market

[27] For this study, carried out in 2023, the relevant threshold was EUR 200,000 for de minimis support for SMEs and EUR 500,000 for de minimis support for SGEIs. These thresholds were increased to EUR 300,000 in the de minimis regime and EUR 750,000 in the de minimis SGEI regime as of 1 January 2024.

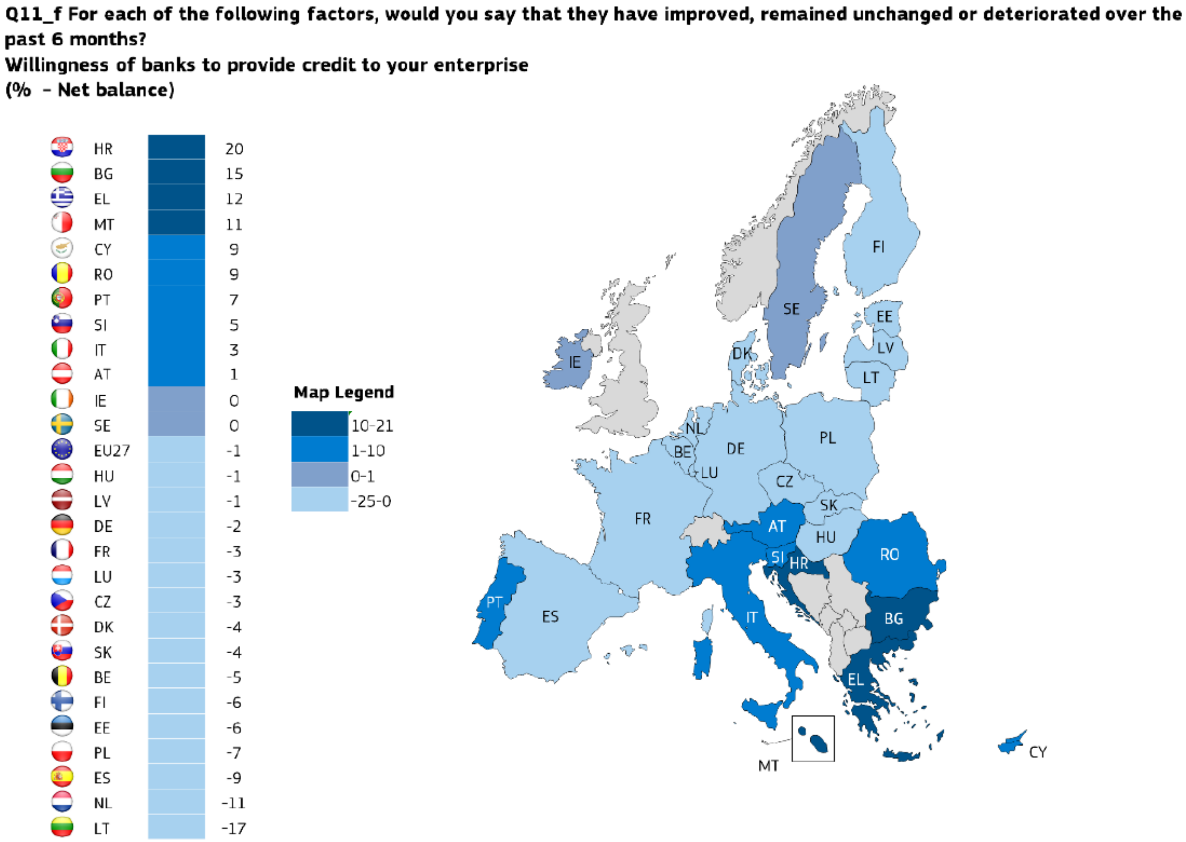
Access to finance for SEs has been affected in recent years by the COVID-19 pandemic, increased energy costs and higher inflation rates, much like any other SME in the market. Similar to the 2008 financial crisis, investors have shifted to lower-risk strategies and have prioritised absolute returns over investments. **SEs have been affected by increased caution and the suspension of less profitable investments by private investors**. The forced closure of some services during the COVID-19 pandemic also worsened the survival rate of some enterprises. The European financial market has been undergoing a turbulent time due to an initial sharp rise and following gradual decline in the inflation rate since January 2023, causes include a slow but steady decrease of energy price fluctuations, the ongoing Russian military aggression against Ukraine, and the armed conflict in the Near East.

The analyses and forecasts of the European institutions are relatively optimistic. According to the results of the European Central Bank's Survey on Access to Finance for Enterprises (SAFE), by 2023 businesses of all sizes will be facing **difficulties mainly due to a lack of skilled labour and rising input costs rather than a deterioration in access to finance**.[28] Similarly, the **availability of external financing has deteriorated slightly,** and the **financing gap across** all financial instruments (bank loans, credit lines, trade credit, and equity and debt securities issuance) also **increased only slightly**. This differs from the situation in 2021 when "the majority of SMEs in the EU27 report indicated an increasing need of finance for any type of funding, with the exception of debt securities, which remained stable"[29]. In 2023, rising interest expenses presented an additional hurdle to profitability for SMEs. Enterprises also reported a decline in the effectiveness of public financial support in securing finance. This may be the impact of the *"*phasing-out of several support measures across the euro area*"*, and *"*firms reported quite broadly that the role of public financial support was decreasing, with a net 11% decline (compared with a net 15% decline in the previous survey round)."[30]

The European Commission's 2022 SAFE report revealed a rather pessimistic start for SMEs in 2023, with 50% of surveyed SMEs expecting a worsened outlook for 2023. SMEs had reported a decline in banks' willingness to lend, with the availability of bank loans deteriorating by 8%. At the same time, 66% of SMEs with existing bank finance reported an increase in interest rates.[31] The figure below shows the 2022 SAFE respondents' assessment of banks' willingness to lend.

[28] Available here: https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202306~58c0da48d6.en.html
[29] Ibid.
[30] Ibid.
[31] European Commission: Survey on the access to finance of enterprises (SAFE).Analytical Report 2022.

Figure 3 Willingness of banks to provide credit for SMEs



Source: SAFE Report 2022, European Commission

3.2. Access to finance for SEs

In general the lack of data is the main challenge in mapping and analysing access to finance for SEs in the EU. Many EU MS do not have SE-specific legal or regulatory frameworks (e.g. Finland and the Czech Republic), which hinders effective support for this type of enterprise. In other MS regulatory frameworks are being developed. In 2024, Lithuania is planning to update its legal definition of SE. This definition should not only distinguish SEs from traditional for-profit enterprises, but also consider their unique characteristics, objectives and contribution to society. The updated legal framework will be compatible with the Council's recommendation on developing social economy framework conditions[32] and will provide clearer criteria for granting SE status, thus ensuring transparency, accountability, and sustainability. In the area of State aid, Lithuania has introduced various capacity building programmes for SEs on impact assessment, management and financial literacy.[33] Moreover, in most countries there is no compulsory register of SEs, which limits access to reliable quantitative data on their number, turnover, age and number of employees.[34] Therefore the analysis presented is mostly based on qualitative estimates and expert opinions, knowledge

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[32] EUR-Lex - 32023H01344 - EN - EUR-Lex (europa.eu)

[33] To strengthen the organisational capacity and sustainability of social enterprises, Lithuania launched the Social Enterprise Accelerator Programme in 2023, which, in addition to a lecture and workshop format, provides participants the opportunity to gain practical experience through an internship abroad.

[34] In some countries, e.g., Lithuania, there is a social enterprise platform, which allows all social enterprises in Lithuania to register and be included in the official data on social enterprises. There are currently more than 200 undertakings registered. Registration provides access to various capacity building programmes. However the registration is voluntarily not applying or assessing any particular criteria. These should be introduced in the near future to be able to sort out genuine SEs.

of selected representatives of government and public authorities, financial intermediaries, umbrella organisations and individual SEs and other stakeholders.

Despite the lack of precise information, the available data shows there are differences between EU MS in both practice and the rules governing State aid for SEs and the recruitment of disadvantaged workers. Different trends can be observed in Western and Southern Europe, places with a long social-economy heritage, and in Central and Eastern Europe (CEE) and the Baltic region, where there's a socialist State heritage. These different historical experiences influence the nature and structure of the social economy, with more state and public actors involved in the CEE region and more cooperatives and associations in Western Europe. The regulatory framework in the CEE region often downsizes the limitations and thresholds laid out in GBER and does not fully utilize all the GBER conditions, making access to finance difficult. SEs in CEE are more dependent on state subsidies and grants that aim for support and integration of people with disabilities. The availability of European Structural and Investment Funds that provide non-repayable funding to a large number of non-governmental non-profit organisations providing services to disadvantaged workers effectively supplies the market and does not encourage the creation of demanding or risky SEs. The funding gap is therefore smaller in the CEE region than in Western Europe. For example, the situation is very similar in Germany, where the majority of SEs with rather low annual turnover coexist with a complex welfare state that supports vulnerable people either directly or through deeply rooted charitable organisations.

Public support for SEs is provided in most countries through the *de minimis* Regulation[35], both for SEs access to finance and for the recruitment of disadvantaged workers. For many representatives of national authorities, financial intermediaries and SEs, the application of *de minimis* is much easier than the GBER. For forms of state support other than subsidies and grants, e.g. soft loans and guarantees, the gross grant equivalent allows access to an amount four to five times higher than the current *de minimis* limit and still falls under the *de minimis* criteria. With the increase of the *de minimis* limit to EUR 300,000 and EUR 750,000 for SGEI *de minimis* from 1 January 2024[36], the use of the GBER may even decrease. State aid for SEs and State aid for the recruitment of disadvantaged workers are often combined in a synergistic way to support the integration of disadvantaged workers into the labour market.

According to the available analysis on access to finance for enterprises[37], the results of the surveys and the interviews conducted, most of the conditions for the granting of State aid detailed in the GBER do not seem to pose a major problem for SEs in accessing finance. The overall financial ceiling of EUR 16.5 million is sufficient for the majority of respondents in Survey 1, and they do not see it as limiting the growth of SEs. SE respondents in Survey 2 disagree, and the majority (61%) would increase or remove the financial cap altogether. What is somewhat limiting, according to some of the respondents, is the required share of private investment in the sense of Paragraph 10 of Article 21[38], particularly the higher private

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[35] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2831

[36] Increase from previous EUR 200,000 and EUR 500,000. COMMISSION REGULATIONs (EU) of 13.12.2023 *on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid* and *on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid granted to undertakings providing services of general economic interest.* See: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6567

[37] See Annex 1.

[38] For risk finance measures providing equity, quasi-equity or loan investments to eligible undertakings, the risk finance measure shall leverage additional finance from independent private investors at the level of the financial intermediaries or the eligible undertakings, so as to achieve an aggregate private participation rate reaching the following minimum thresholds:

a) 10 % of the risk finance provided to the eligible undertakings prior to their first commercial sale on any market;

b) 40 % of the risk finance provided to the eligible undertakings referred to in paragraph 5(b) of this Article;

c) 60 % of the risk finance for investment provided to eligible undertakings mentioned in paragraph 5(c) and for follow-on investments in eligible undertakings after the 7-year period mentioned in paragraph 5(b).

participation of 60% that might be complicated even for established undertakings. Nearly half (49%) of the respondents of the survey among SEs would prefer to remove the condition of private participation as such. Furthermore, 31% of the respondents would reduce it to 20% participation only. “Private sector institutions would prefer to take on a lower co-financing rate (30%) without the benefit of asymmetric risk/return rather than committing to 60% co-financing.”[39] The condition that was most frequently mentioned as potentially limiting SEs' access to finance is the required 10-year age limit, as set out in Article 21(3)(b)(i). Respondents repeatedly indicated that SEs are less attractive to private investors for all the aforementioned reasons (thoroughly analysed in Chapter 4.1) and are more likely to be denied equity or loans by commercial banks[40]. In addition, their business case often fails to achieve a sustainable revenue model even after 10 years of existence. For these and many other reasons listed above, SEs often need continued support from State aid throughout their life cycle. Age limits on access to State aid often trap them in a vicious cycle of debt financing.

Barriers in SEs' development and access to finance

In most of the countries analysed, SEs do not have a specific legal status entitling them to specific support. However, there has been a visible progress on the regulatory and legislative framework for SEs over the previous decades. In some countries, a specific legal form for SEs has been adopted (e.g. Italy), whereas other countries have created legal statuses available to one or several legal forms that meet specific criteria (e.g. Denmark, Luxembourg, and Slovenia)”.[41] A well-known exception is the certification of the *Entreprise Solidaire d'Utilité Sociale* (ESUS) status in France. This certification entitles SEs that meet certain criteria to certain tax benefits. In most other countries, SEs do not have an advantageous legal or tax status and tend to be treated like any other SME. This is the main obstacle to accessing private investors, who are usually looking for a quick return on their investment. SEs surveyed also complained about the lack of awareness about their purpose and impact among investors, banks, and even politicians and the general public. This environment often forces SEs to rely on limited public subsidies and grants that are tied to eligibility conditions that SEs perceive as restrictive (mostly under ESF+) and private donations or foundation funding, which are appreciated in the early stages but often become an obstacle to further scale-up development. According to the results of the survey and the interviewees, the most common barriers that SEs face in accessing finance are as follows:

- Low return on investments
- Limits on distribution of profits
- Unattractive tax policies that don't incentivise private investments
- Overcomplicated, excessively restrictive or inadequate national legislative and policy framework with often insufficient or disorganized support schemes making it difficult to navigate the opportunities[42]

The 2022 European Social Enterprise Monitor (ESEM) Report[43] further identified the lack of funding for startups and lack of patient capital as other barriers. Direct EU funding was found to be too complicated, administratively burdensome, with uncertain results, and not a worthwhile investment of time and capacity.

[39] European commission, European Investment Bank: Notes of workshop within the fi-compass Knowledge Hub on State aid.2019.
[40] Common reasons for refusals are e.g., weak business plan, lack of collateral, low return on investments etc.
[41] OECD: Designing Legal Frameworks for SEs. Practical Guidance for Policy Makers. 2022.
[42] This corresponds with the barrier identified by 37% respondents within the ESEM 2022 Report.
[43] The European SE Monitor Report, 2021 – 2022, EUCLID, available here: https://knowledgecentre.euclidnetwork.eu/european-social-enterprise-monitor-2021-2022/?_gl=1%2A1vr5cia%2A_ga%2AODU2ODc1NzMzLjE2OTg4NDQ4MDA.%2A_ga_829YQLNDY5%2AMTcwMDc1NjI5MS4zLjAuMTcwMDc1NjMwMC41MS4wLjA.%2A_gcl_au%2AMTQ3NDA0OTIxMS4xNjk4ODQ0ODAw

Other barriers common for SMEs that are relevant also for SEs in accessing finance include lengthy authorisation procedures regarding private-market financing or public financing, costly reporting requirements, and an unpredictable and complex regulatory environment.[44] SME United reports three key barriers to accessing funding:

a) High interest rates not only have a direct impact on the cost of finance for SMEs/SEs, but also exacerbate the problem of late payments, and SME suppliers are reducing payment terms.
b) Uncertainty about the sustainable funding environment and additional reporting requirements are leading to tighter lending conditions from banks.
c) A decrease in the offer of financial instruments and their additional complexity, reduces the offer of bank loans for SMEs/SEs.

3.3. Services of General Economic Interest (SGEI)

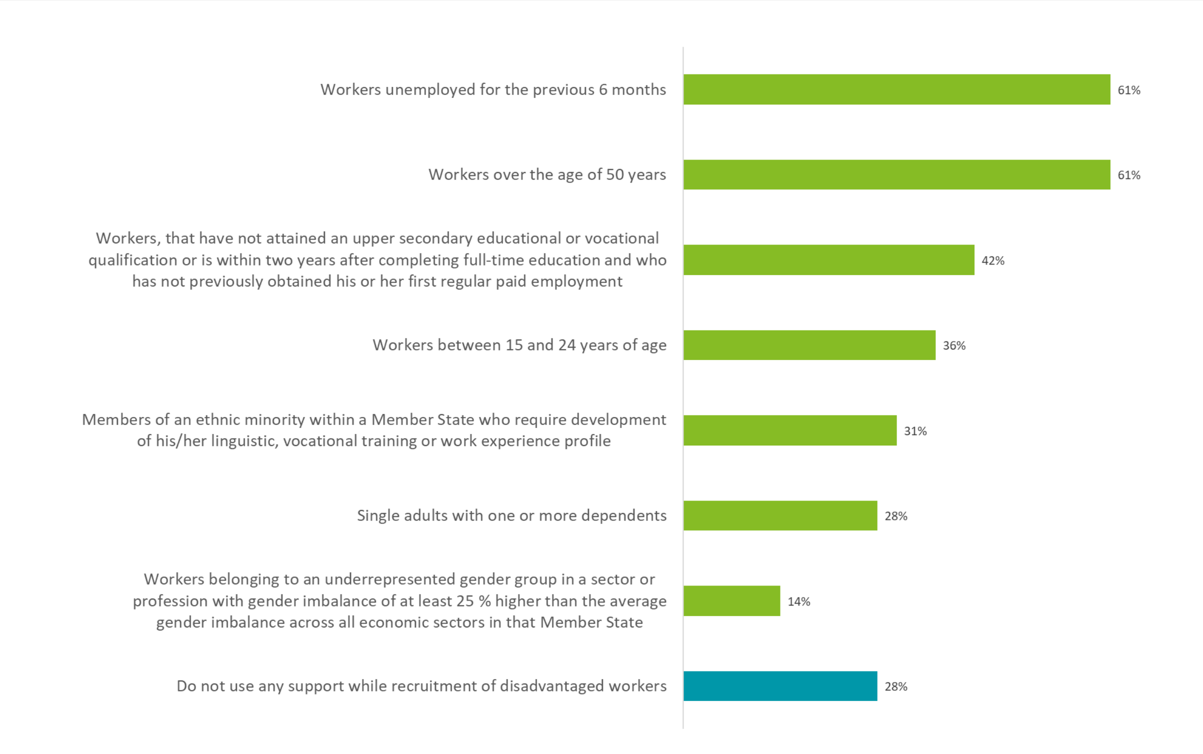
According to the results of the survey and the interviews conducted, SEs are not widely entrusted with SGEI. The main obstacle for such entrustment is the inability of public authorities to clearly define the content of relevant public service obligations. In addition, SEs often find it difficult to demonstrate their capacity and ability to provide the required services. However, there are exceptions to the funding of SEs through SGEI, for example in Belgium, Greece and Germany.

3.4. Recruitment of disadvantaged workers

The conditions of the GBER for the provision of State aid for the recruitment of disadvantaged workers, as set out in Articles 32 and 35, do not pose a major obstacle. Most public support is provided under the *de minimis* Regulation. However, some other EU MS recognise the need for ongoing support within *de minimis* limits for the recruitment of disadvantaged workers and are implementing additional measures to provide support over a longer period of time, while also broadening the range of individuals considered disadvantaged. The figure below displays how often SEs employ the different types of disadvantaged workers using State aid.

[44] https://www.smeunited.eu/news/access-to-finance-increasing-concern-for-smes

Figure 4 Use of State aid support for the recruitment of types of disadvantaged workers



Source: Survey among SEs

The survey results show that the vast majority of SEs surveyed tend to recruit workers who have not been in regular paid employment in the last six months and workers over the age of 50, followed by workers with lower educational attainment.

4. Detailed results

The following subchapters describe in detail the findings for each of the research tasks of the Study.

4.1. Task 1: Extent to which SEs are able to finance themselves and the way MS financially support SE

The purpose of this task was to: a) study the extent to which SEs are able to finance themselves and the way MS financially support SE, and b) where such financing is State aid in the sense of Article 107 (1) of the Treaty, and if and to what extent MS are using the possibilities under the GBER, in particular Articles 17 (SME investment aid), 21 (risk-finance aid), and 22 (startup aid).

Summary

The vast majority of the analysed SEs have a hybrid financing model, meaning that they combine sources from government and public authorities (grants, subsidies, and financial instruments) with private funds, investments, donations and their own revenues and resources. Their main obstacle to self-financing is a low return on

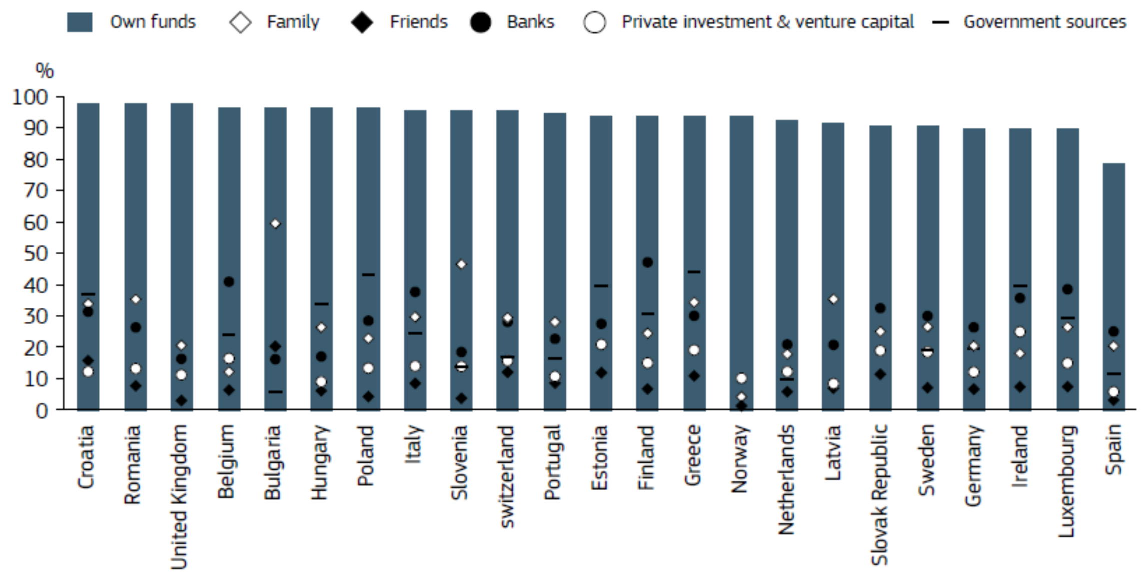
investment, which makes SEs less profitable and therefore less attractive to private investors.

Findings

There are significant differences between EU MS regarding financial markets for the social economy. These differences result from the very different heritage and maturity of the social economy and SEs. While some social-economy actors, such as cooperatives or associations, seem to be traditional actors in Western Europe as well as in post-socialist Eastern Europe, the SE landscape is much less developed in the CEE region. Among the top five EU MS with the highest number of SEs in relation to their population, only one is from the CEE region (Poland). The countries with the highest number of SEs per million inhabitants are Italy, Hungary, Luxembourg, Belgium, and France. [45] Conversely, the countries with the lowest number of SEs per million inhabitants are Estonia, Cyprus, Croatia, Greece and Denmark.[46] The social economy also differs in the number and maturity of investment opportunities, actors, and private investors. According to the European Microfinance Network "while long-term borrowed funds are the main funding source in both regions, subordinated debt is the second main funding source in the West. In Eastern Europe, long-term deposits, paid-up capital, and other long-term liabilities are significant".[47]

Despite the differences, universal sources of funding are behind the creation of most SEs, the so-called three Fs: founders, friends, and family. State subsidies and grants play a crucial role in the funding portfolio of most SEs in the early stages of the enterprise. Revenues from their own income or membership fees are inherent sources of funding for SEs, but in most cases they are not the critical elements in the early years. Viable SEs benefit from a mix of listed resources that provide a stable cash flow.

Figure 5 Percent of early-stage entrepreneurs using each funding source, 2015



Note: Early-stage entrepreneurs are those who are in the process of setting up a new business and those who operate a business that is less than 42 months old.
Source: (Daniels, Herrington and Kew, 2016)

[45] European Commission: SEs and their ecosystems in Europe, Comparative synthesis report, available here: https://ec.europa.eu/social/BlobServlet?docId=22304&langId=en
[46] Ibid.
[47] Microfinance in Europe: Survey Report 2022 edition of the European Microfinance Network. Available here: https://www.european-microfinance.org/sites/default/files/document/file/survey121222b.pdf

A study conducted by Ashoka, Fase, and McKinsey in 2016[48] classified financial resources relevant for SEs into the following four main categories:

1. non-repayable resources to start up and scale up (grants, subsidies, consultancy services)
2. resources from income-generating activities
3. repayable resources mainly used to finance investments
4. fiscal breaks, advantages and incentives

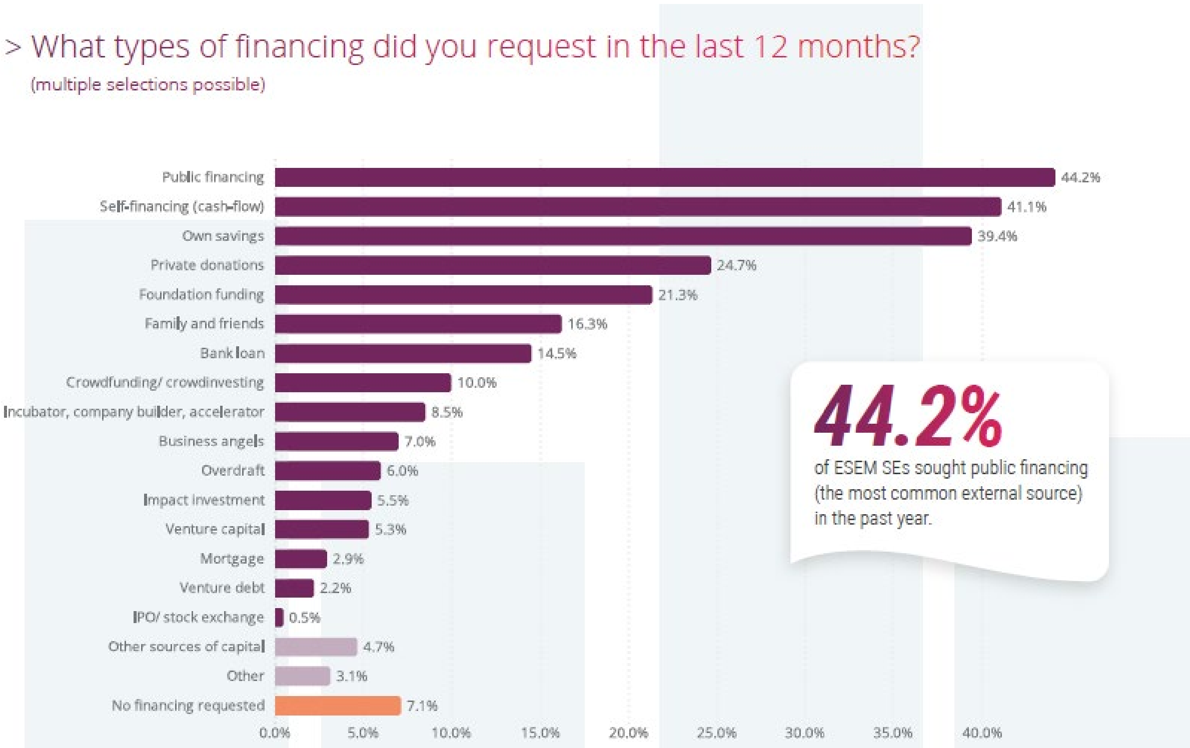
The financing needs of SEs change over their lifecycle. Startups and enterprises in their early stages are more likely to need equity while older enterprises are more likely to use debt financing.[49] Initial investment and startup costs differ from operating costs over time and other investments for growth. [50]

Euclid's 2022 ESEM Report shows that public funding plays a crucial role in the funding of SEs. The study identified three key income sources of SEs:[51]

1. trading with consumers (private persons), sought by 42.6% of SEs
2. grants from the government/local authority/public sector, 38.0%
3. trading with profit-oriented companies (i.e. B2B), 35.4%
4. volunteering (private persons), 35.3%

In 2022 public funding was the most commonly requested source of income for 44.2% of respondents, followed by self-financing/cash flow (41.1%) and their own savings (39.4%). Debt financing was a requested type of funding for only 14% of the survey´s respondents, as shown on the figure below.

Figure 6 Requested type of financing of SEs in the last 12 months



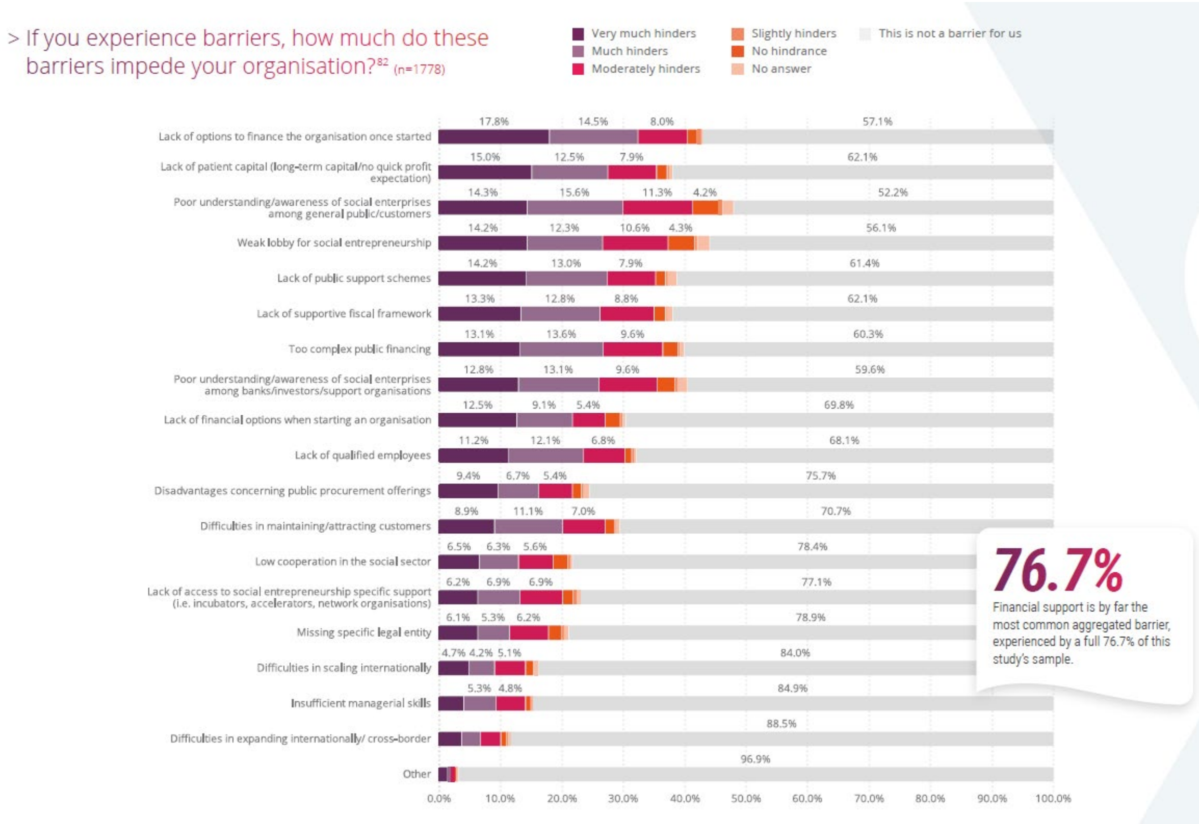
[48] Ashoka-FASE-McKinsey-Achieving-Impact-for-Impact-Investing-2016
[49] SE finance market Analysis and recommendations for delivery options, 2019
[50] SEs and their ecosystem in Europe. Comparative synthesis report 2020.
[51] ESEM 2023 Study.

Source: 2022 ESEM Report

The findings of the ESEM Report conducted by EUCLID in 2022 reveal that a notable majority of SEs encounter significant barriers primarily related to financial support, constituting 76.7% of respondents. This encompasses a dearth of patient long-term capital (35%), inadequate public support schemes (35%), and fiscal frameworks lacking in support (35%). The pivotal stages where these barriers are most acutely felt are during the establishment phase (27%) and immediately post-establishment (nearly 40%).

In addition to financial obstacles, non-financial barriers also impede the progress of SEs, notably including a lack of awareness among the general public and customers, coupled with a weak advocacy presence for SEs. These challenges underscore the multifaceted nature of hurdles faced by SEs in their endeavours. For more details see the figure below.

Figure 7 Barriers impeding SEs



Source: 2022 ESEM Report

Lower financial returns are acceptable as long as the investments have a low market and interest rate correlation. For comparable low-risk, low-return assets, the social impact dimension may become more critical in investment decisions. On one hand, there has been a recent increase in interest in providing capital to businesses that seek to generate positive social impact as well as financial returns.[52] On the other hand, measuring and reporting social impact remains a significant challenge for SEs. In addition, social-impact investing remains a niche market in many post-socialist EU MS, with limited evidence of its financial performance. The current market infrastructure for social-impact investing is not fully developed with relatively small intermediaries. There is also a lack of investment incentives

[52] Ashoka-FASE-McKinsey-Achieving-Impact-for-Impact-Investing-2016

and a supportive regulatory framework.[53] In some countries, such as Spain, there is no State aid programme specifically designed for SEs, despite requests from SEs. However, any enterprise in Spain is entitled to a bonus for hiring disadvantaged workers, both permanent and temporary, beyond the groups identified in the GBER.

In their 2018 policy brief, Bates, Bradford and Seamans[54] describe the main obstacles to accessing finance for SEs that are still valid today: "Small and young SEs and people from disadvantaged populations often lack collateral and financial history. Lower level of entrepreneurial skills and competences among SEs leads to their limited own awareness about available funding sources and the access to them. Furthermore, social entrepreneurs often do not dispose with larger entrepreneurship networks that would help them to identify potential financing sources or help them to access them. Due the lack of skills and knowledge SEs are often not able to create a long-term business strategy. New, small social entrepreneurs requiring small loans are less attractive for banks. Banks often charge higher interest rates making these loans costly as of the fixed administrative and transaction costs and less profitable."

The social banking department of the Erste group in the CEE region,[55] which was granted a social entrepreneurship guarantee of EUR 50 million by the EU under the EaSI programme, stated that the most favoured forms of financing of SEs are **working capital, bridge loans** (for pre-financing of State subsidies and grants) and **investment loans**. The majority of the corresponding support provided by Erste Group was covered by the *de minimis* threshold. The Bank's experience is that all the enterprises it dealt with under the scheme needed financial support (loans) throughout their lifecycle. Many of these SEs were still dependent on State aid grants and subsidies after 10 years of operation because their business cases did not generate sufficient revenue to either fully cover their costs or generate a surplus for investment. In addition to financial support, SEs needed other types of support to improve their operations and business model. The following is a list of various financial and non-financial support measures offered by Erste Group to SEs:

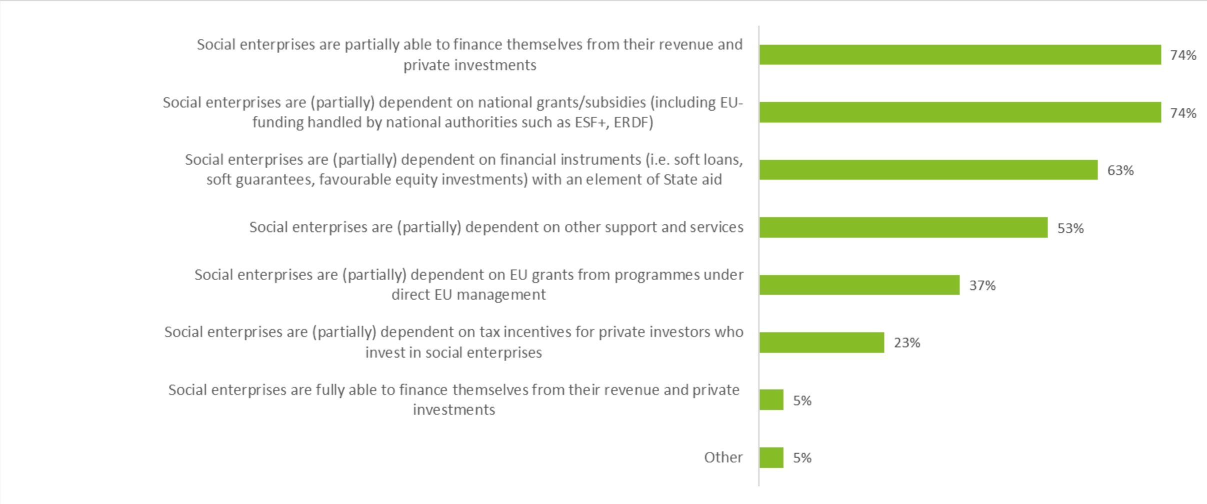
- Startup loans
- Bridge and investment loans,
- Working capital
- Quasi-equity and SIB
- Delivering business trainings
- Offering e-learning
- Connecting to peers and partners
- Mentoring and business plan assessments
- Cash flow assessment
- Financial advisory
- Identifying growth potentials
- Mobile relationship managers visiting clients at home
- Conducting training courses and accelerators
- Offering mentoring and social business plan assessments
- Facilitating pitching and networking events
- Buying social products and using social services

The situation is changing constantly, but as of 2023 the share of social organizations within Erste Group's social banking portfolio has risen from an average of 27% between 2016 and

[53] Ibid.
[54] Bates, Bradford, and Seamans, 2018; Neville et al., 2018 in Policy brief on access to finance for inclusive and social entrepreneurship
[55] Which was granted EUR 50 million by the European Investment Bank under the EaSI scheme.

2022 to 40% in 2022, specifically in the CEE region. This makes social organizations the largest component of the social banking portfolio, alongside microfinance businesses, starting entrepreneurs, and individuals facing financial hardships. Respondents to the survey of national authorities and umbrella organisations indicated that some **SEs are partly self-financed from their revenues and private investments or are mostly (partly) dependent on national grants/subsidies** (both 74%). Financial instruments (i.e. soft loans, soft guarantees, and favourable equity investments) were reported as the third most common source of financing for SEs. The figure below shows the reported sources of funding for SEs.

Figure 8 Extent to which are SEs are able to finance themselves



Source: Survey among national authorities and umbrella organizations

The survey results show that **support from State authorities either in the form of public support/State aid or EU funds under the management of national authorities are the key sources of financing for SEs across the EU**. This is mainly in the form of State subsidies and grants, soft loans and guarantees, and vouchers. However, there are MS with a highly developed venture philanthropy ecosystem that provide very limited State aid to SEs.

In the Netherlands, there are a number of support schemes and instruments for SMEs[56]. For example, in 2018 the EU launched an EaSI guarantee scheme for SEs in the Netherlands with Triodos Bank Netherlands with an allocation of EUR 65 million over five years. In another scheme, Qredits[57], provides microcredits to SMEs, where SEs could be eligible as well. Various ministries provide grants and subsidies for the recruitment of disadvantaged workers and for SEs as such, but according to the Dutch Ministry of Social Affairs and Employment, none of these schemes require State aid support. Netherlands Enterprise Agency[58] governs loan support schemes for SMEs. Similarly, none of the support provided falls under the GBER. Despite the developed ecosystem, SEs in the Netherlands lack structural support to grow. Most enterprises remain at the same level (average annual turnover and number of employees) for years and do not have access to larger investments (EUR 0.5+ million) that would accelerate their growth.[59]

The figure below illustrates the most common barriers to accessing finance for SEs reported by survey respondents. Interestingly, the responses of SEs differ from those of public authorities and umbrella organisations. The **most critical obstacle** identified by both respondents is the **low return on investment**. For public authorities and umbrella organisations, this is closely followed by the **difficulty of measuring and evaluating social impact** and, thirdly, by **restrictions on profit distribution** that make SEs less profitable and less attractive. Conversely, according to the surveys' results, the age of the enterprise does not seem to have an impact on the ability to access finance. The other main obstacles, according to the SEs surveyed, are cuts in **public spending and difficult economic conditions** and, thirdly, the **constraints of over-complicated, over-restrictive or inadequate national legal and policy frameworks**.

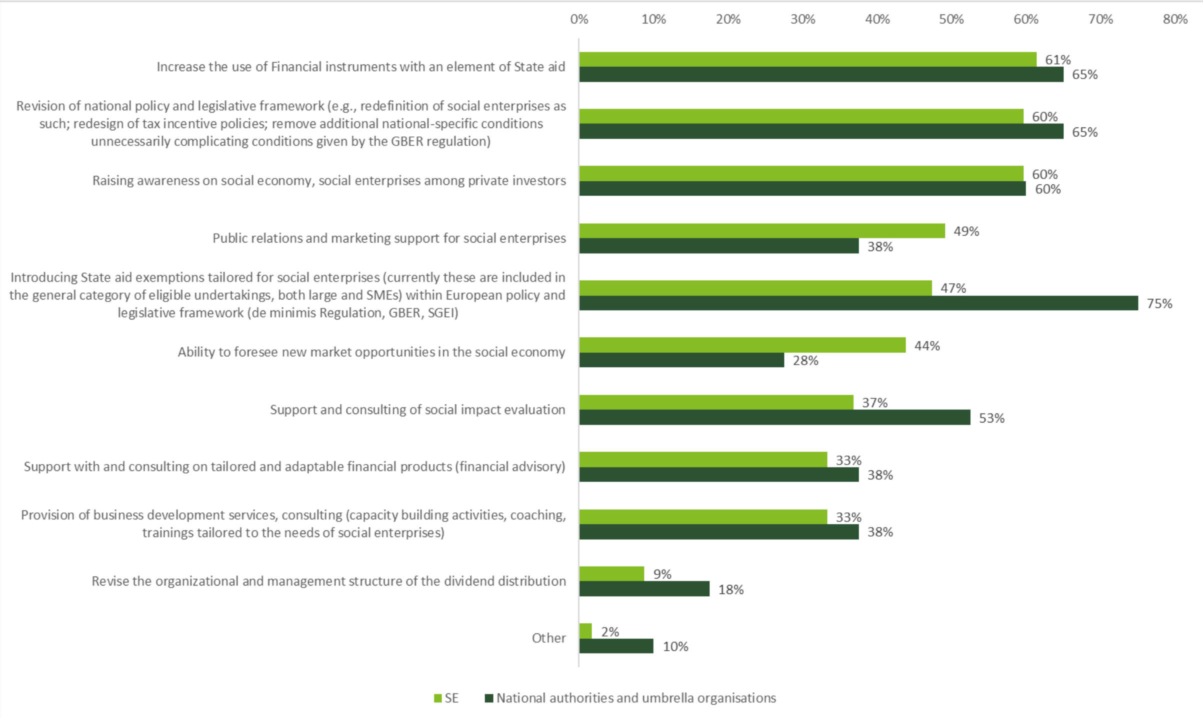
[56] Reportedly the exuberant ecosystem of various instruments, tax reliefs etc. Does not automatically lead to effective support. Undertakings, particularly SEs with limited networks, may not be aware and reportedly „lost" in all those options with different rules and conditions.
[57] https://qredits.com/
[58] https://english.rvo.nl/
[59] E.g., new acquisitions.

Figure 9 Obstacles hindering the access to finance for SEs

Source: Survey among SEs and Survey among national authorities and umbrella organizations

To address these challenges, most national authorities and umbrella organisations surveyed would prefer to introduce specific State aid block exemptions under the GBER for SEs (75%), followed by the necessary revision of national policy and legal frameworks and increased use of financial instruments with a State aid element (both 65%). Many respondents confirmed the fourth most preferred solution from the survey: the general recognition of the crucial role of SEs in strengthening social cohesion and their contribution to the inclusion of vulnerable groups by raising awareness among investors as well as society and policy makers. SEs see increased use of financial instruments with a State aid element as most important, followed by the need to review national policy and regulatory frameworks, and raising awareness of the social economy among private investors.

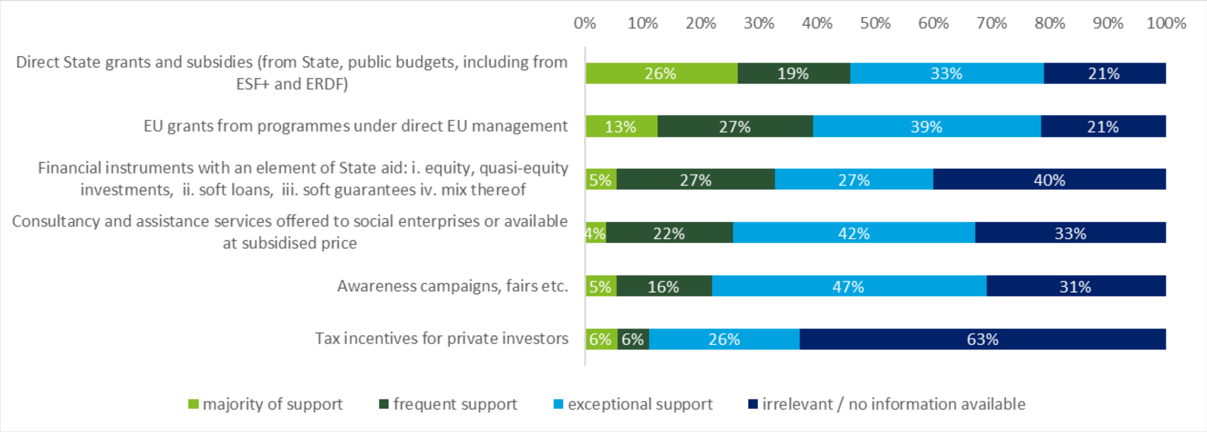
Figure 10 Preferred measures to overcome the obstacles



Source: Survey among SEs and Survey among national authorities and umbrella organizations

According to the respondents, the most common type of support received by SEs are direct State grants and subsidies, followed by EU grants from programmes under direct EU management and financial instruments with an element of State aid. SEs also make use of consultancy and assistance services.

Figure 11 Available support to SE



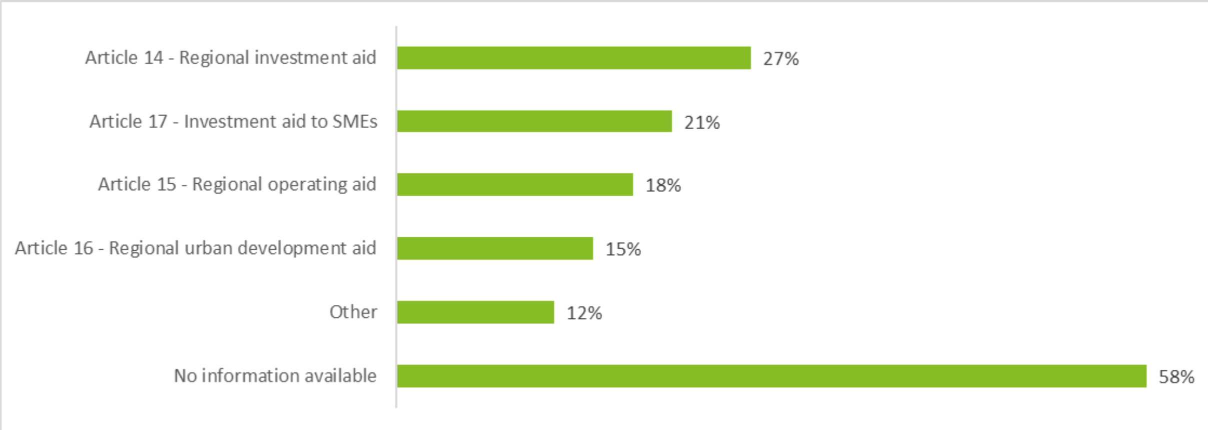
Source: Survey among SEs

The interviews revealed that the **majority of State aid/public support to SEs is provided under the *de minimis* Regulation**. *De minimis* conditions are less stringent than the GBER and the financial ceiling of EUR 200,000 does not particularly limit SEs, most of which are micro, small, and medium-sized enterprises. *De minimis* allows for more efficient and effective management of support by State/public authorities and SEs. **A significant number of survey respondents did not know which GBER articles were used to provide State aid**. Understanding of the GBER exemptions used is typically limited and the GBER – in particular Articles 21 and 22 – is often perceived as complicated and challenging. Stakeholders also report a general lack of legal clarity regarding the EU and national State aid and competition frameworks. The results of the survey showed that besides the questioned Articles 21, 22, 32 and 35, national authorities also use Article 14 (regional investment aid for State aid provision in the social economy), followed by Articles 17 and 15. (See the Figure below.) In some countries (e.g. Romania) the GBER is not used at all to support SEs. In the Czech Republic, Articles 14 and 22 of the GBER are used instead of Article 21, which is not used at all to support SEs. According to the 2022 State aid scoreboard[60], the most widely used GBER articles are: Article 38 – Investment aid for energy efficiency measures (31.5%), followed by Article 51 – Social aid for transport for residents of remote regions (26.5%), Article 15(4) – Additional costs (8.6%), and Article 14 – Regional aid - investment aid - Scheme (8.1%).

[60] Available here: https://competition-policy.ec.europa.eu/state-aid/scoreboard_en

However, the use of the GBER or *de minimis* often differs between regions and counties within the same MS. In Spain and Italy, there is no one-size-fits-all approach; regional governments have the power to design schemes according to their preferences. While the central government in Madrid would prefer the GBER to *de minimis* because it is concerned about the dampening effect of the low maximum aid amount over the three fiscal years when *de minimis* is used, it has no power to impose the use of the GBER on the different regions.

Figure 12 Applied GBER Articles for the provision of State aid to SEs



Source: Survey among national authorities and umbrella organizations

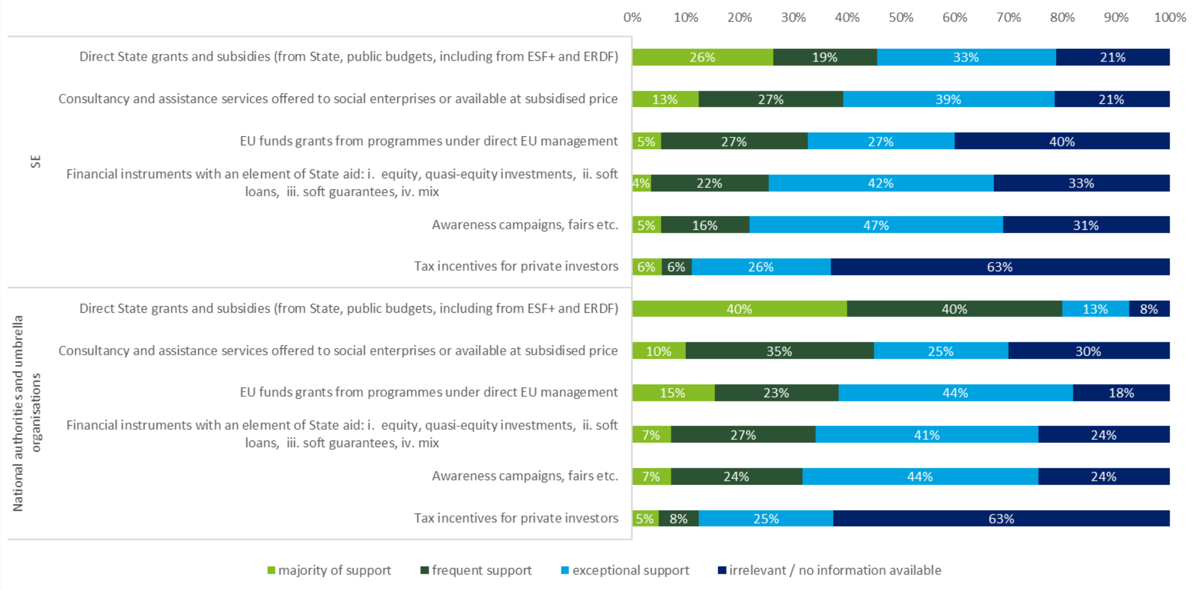
Financial instruments (mainly soft loans and guarantees) with a State aid component offer a pragmatic and efficient source of funding. By applying the gross grant equivalent of State aid/public support, SEs can access larger nominal amounts of funding than in the case of State subsidies or grants, while still falling under the *de minimis* regime.

However, the responses also confirmed that EU funds (directly or indirectly) managed by the EU play an important role in supporting SEs across the EU. According to the 2022 ESEM Report, EU funding plays an important role for 34% of respondents. However, the availability or accessibility varies from country to country, ranging from very common in Croatia (81.8%) and Portugal (69.7%) to less common in the Netherlands (14.3%) and Denmark (15.3%). The most frequently used programmes were ESF+, Erasmus+ and Horizon 2020[61]. However, the popularity of using EU funds is largely determined by the low level of awareness, the time-consuming and complex application process and the administrative burden associated with its management, multiplied by the low success rate of applications[62].

The figure below shows the distribution of types of support for SEs based on the responses to the survey of national authorities and umbrella organisations and the survey of SEs. There is some consistency among the two groups of respondents. For both groups, direct grants and subsidies play a crucial role, followed by consultancy and assistance services available for SEs. EU funds under direct EU management are the third most used type of support. On the contrary, tax incentives for private investors are the least used type of support. The survey responses do not account for the GBER amendment of June 2023, as it was not incorporated into the survey methodology.

[61] ESEM 2022
[62] Ibidem

Figure 13 Types of support for SEs



Source: Survey among SEs and the Survey among national authorities and umbrella organizations

Participation in public procurement is another potential source of funding for SEs. However, meaningful participation in a procurement process depends on a socially responsible approach from public authorities. In certain regions of Italy, the current evaluation system awards up to 85 out of 100 points for quality, reflecting among others the social dimension, and only 15 points for the financial offer. As a result, this particular region offers funding to a large number of social cooperatives. However, this practice is not widespread throughout Italy and varies from district to district. In addition, socially responsible public procurement remains underdeveloped in most EU countries. According to the Single Market Scoreboard, the prevalence of tenders awarded primarily on the basis of the lowest price is still predominant in EU MS.[63] The Netherlands and Belgium are at the forefront of applying social considerations to public procurement at municipal, provincial, or central levels.[64]

[63] "In 2021, 10 Member States awarded between 82 % and 95 % of their above EU-thresholds tenders solely on the basis of the lowest price or cost; 6 Member States awarded between 60 % and 80 % of such tenders on this basis; and the remaining 14 countries between 1 % and 56 %." In The social impact of procurement. Can the EU do more?

[64] OECD Country report Netherlands, BOOSTING SOCIAL ENTREPRENEURSHIP AND SE DEVELOPMENT IN THE NETHERLANDS. 2019

In MS where there are no State aid schemes for SEs, State aid schemes for wage subsidies are used instead. However, the pressure on income-generating activities, efficiency and effectiveness leads to untapped potential for the recruitment of disadvantaged workers. As a result, these SEs employ disadvantaged workers with low needs for support and integration. Such enterprises cannot employ severely disadvantaged workers who might not be able to deliver the work to the same extent (efficiency) as their non-disadvantaged peers. Although they generate sufficient income to cover operating costs, they lack the additional surplus needed for investment.

Tax incentives in the Netherlands

There is no definition of the term "public interest" in Dutch civil law. There is no statutory definition of "public benefit" in tax law. The General Tax Act contains a definition of an organisation with non-profit status for tax purposes: *Algemeen Nut Beogende Instelling* (ANBI). This definition is not specific: the purpose and activities of the organisation are entirely or almost entirely for the public benefit. There is an exhaustive list of activities that are considered to be in the public interest. The organisation must be registered with the tax administration – the ANBI should be an organisation that does not exist solely for the benefit of its members or shareholders (such as a sports club, a staff association or a commercial entity). The ANBI does not have to be established in the Netherlands or the EU. Whether or not a non-profit organisation is obliged to pay and charge VAT depends on the specific situation.

Foundations, non-profit associations, and similar organizations conducting a business are exempt from corporate income tax if:

- The taxable profit in any one year does not exceed EUR 15,000 or
- The taxable profit in any one year is higher than EUR 15,000, but together with the taxable profits in the 4 preceding years does not exceed EUR 75,000

An association can benefit from tax deductions such as an investment allowance. Any profits must be used for the purpose of the association. Associations "for a good purpose" that obtain ANBI or *Sociaal Belang Beogende Instellingen* (SBBI) status are entitled to certain tax benefits.

4.2. Task 2: Aid amounts and eligible age appropriateness

The purpose of this task was to examine if the maximum aid amounts and the eligible age of the beneficiary enterprises, as set out in Articles 21 and 22, to allow proportionate support for SEs.

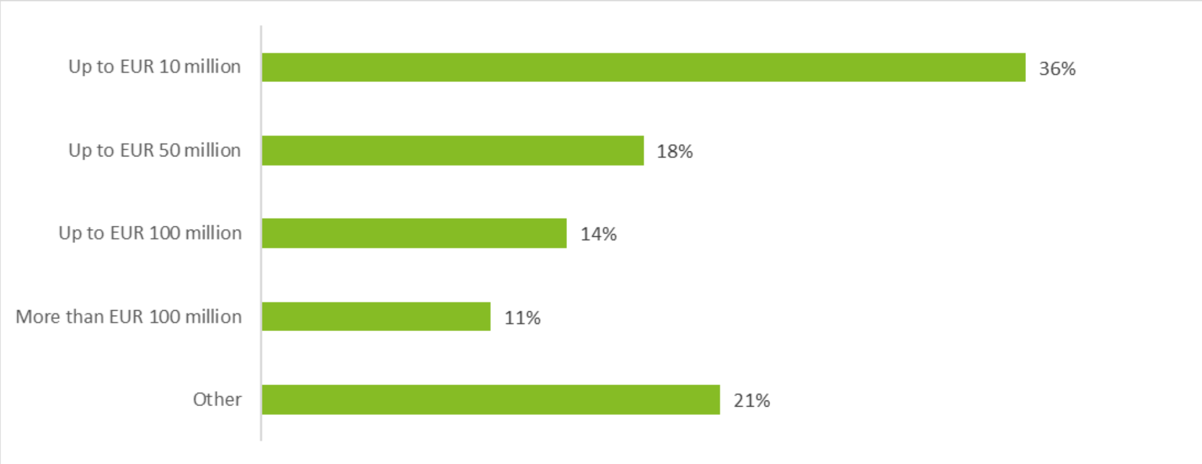
Summary

The majority of respondents (72%) from national authorities and umbrella organisations, as well as the majority (80%) of SEs, would prefer to raise the eligibility age or altogether remove the eligibility age caps specified in Articles 21 and 22. Furthermore, for Article 21, the majority (90%) of respondents do not consider the cap of EUR 16.5 million per enterprise as an obstacle. However, the majority of national authorities and umbrella organisations as well as SEs would reduce the mandatory percentage of additional funding from private investors for SEs.

Findings

The results of the survey of national authorities show that many respondents do not have data on the allocation of public funds for financial support to SEs. Some stated that this information is not being collected. Furthermore, in some countries there is no specific national/public budget allocation to support SEs, with the only available public source of support being the ESF+. The survey results do not indicate any particularly large national budget allocations, with the majority not exceeding EUR 10 million per year.

Figure 14 Average annual public budget allocation to support SEs



Source: Survey among national authorities and umbrella organizations

The interviews conducted with national stakeholders, umbrella organisations and international organisations, as well as the results of the survey among these stakeholders and individual SEs, indicate that the GBER's maximum aid amount of EUR 16.5 million (under Article 21) does not significantly hinder SEs' access to finance. Due to the typically low annual turnover, very few SEs have ever come close to the maximum aid amount. Again, SEs in Western Europe often report higher annual turnovers and may come much closer to this aid amount than those in the CEE region. This aid cap seems to be most relevant for SEs active in the real estate/housing sector. SEs active in social or affordable housing may require larger investments and a much higher amount of State aid[65]. An increase in the aid cap would only benefit a rather small group of SEs in a sector mainly dominated by property developers. Raising the cap for the remaining SEs may only be relevant if combined with the removal of the age eligibility criteria.

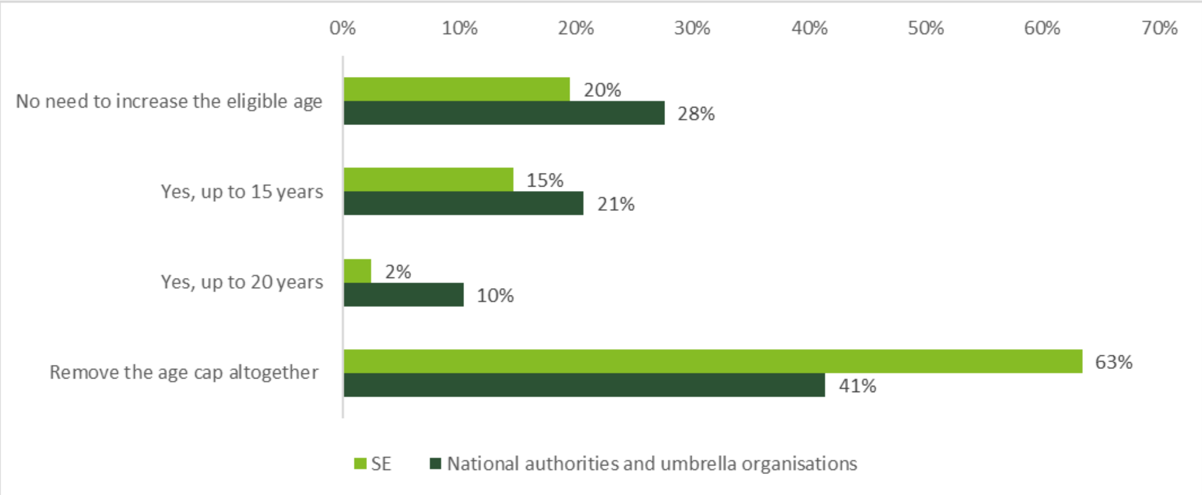
GBER Article 21 (3) (b) (i) and (ii) specify two alternative eligible-age limits, which may hinder access to finance for SEs. From the interviews conducted with national authorities, it can be concluded that the first alternative (lit. (b)(i)), namely that it's been 10 years since the SE's registration, may partially hinder access to finance for SEs for two main reasons. Firstly, setting up and operating an SE in accordance with all the principles defining an SE, in particular the participatory and democratic decision-making processes, may significantly delay the start of profitable activities leading to revenue generation. The need for State aid to support an SE may arise much later than the time of its registration. This is clearly illustrated by environmental SEs. For example, a community-owned wind farm (operated by an enterprise or a cooperative) is a large, lengthy, and financially demanding project that could easily take more than 7-10 years to complete.[66] At the same time, this type of project is almost impossible to implement in such a community

[65] However there is no conclusive data on the order of magnitude of the increase.
[66] Often due demanding administrative processes and long decision-making processes on the side of public authorities.

setting without State aid. The second age-limit alternative (lit (b)(ii)) is that it has been 7 years after the first commercial sale, which often does not provide sufficient time for SEs to initiate and develop their business model and activities to a sustainable level. This is due to the obligation to use profits for their primary social objectives. For example, in the Walloon region of Belgium, SEs are required by law to reinvest 94% of their profits in social development. The allocation of only 6% of profits to investors and creditors hampers the return on investment, not only for private investors but also for commercial banks.[67]

The majority of respondents (72%) of national authorities and umbrella organisations as well as the majority (80%) of SEs, as shown in the figure below, want to raise the eligibility age or remove the cap altogether.

Figure 15 Responses on the need to change the condition of age eligibility

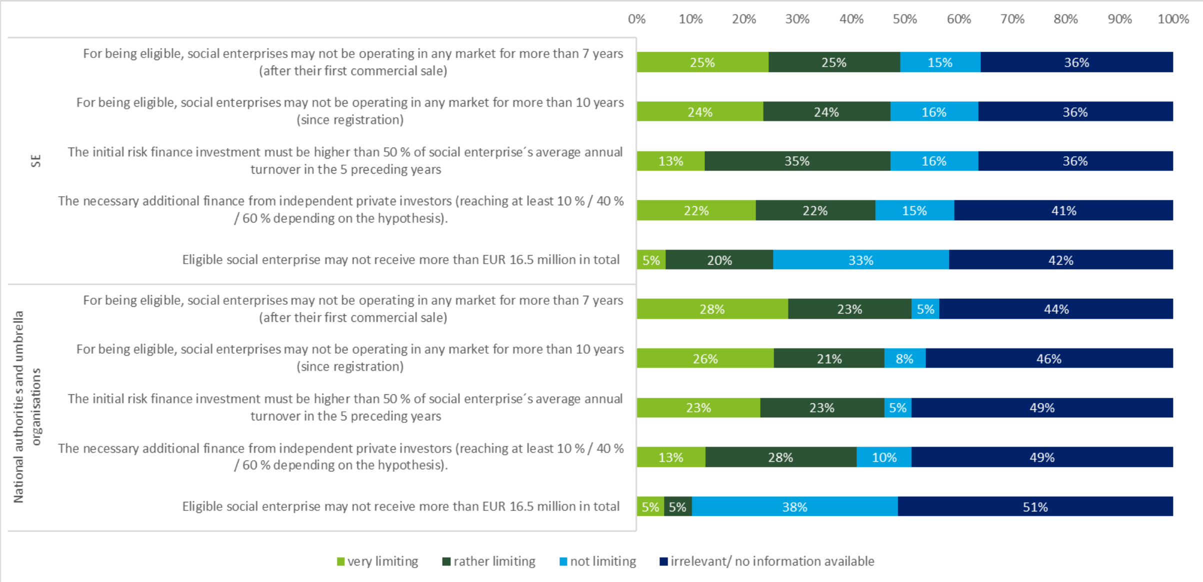


Source: Survey among SEs and Survey among national authorities and umbrella organizations

The survey of national authorities and umbrella organisations and the survey of SEs confirm the results of the interviews. The majority (90%) of respondents do not consider the cap of EUR 16.5 million per enterprise as an obstacle. On the contrary, the respondents consider the **enterprises' eligibility age** and obtaining the **necessary co-financing from independent private investors as the most challenging aspects for SEs**.

[67] Commercial banks have their internal minimum limits of 10% profits distribution for SMEs.

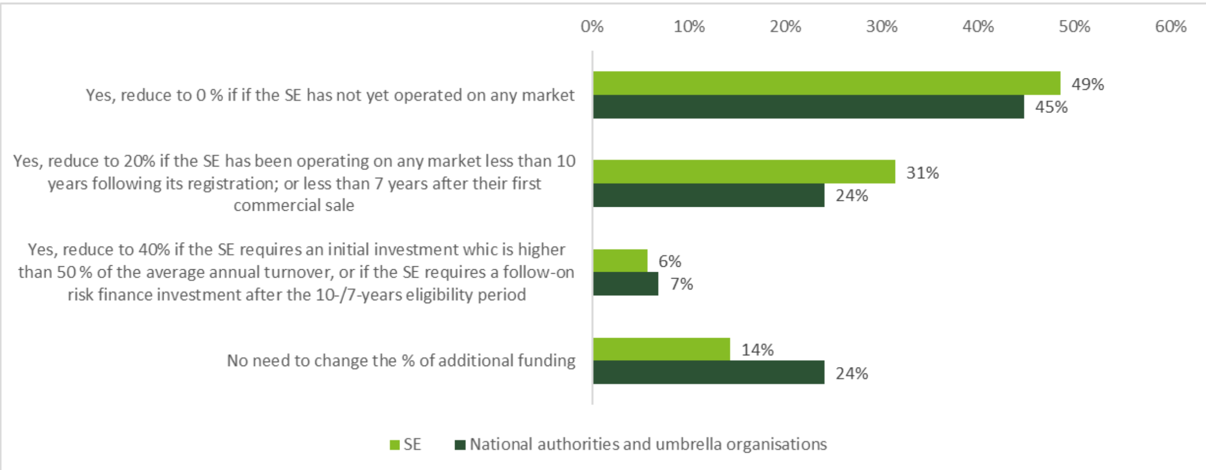
Figure 16 Eligibility conditions limiting access to risk finance



Source: Survey among SEs and Survey among national authorities and umbrella organizations

The majority (76%) of national authorities and umbrella organisations and 86% of SEs would also reduce the mandatory percentage of additional funding from private investors for SEs. Most of them would abolish mandatory co-financing altogether.

Figure 17 Responses on the need to reduce the additional financing from private investors if the risk finance investment is made in SE

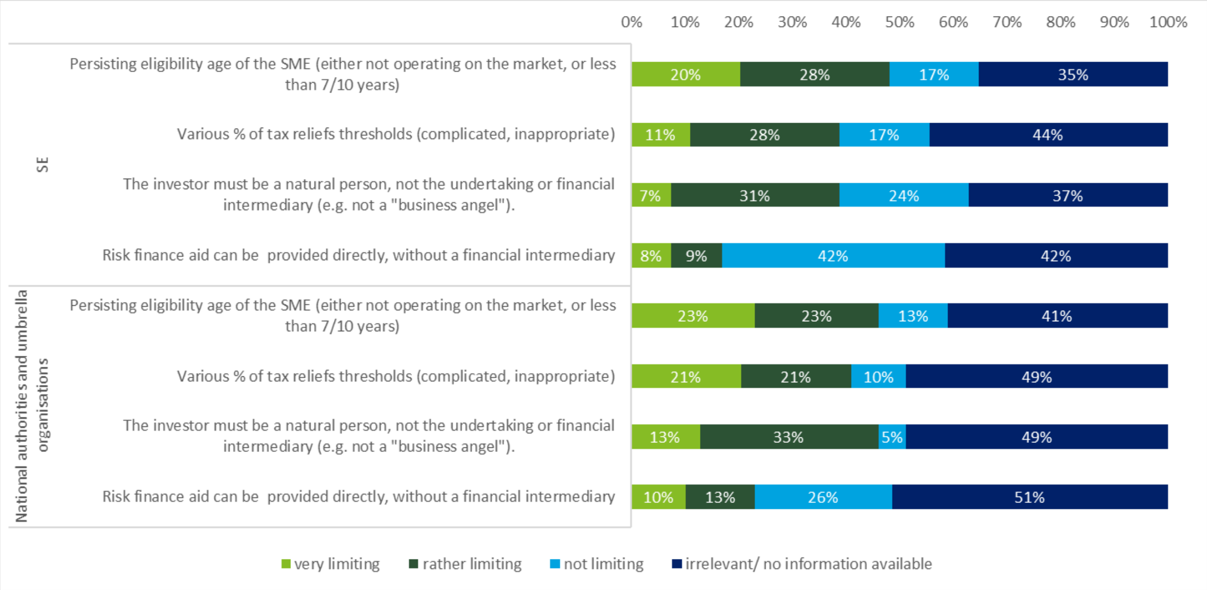


Source: Survey among SEs and Survey among national authorities and umbrella organizations

GBER Article 21a (effective June 2023) contains conditions for aid in the form of tax incentives for private investors who are natural persons and are keen to invest in riskier but commercially viable SMEs. The results of the survey indicate potentially limiting conditions related to the eligibility-age condition, the investor's "natural person"[68] status and different percentages of tax relief.

[68] It may exclude e.g., „business angel".

Figure 18 Conditions limiting access to finance through tax incentives for private investors (Article 21a)

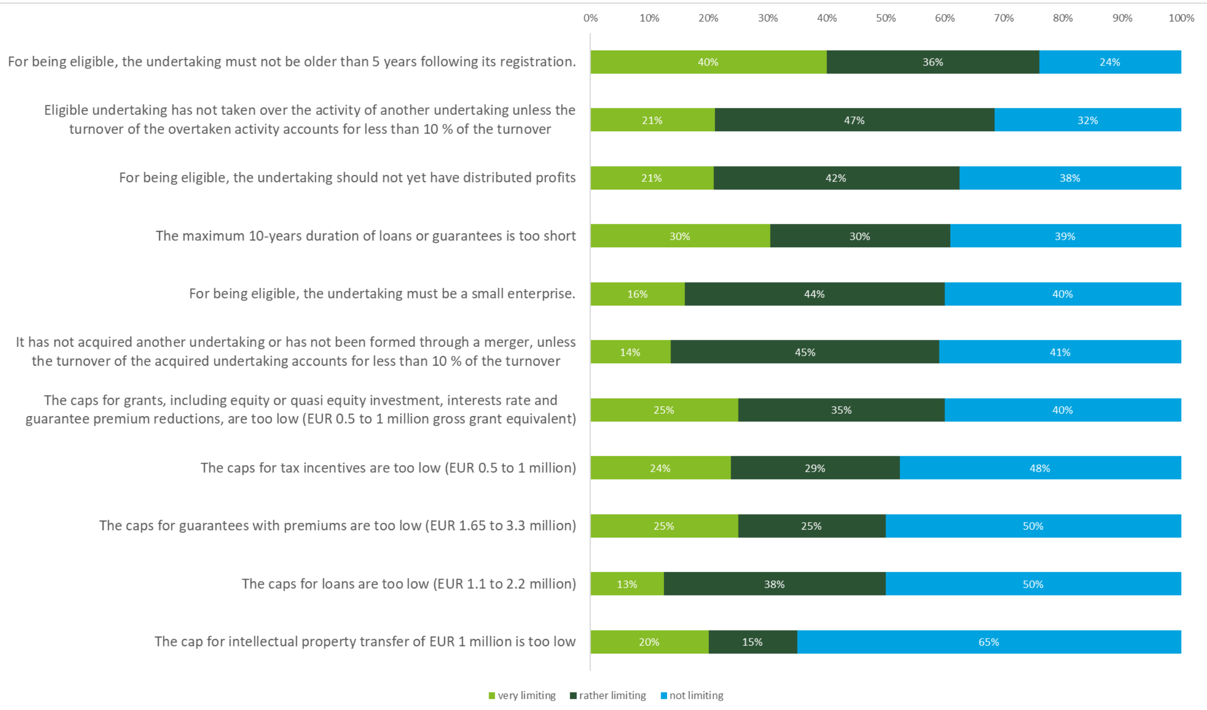


Source: Survey among SEs and the Survey among national authorities and umbrella organizations

GBER Article 22 allows aid schemes for startups under specific conditions. According to the results of the survey, the following conditions are considered too restrictive:

- Eligibility-age condition of maximum 5 years
- The eligible undertaking has not taken over the activity of another undertaking unless the turnover of the overtaken activity accounts for less than 10% of the turnover
- The undertaking should not yet have distributed profits
- The maximum 10-year duration of loans and guarantees

Figure 19 Article 22 (startup aid) eligibility conditions limiting SEs access to funding



Source: Survey among national authorities and umbrella organizations

As for Article 22, the Study´s respondents were often not able to distinguish between risk finance aid provided under Article 21 and startup aid provided under Article 22. Access to funding for SEs under Article 22 encounters barriers in terms of screening and risk-assessment criteria that are tailored for custom SMEs and do not consider specific conditions of SEs affecting their business case. Another obstacle is the eligibility-age limit of five years, which is too short for SEs due the typical low return on investment. The maximum aid amounts and the length of the loans or guarantees (EUR 1-2 million) allowed under Article 22 is not considered an obstacle. Similarly, the Study has not observed any difficulty with the maximum aid amounts of the grants, equity or quasi-equity investment, interest rates and guarantee premium reductions.

4.3. Task 3: Funding gap at the level of SEs

The purpose of this task was to collect evidence regarding the funding gap at the level of SEs and whether it exceeds the caps fixed in the GBER.

Summary

The majority of SEs are on average rather small, with up to 50 employees and an average annual turnover not exceeding half a million euro. On average, SEs are able to secure around 60% of their funding, which implies a market failure of 40%. The average annual financing gap per SE is between EUR 100,000 and 500,000.

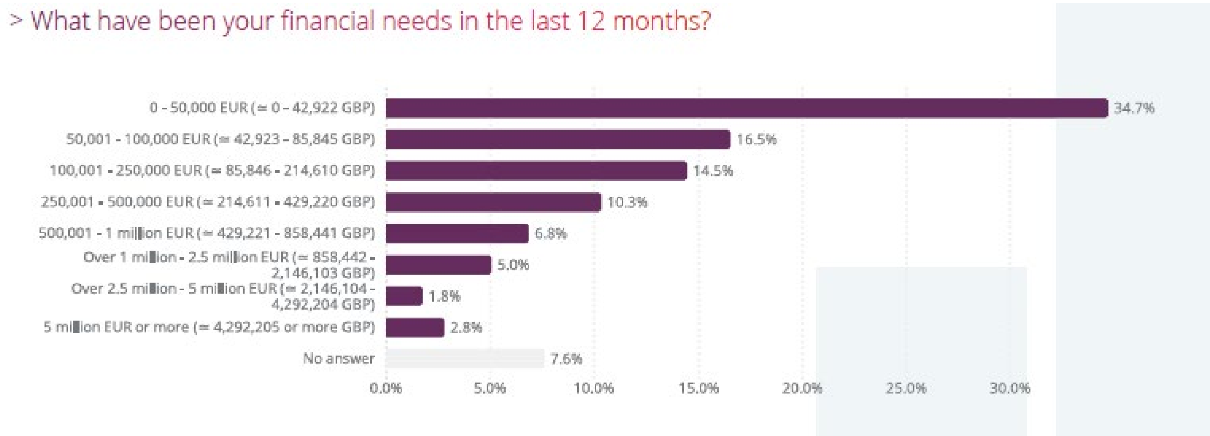
Findings

The size and nature of the funding gap should reflect the different levels of maturity of SEs across EU MS, as well as their size, *modus operandi*, and the landscape of available financial resources. Insufficient data precludes an exact calculation of the extent of funding deficiencies within the SE sector. MS do not monitor the funding gap. In many countries, the lack of a clear definition and legal framework for SEs makes it difficult to distinguish them as such. In some countries, the definition of an SE is limited to work-integration organisations and thus is not a useful basis for obtaining an accurate picture of the overall sector’s funding gap. In the CEE region, as well as in Northern Europe and the Baltic States, the average size and average annual turnover of SEs do not suggest the existence of a fundamental funding gap.[69] However, the lack of a significant funding gap can be attributed to the national legal framework and the adaptation of SEs to existing funding sources and legislation. In the Czech Republic, for example, the legal framework directs most SEs towards the so-called "protected labour market", where they are automatically entitled to state subsidies for employing disabled workers. The environment for the social economy in these European regions seems to be stricter than in Western Europe, regardless of any differences in the operating frameworks of SMEs and SEs.

Euclid's 2022 ESEM Report found that the majority of respondents sought investments of up to EUR 50,000 (34.7%), and 76% reported financial needs of up to half a million euro.

[69] E.g. Finland, Czech Republic, Lithuania.

Figure 20 Financial needs of SEs in the last 12 months



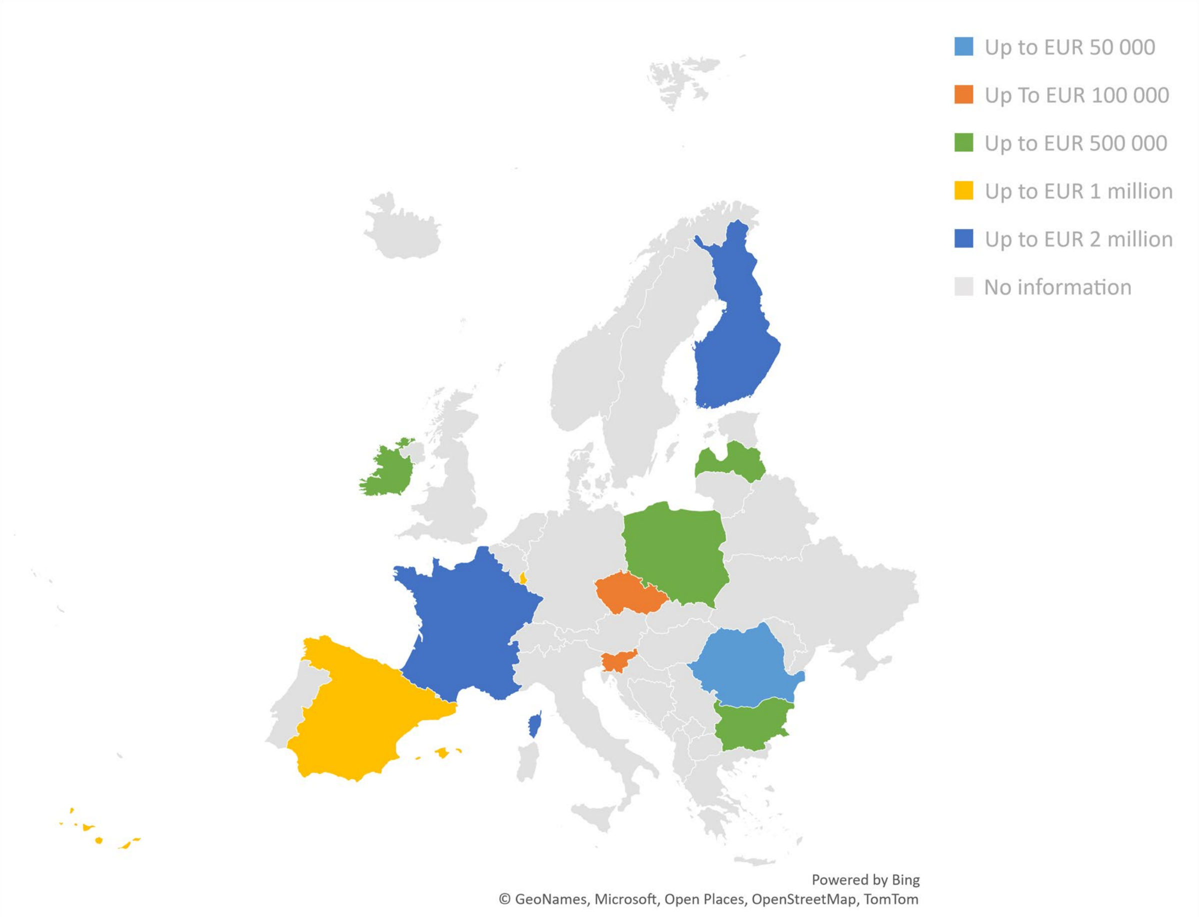
Source: ESEM Report 2022

Average annual turnover of SEs

The funding gap corresponds to the turnover of enterprises. The results of the survey of public authorities and umbrella organisations suggest that the average annual turnover of SEs varies between European regions. The average annual turnover in the CEE region appears to be significantly lower than in Western or Southern Europe. Survey estimates range from EUR 50,000 to 500,000 for the CEE region and from EUR 500,000 to 2 million for Western Europe. 18 out of 53 SE respondents reported an average annual turnover below EUR 50,000 and nine below EUR 100,000 in the CEE region, including the Baltic States. However, there are exceptions in the CEE region, with reported turnovers up to EUR 5 million in Slovenia and up to EUR 2 million in Romania, Croatia, and the Czech Republic. The average annual turnover appears to be significantly higher in Western Europe, where respondents reported turnovers of more than EUR 30 million in the Netherlands and Spain and up to EUR 10 million in Germany and Luxembourg. According to the surveys´ results and interviews conducted[70], the majority of SEs average annual turnover in CEE does not exceed EUR 500,000, whereas in Western Europe the turnover could be twice as high.

[70] The same trend has been observed also by Erste Group.

Figure 21 Average annual turnover of SEs



Source: Survey among national authorities and umbrella organizations

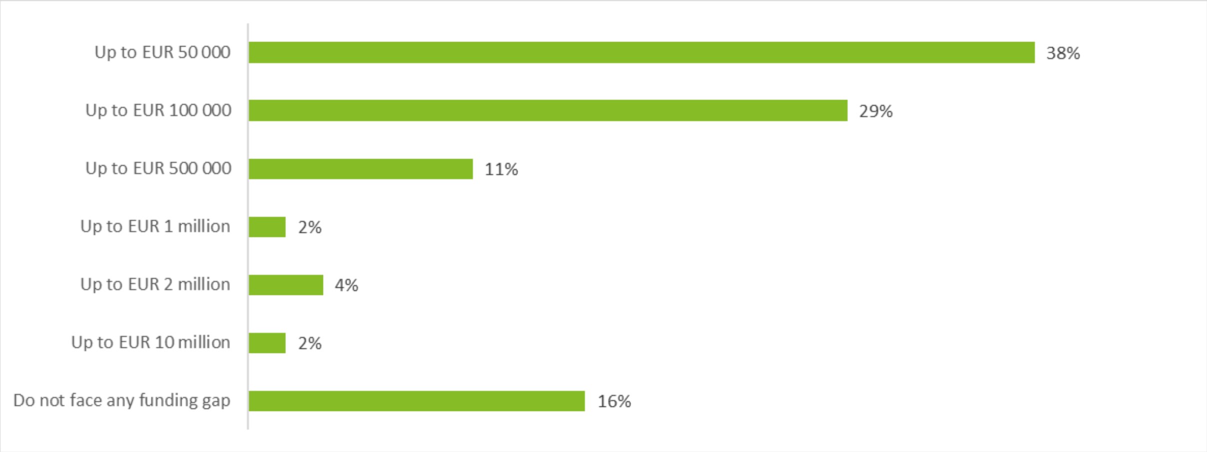
Funding gap

Based on the results of the survey of SEs, the majority (79%) have less than 50 employees and the average annual **funding gap does not exceed EUR 100,000** (in 67% of reported cases). In 2019, the European Centre of Social Finance conducted research on the Model market gap for SEs, which confirms the prevalent funding gap in Western Europe with the highest magnitude is in Italy, Germany and Belgium and the lowest is in the Baltics and Eastern Europe.[71] The size of the funding gap corresponds with the average annual turnover of SEs which, according to the survey´s results, does not exceed EUR 500,000 in 64% of cases. The average annual turnover does not exceed EUR 50,000 in 34% of the cases and EUR 1 million in total in 70% of the cases. The figure below displays the reported average annual turnover of SEs. This is in line with the findings of the 2022 ESEM Report, where the surveyed SEs were able to secure 60% of their funding needs, resulting in a **funding gap of 40%.** At the same time, around 75% of SEs have a secure financial plan for the next 12 months. The 2022 ESEM Report further found that "32.3% of ESEM SEs had financial needs of up to EUR 50,000 and 77.0% had needs of up to EUR 1 million in the past year".[72]

[71] EIF

[72] Euclid Network Knowledge Centre, European SE monitor: https://knowledgecentre.euclidnetwork.eu/european-social-enterprise-monitor-2021-2022/?_ga=2.156281459.97467606.1678354288-1352561586.1677772375&_gl=1*14rluew*_ga*MTM1MjU2MTU4Ni4xNjc3NzcyMzc1*_ga_829YQLNDY5*MTY3ODM1NDM4MC4xLjEuMTY3ODM1NDUwNS42MC4wLjA

Figure 22 Average annual funding gap of SEs

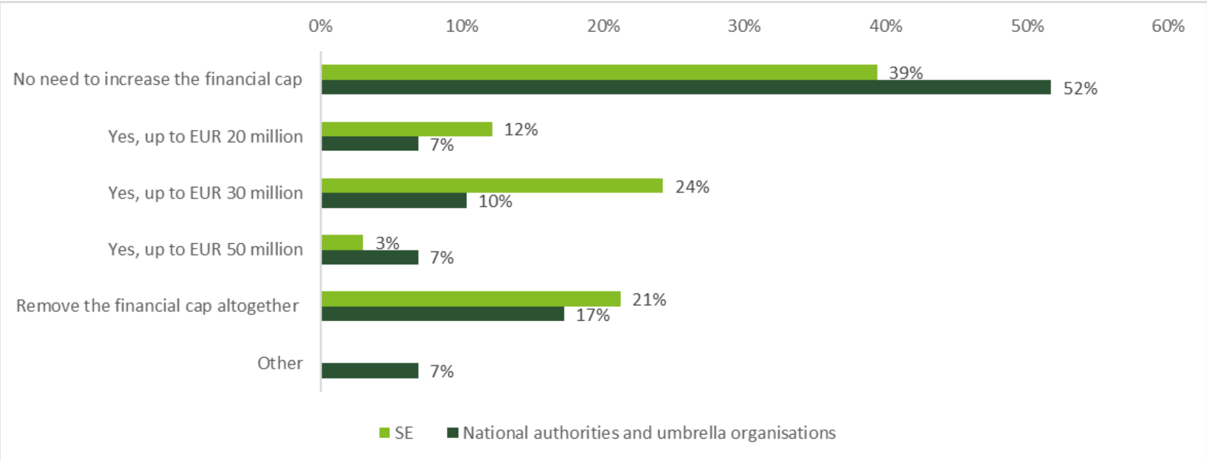


Source: Survey among SEs

The 2022 ESEM Report shows that SEs were able to secure 60% of their funding needs in 2021, resulting in a funding gap of 40%.[73]

Bates, Bradford, and Seamans in their 2018 Policy brief on access to finance for inclusive and social entrepreneurship further stated: "The most important financing gap for early-stage SEs is found between EUR 100,000 and EUR 500,000, where the transaction costs are comparatively high (FASE, 2018). This tranche tends to be too big for donors or philanthropists, and too small for institutional investors. But many SEs seek financing even below that threshold, where proportionately transactions costs will weigh even more on each deal. For instance, 68% of German social entrepreneurs required startup capital below EUR 100,000 in 2018 (Scharpe and Wunsch, 2019). If not bridged by specialised intermediary services, this situation threatens to widen the gap for early-stage SE finance."[74] Half of the respondents in the survey of national authorities and umbrella organisations do not see the financial ceiling of EUR 16.5 million for risk-financing measures as restrictive for SEs, and half see the need to either increase it or remove it altogether. The majority of SEs see a need to increase or remove the cap altogether.

Figure 23 Need to increase the financial cap for risk-finance aid



Source: Survey among SEs and the Survey among national authorities and umbrella organizations

[73] The European SE Monitor (ESEM) Report 2022.

[74] Bates, Bradford, and Seamans, 2018; Neville et al., 2018 in Policy brief on access to finance for inclusive and social entrepreneurship

The Microfinance in Europe 2022 Survey found that the Microfinance Institutions (MFIs) surveyed "need EUR 1.3 billion to achieve their goals in the next two years. Half of the MFIs need less than EUR 4 million to achieve their goals, while the largest MFIs need as much as EUR 300-400 million. Funding needs are also reported to be higher in Western Europe (EUR 740 million) than in Eastern Europe (EUR 595 million). In both regions, the highest demand is for loans. In addition, MFIs in Western Europe seek more grants/subsidies and guarantees than MFIs in Eastern Europe."[75]

Social innovations[76]

Social innovation is a specific area with a particular funding gap. According to interviewees, SEs have some access to funding for their viable business plans, but social innovations often cannot provide evidence or guarantees of a viable return on investment. Often the purpose of a social innovation is to test new approaches that have not been validated in the market and may therefore be considered too risky. GBER support for innovation in the sense of Article 28 does not necessarily meet the specific needs of social innovations. The focus of Article 28 aims to support research, development and innovation in the sense of "obtaining, validating and defending patents and other intangible assets" and "services provided by research and knowledge dissemination organisations, research infrastructures, testing and experimentation infrastructures or innovation clusters". Some MS have developed support for social innovation, for example through ESF+, but it is rather exclusive and not applied across the EU.

4.4. Task 4: Financial support provided by Member States to SEs as compensation for the provision of Services of General Economic Interest (SGEI)

The purpose of the task was to study the way MS financially support SEs under the specific State aid rules applicable to compensation granted for the provision of Services of General Economic Interest (SGEI).

Summary

The entrustment of SEs with SGEI seems to be rather exceptional. The design and approval of SGEI schemes is considered too demanding, creating administrative burdens for all parties (national and public authorities, as well as social economy actors) and therefore is not a preferred solution.

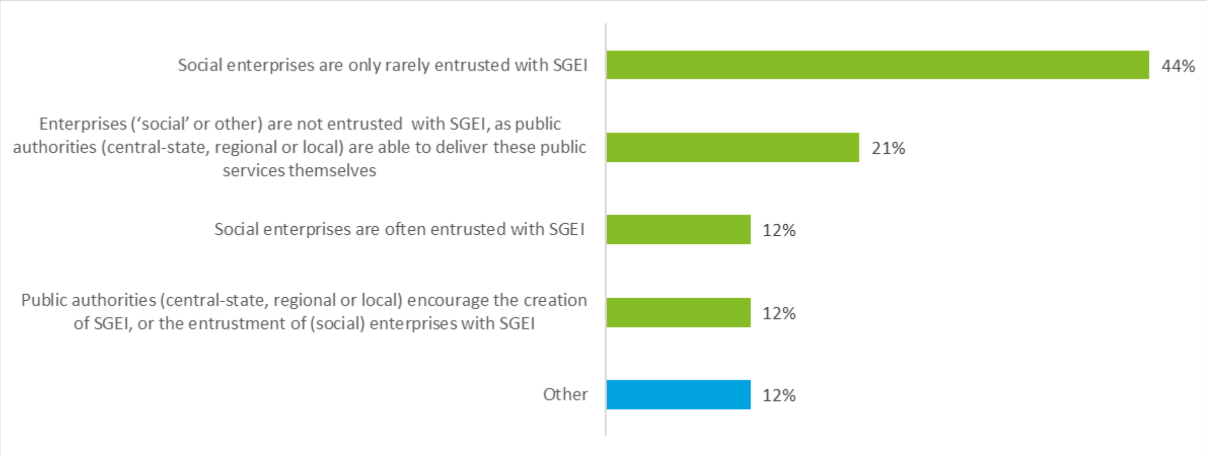
Findings

[75] Microfinance in Europe: Survey Report 2022 edition, EMN, EIF, MC

[76] As defined in Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013.

Of the respondents from national authorities and umbrella organisations, 65% said that SEs are not or only very rarely entrusted with SGEI, which was confirmed by the SEs surveyed. There are several reasons for this. Procedures related to SGEI (mainly the definition of services, transparency, costing and reimbursement models), including obtaining authorisation from the European Commission[77], are often so burdensome that national authorities are reluctant to take them on. Demanding and difficult administration is typical for both sides: public/state authorities and beneficiaries. The willingness to embark on this journey is further reduced by the national authorities' fears of possible errors and mistakes. This finding was, with some exceptions, confirmed by the interviews conducted.

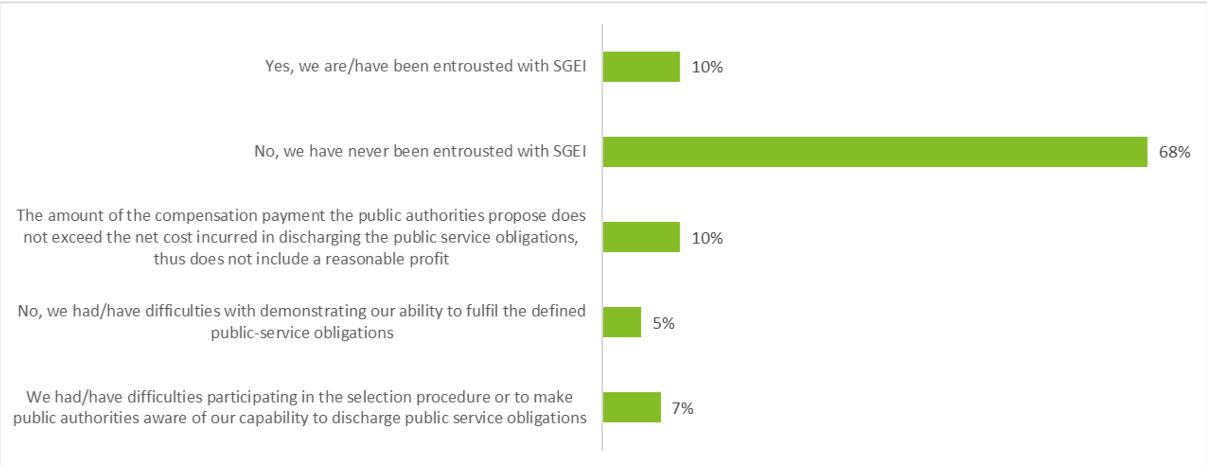
Figure 24 Entrustment of SGEI to SEs – by national authorities and umbrella organizations



Source: Survey among national authorities and umbrella organizations

The vast majority of SE respondents had never been entrusted with an SGEI. Other replies suggest that the reasons for this are the selection procedure and the low profitability of the services.

Figure 25 Entrustment of SEs by SGEI and the barriers of such entrustment



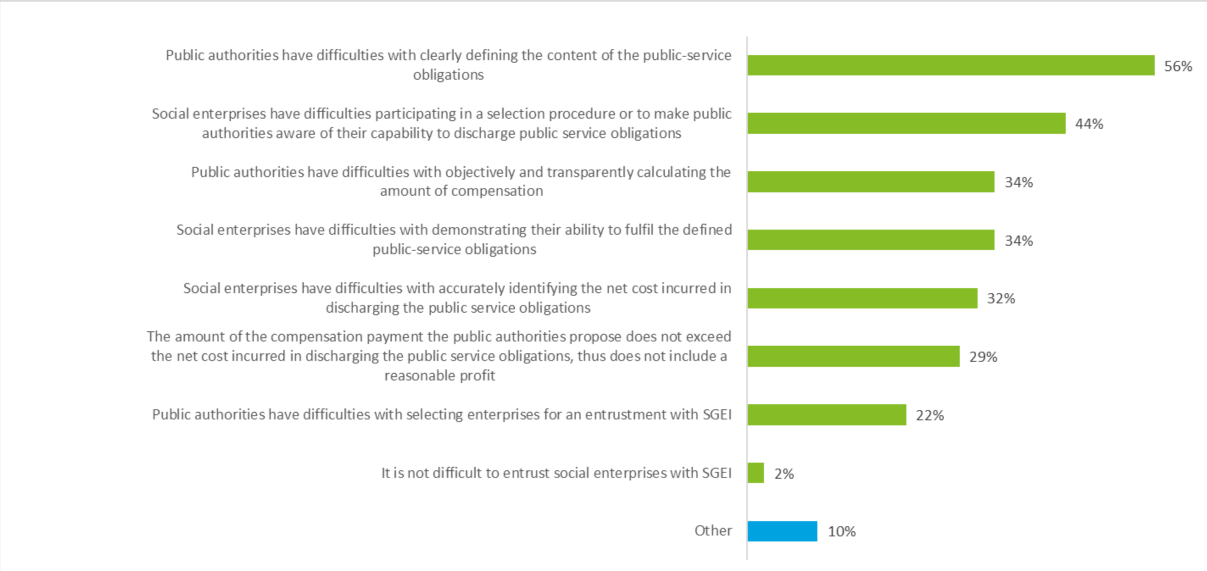
Source: Survey among SEs

There are several reasons for the low level of entrustment of SGEI. According to the results of the survey, the most common difficulties encountered by national authorities are how to clearly define the content of public service obligations and how to calculate the amount of

[77] Respondents were not distinguishing, maybe not aware of, SGEI de minimis and the SGEI Commission decision, where no authorisation from the Commission is needed.

compensation in an objective and transparent manner. Meanwhile, SEs face difficulties in participating in the selection process and in making authorities aware of their ability to fulfil public service obligations and in demonstrating their ability to fulfil the defined public service obligations.

Figure 26 Conditions making the entrustment of SGEI difficult



Source: Survey among national authorities and umbrella organizations

In some countries, SGEI is often used to support SEs. This includes Spain, the Brussels region in Belgium, and the financing of social cooperatives in Greece. SEs operating in Brussels are subject to the 2018 Brussels Regulation on SEs, which introduces a set of criteria for the registration of enterprises as SEs. This framework illustrates the careful assessment and registration of SEs in order to facilitate access to State aid. The social economy philosophy of the Brussels Region does not allow for the application of the entire GBER Section 6 'Aid for disadvantaged workers and for workers with disabilities'. Instead, all work integration activities take the form of entrusted SGEI. The support provided only covers operating costs, not investment costs.[78] The region relies on the willingness and commitment of companies to become social role models.

The Brussels Region extensively utilizes the SGEI *de minimis* Regulation to fund SEs. Flanders is very advanced in the use of SGEI to provide social services to vulnerable groups that would otherwise not be provided by the market. There are about 150 local service organisations entrusted with SGEI.

In Greece, for each sector of public interest (about 30 in total, which include health, housing, and education) a single social cooperative (as a limited liability company) is entrusted with the provision of SGEI. Greece has about 30 social cooperatives entrusted with SGEI that are obliged to employ disadvantaged workers and are remunerated on a precisely calculated basis.

[78] This particular condition was imposed by the national authorities, not the GBER. SGEI-rules allow compensation that shall not exceed what is necessary to cover the net cost incurred in discharging the public service obligations even **including a reasonable profit** (e.g. see SGEI decision 2012/21/EU Art. 5(1). Moreover, the compensation may contain also investment costs, as of the Working Document SWD(2013) 53 final/2, Answer to Question 124.

From the interviews carried out, it appears that in the Netherlands there is little or no delegation of SGEI to SEs.

4.5. Task 5: Notification of the Commission of aid measures in favour of SEs

The purpose of the task was to examine whether national authorities would find it useful to notify the Commission of aid measures in favour of SEs, which do not meet all GBER conditions. Thus, they would have to be assessed under other State aid rules such as Risk Finance Guidelines.

Summary

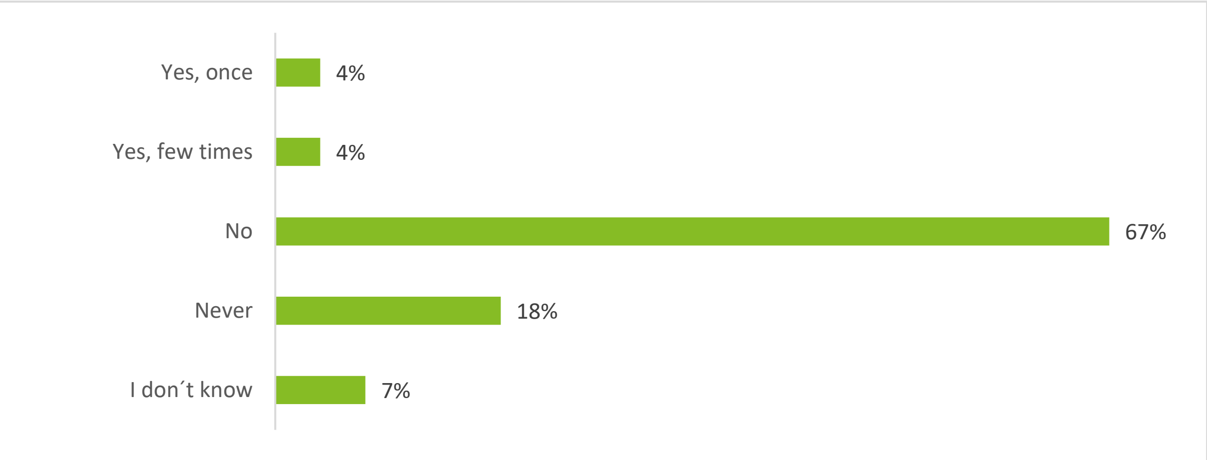
The Commission's notification of State aid measures in favour of SEs is not used very often. Most of the respondents to the study had no direct experience with the notification procedure. They expressed concerns about further administrative burdens and therefore limited interest in using this option.

Findings

All the national authorities that were interviewed reported that they rarely make use of the possibility to notify the Commission of intended State aid measures in relation to SEs. National authorities consider the notification procedure to be administratively burdensome with unpredictable outcomes. The procedure usually requires a lengthy period of time and considerable communication and background documentation. National authorities would therefore be unlikely to use the notification procedure to negotiate an exemption for the granting of State aid to SEs.

The vast majority (85%) of SE respondents said that they had not received State aid on the basis of an aid that had been approved by the Commission, after a notification procedure.

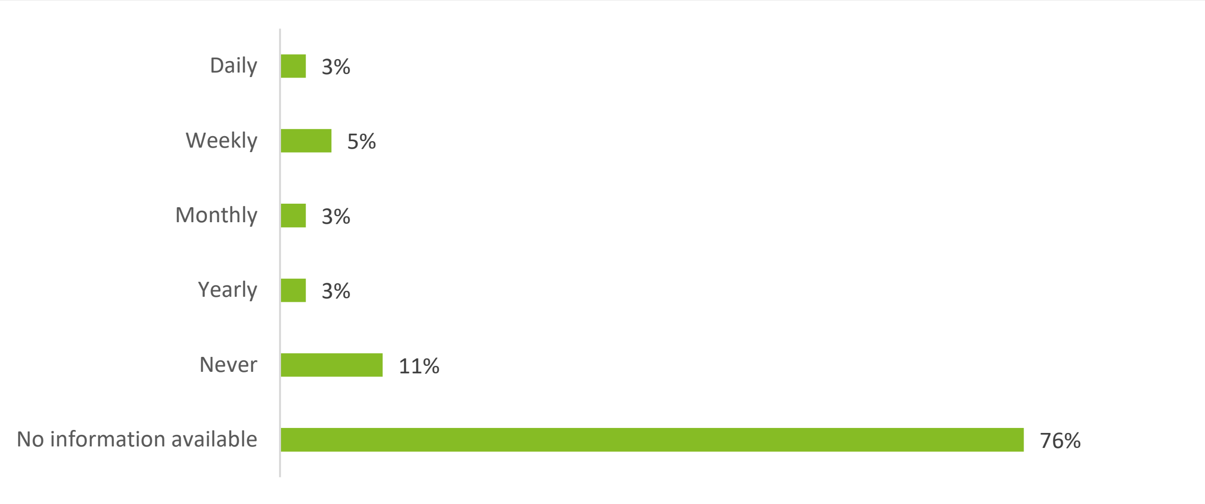
Figure 27 Received State aid support based on approved notification of the European Commission during the previous 12 months, due to unfulfilled eligibility requirements for risk finance aid as laid down in the GBER



Source: Survey among SEs

Survey respondents confirmed that they rarely make use of the notification procedure for SEs that do not meet certain eligibility criteria for risk finance aid set out in GBER Article 21. This may be due to the widespread use of *de minimis* to support SEs and for recruitment of disadvantaged workers.

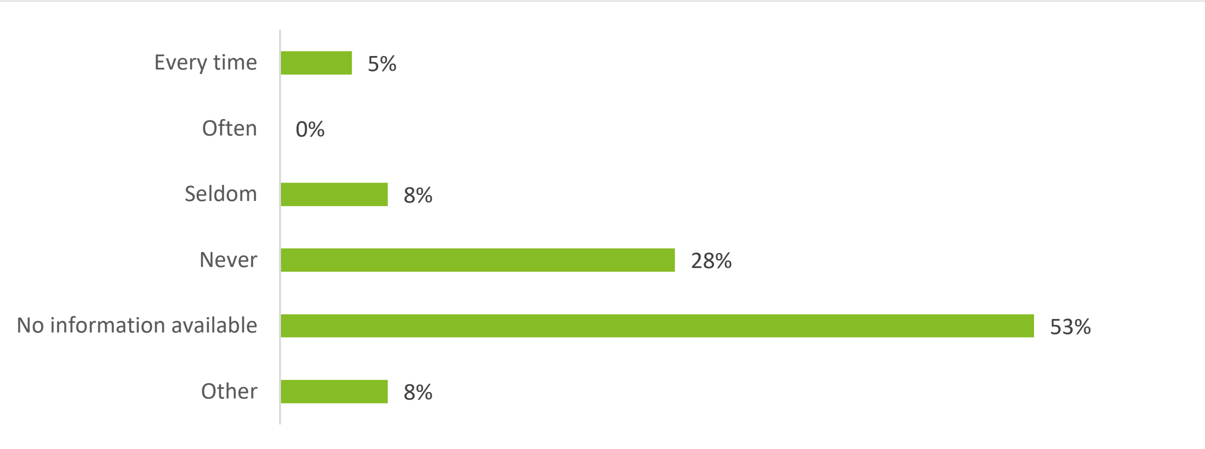
Figure 28 Use of the notification procedure in relation to risk finance for SEs during previous calendar year



Source: Survey among national authorities and umbrella organizations

Similarly, the notification procedure was not frequently used for aid schemes under the Risk Finance Guidelines (RFG). Only 5 out of 40 respondents confirmed that they had notified the Commission under the RFG:

Figure 29 Use of the notification procedure under the Risk Finance Guidelines during previous calendar year



Source: Survey among national authorities and umbrella organizations

Almost half (48%) of the same respondents indicated that they would find it useful to notify the Commission in the event of an SE failing to comply with the GBER conditions. This is in stark contrast to the statements of the respondents. This may be due to the limited experience of respondents with the notification procedure, which may affect their ability to properly assess the administrative requirements of the process.

A well-known example of a notification to the Commission is the State aid SA. 55869 (2019/N) France – “IT-SMEs” (Income Tax for Small and Medium-sized Enterprises) scheme for investments in Mutual Funds for Investment in Innovation (FCPI) and Local Investment Funds (FIP).[79] The European Commission approved an IT-SME scheme entitling individuals to tax reductions equal to 18% of the amount of payments made in respect of all eligible

[79] Aide d’État SA. 55869 (2019/N) France - Dispositif IR-PME pour les investissements dans les FCPI et FIP, available here: https://ec.europa.eu/competition/state_aid/cases1/202032/283398_2179298_72_2.pdf

subscriptions made directly to the capital of ESUS. The approved scheme included reductions in income tax in the case of SMEs:

- for individuals who subscribe directly to the capital of eligible companies or subscribe in cash to the capital of a holding company which - in turn - invests in eligible companies ("direct SME window"); and
- for individuals who invest indirectly in SMEs by subscribing to units in mutual funds for innovation (hereinafter referred to as "FCPI") or local investment funds (hereinafter referred to as "FIPs") which - in turn – invest in eligible companies ("indirect SME component").

The scheme has been in force since January 2020 and will end in 2025. The budget, which consists of uncollected tax revenues, is estimated on the basis of 2017 revenues at around EUR 160 million annually for the entire scheme (including the direct component). The estimated budget for the notified strands alone, applying the same approach, is estimated at around EUR 100 million annually.

4.6. Task 6: Possibilities under Articles 32 (Aid for the recruitment of disadvantaged workers in the form of wage subsidies) and 35 (Aid for compensating the costs of assistance provided to disadvantaged workers) of the GBER, within and outside of the social economy

The purpose of the task was to study the way MS use the possibilities under Articles 32 (Aid for the recruitment of disadvantaged workers in the form of wage subsidies) and 35 (Aid for compensating the costs of assistance provided to disadvantaged workers) of the GBER, within and outside of the social economy. Aid under Article 32 consists of a wage subsidy of up to 50% during one year for disadvantaged and two years for severely disadvantaged workers. Aid under Article 35 can subsidise up to 50% of the costs related to staff assisting the disadvantaged or severely disadvantaged workers for 1 or 2 years, respectively.

Summary

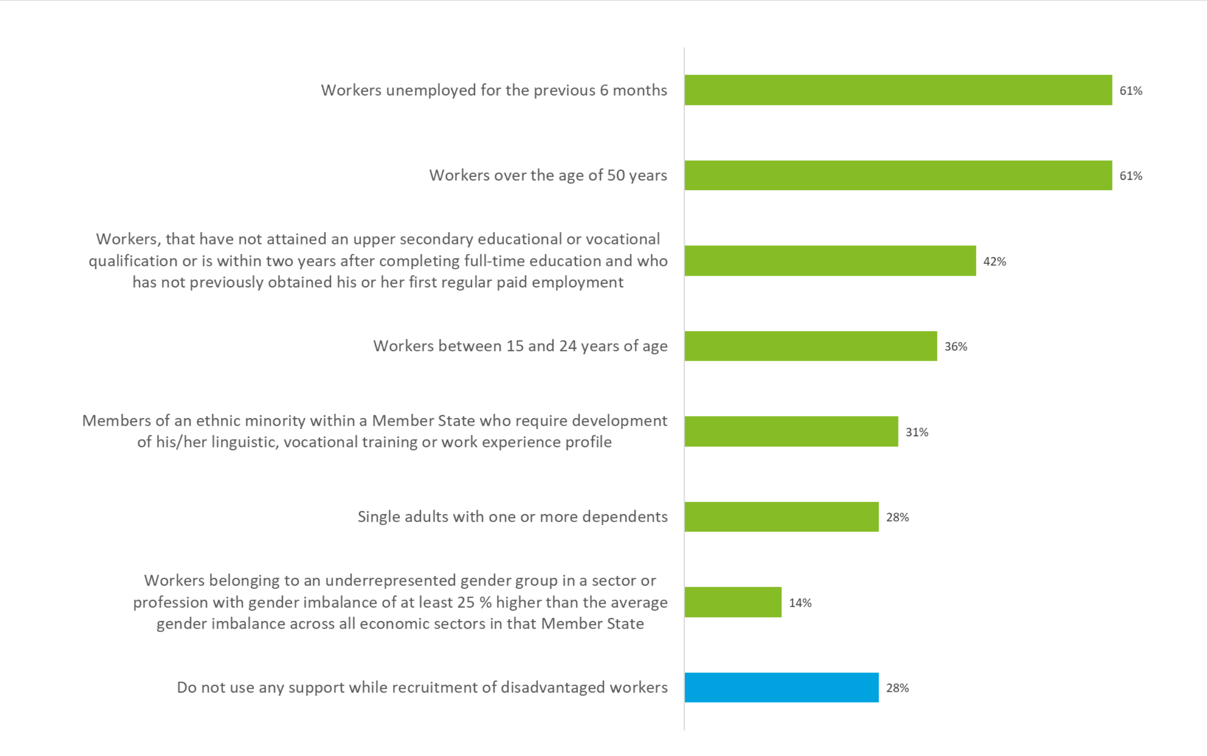
In all the countries surveyed, there are support schemes for the employment of disadvantaged workers, both within and outside of the economy. In most countries, the support does not constitute State aid in their view or falls under *de minimis* ceilings. In most countries the support takes the form of wage subsidies or tax relief. Where support is provided through State aid, all respondents would benefit from extending the target groups to other disadvantaged types of workers (e.g. people with mental health problems, migrants, drug addicts, ex-prisoners, women who have suffered gender-based violence) and increasing the percentage of eligible wage costs. More than half of the respondents in both surveys were in favour of increasing the aid intensity in both Articles 32 and 35 to wage costs, as well as aid of up to 100%.

Findings

The use of GBER Articles 32 and 35 varies considerably between EU MS and in some cases even between different regions within a single country, such as Belgium. It is worth noting that in Italy there is no wage subsidy in the form of a State aid scheme. Therefore, the application of Articles 32 and 35 of the GBER does not apply to State aid schemes in Italy. Social cooperatives in Italy that meet certain criteria (e.g. employing at least 30% disadvantaged workers, including people with mental health problems, released prisoners, drug addicts, and women who have suffered gender-based violence) can obtain a certificate after registering with the state. This certificate entitles them to reduced social and health insurance contributions, as well as reduced tax contributions for their employees. However, such State aid is granted on a *de minimis* basis.

According to the results of the survey among SEs, the following types of disadvantaged workers are most often supported:

Figure 30 Types of disadvantaged workers supported most frequently



Source: Survey among SEs

In other countries, such as Romania and the Czech Republic, there are State aid schemes based on Article 32 (and to a lesser extent Article 35). These schemes aim to provide state support for the recruitment of disadvantaged workers in the form of wage subsidies both within and outside of the social economy. Any enterprise can apply for wage subsidies for disadvantaged workers. However, these funding schemes have either been suspended due to national budget cuts (the Czech Republic) or do not operate effectively. Applying for and receiving these wage subsidies is administratively very difficult, with uncertain outcomes and serious delays. In Romania, applications can take several months to process. Moreover, the State aid granted does not cover 50% of the wage, and the maximum aid granted is often less than 50% of the minimum wage.

In Flanders, Belgium, there are two main support schemes that provide similar wage subsidies and subsidies for guidance, either to work-integration companies with a high proportion of disabled and disadvantaged workers, or to other mainstream companies for individual integration.

According to the German Federal Ministry of Labour and Social Affairs, the support provided by the German State authorities for the employment of disadvantaged workers does not fall under the GBER.

In the Netherlands, the government provides subsidies for the recruitment of disadvantaged workers, of up to 30% of wage costs. The SEs interviewed report that this does not compensate for the loss of productivity and does not cover all groups of workers who should be eligible, given their specific labour needs (i.e. need of more time, different support/management, or adapted working environment). The Dutch authorities also offer support programmes for these workers, but do not compensate for other costs related to the administrative burden of recruiting disadvantaged workers, such as supervision. In addition, the Netherlands supports the employment of disadvantaged workers through socially responsible public procurement, putting emphasis on the engagement of “employees with a distance to the labour market”. The Netherlands introduced a PSO[80] Label instrument, that measures the social entrepreneurship activity of organisations in terms of their labour inclusion practices. The Netherlands also awards the PSO 30+ certificate for organisations that employ more than 30% of employees with disabilities or a “distance to the labour market”. Some public tenders are reserved for organisations with the PSO 30+ certificate.[81]

In other countries, such as Finland and Lithuania, State aid for the recruitment of disadvantaged workers is primarily limited to people with disabilities for all types of enterprises. In Finland, there is a specific State aid programme for the employment of disadvantaged workers in the public sector. It is also limited to 5 months. State aid in Finland does not support assistance under Article 35. However, labour offices are not excluded from providing training, education or coaching. In Finland the scope of support was increased only recently (January 2023) from 50% to 70% for persons with disabilities, i.e. it still does not reach the permitted maximum limit of 75%. The scope was also only recently increased for employers of disadvantaged workers who are entitled to a 50% wage subsidy now, compared to 30% or 40% in the past.[82] Support covering 100% of the costs (of training aid under Article 31, aid for compensating additional costs of employing workers with disabilities under Article 34) is provided under *de minimis* rules. Annually, the 100% subsidy can be used to employ five people on average.[83]

In Denmark, State aid in the form of wage subsidies is provided for a period of 4 or 12 months[84] to support employment by retraining professional and social competences of disadvantaged workers at public or private employers, who have been unemployed at least 6 months.[85] The support falls under the GBER and meets the criteria. According to the Danish authorities consulted, the only condition that could be revised is the maximum percentage of aid, which could be increased. Further support is provided in the form of practical work training, education, and upskilling. The jobseeker continues to receive an unemployment insurance benefit for the duration of an internship to develop her/his skills.[86] The support is administered by the Danish Labour Market Agency. It is estimated that around 8,000 people benefit from the wage subsidy programme each year. Only two companies receive a total support of more than EUR 500,000 per year. Various national studies evaluating the impact of the scheme show varying degrees of effect, but overall it is estimated that the positive employment effects exceed the cost of giving companies wage subsidies to hire an unemployed person.

[80] Prestatieladder Socialer Ondernemen - social entrepreneurship performance: “measures the extent to which organisations show visible employment for vulnerable groups in the labour market and compares this result with other organisations with similar size”. They measure: “the direct contribution: the number of persons employed with a distance to the labour market in relation to the total number of staff. It also measures the quality of this contribution” and “the indirect contribution: to what extent do organisations purchase from other PSO-certified organisations and social working companies”. For more information, please see: https://www.pso-nederland.nl/ - OECD Country Report Netherlands, 2019.

[81] OECD Country report Netherlands: Boosting Social Entrepreneurship And SE Development In The Netherlands. 2019.

[82] https://valtioneuvosto.fi/en/-//1410877/pay-subsidy-reform-simplifies-regulation-and-promotes-the-employment-of-people-in-a-vulnerable-labour-market-position

[83] https://valtioneuvosto.fi/en/-//1410877/pay-subsidy-reform-simplifies-regulation-and-promotes-the-employment-of-people-in-a-vulnerable-labour-market-position

[84] Depending on the category of unemployed worker.

[85] https://www.star.dk/en/active-labour-market-policy-measures/

[86] Ibid.

There are companies that have traditionally focused on the recruitment of disadvantaged and disabled workers. In Flanders, for example, there are about 126 companies ("maatwerkbedrijven") employing about 23,550 disadvantaged and disabled people.

4.7. Task 7: 1- or 2-year eligibility periods allowing continuous employment

The purpose of the task was to investigate whether the currently allowed 1- or 2-year eligibility periods are sufficient, or too brief, to allow the undertaking beneficiary to offer the disadvantaged worker(s) continuous employment.

Summary

Views on the optimal eligibility period for the provision of support for the recruitment of disadvantaged workers vary across countries and types of stakeholders. In most countries, the national authorities tend to follow the GBER periods of 12 and 24 months. According to the survey, SEs would find it useful to extend the period for an unlimited time, or at least up to 36 months in the case of severely disadvantaged workers and 24 months for disadvantaged workers.

Findings

The application of eligibility criteria varies between EU MS. Most countries align their national frameworks with the conditions of the GBER. At the same time, some EU MS apply stricter rules for the provision of State aid for the recruitment of disadvantaged workers, by shortening the eligibility period and/or applying specific eligibility criteria for the beneficiary employers. Other countries are looking at other ways[87] of extending State aid for the recruitment of disadvantaged workers beyond the eligibility periods defined in the GBER.

In Finland, wage subsidies are granted for five months[88] for disadvantaged workers and ten months for severely disadvantaged workers. The scheme is open to all legal entities. The scheme does not target workers in sectors with a gender imbalance[89] or single adults with dependants. In Finland there is no evidence that a shorter duration of wage subsidies would lead to lower results. The maximum amount of wage subsidy is limited to 50% of the wage but is firmly capped below the average wage. There is also a wage subsidy scheme for the recruitment of disadvantaged workers by public authorities, which covers 100% of the wage costs. This scheme seems to be less effective than the one for private employers. In Finland, there is a specific *de minimis* public support scheme for wage subsidies for apprenticeship employment that is unlimited in time. There is no State aid scheme for support under Article 35 of the GBER.

In the Czech Republic the wage subsidy program for the recruitment of disabled workers is automatically and unlimitedly available to employers registered as "protected employers" in the "protected labour market"[90]. Recruitment of disadvantaged groups in the Czech Republic is facilitated by the special status of an "established socially useful workplace". Such a workplace must be registered with the Labour Office in advance, only workers registered with the Labour Office can apply, and the Labour Office assesses and approves each individual

[87] E.g., allowing repeat employment after 12 or 24 months or claiming that it does not meet the criteria for classification as State aid.
[88] The time frame was recently reduced from 6 months.
[89] Within the Study researchers have only exceptionally encountered schemes specifically addressing this particular area, e.g., in Spain.
[90] The condition is to employ at least 50 % of disabled persons.

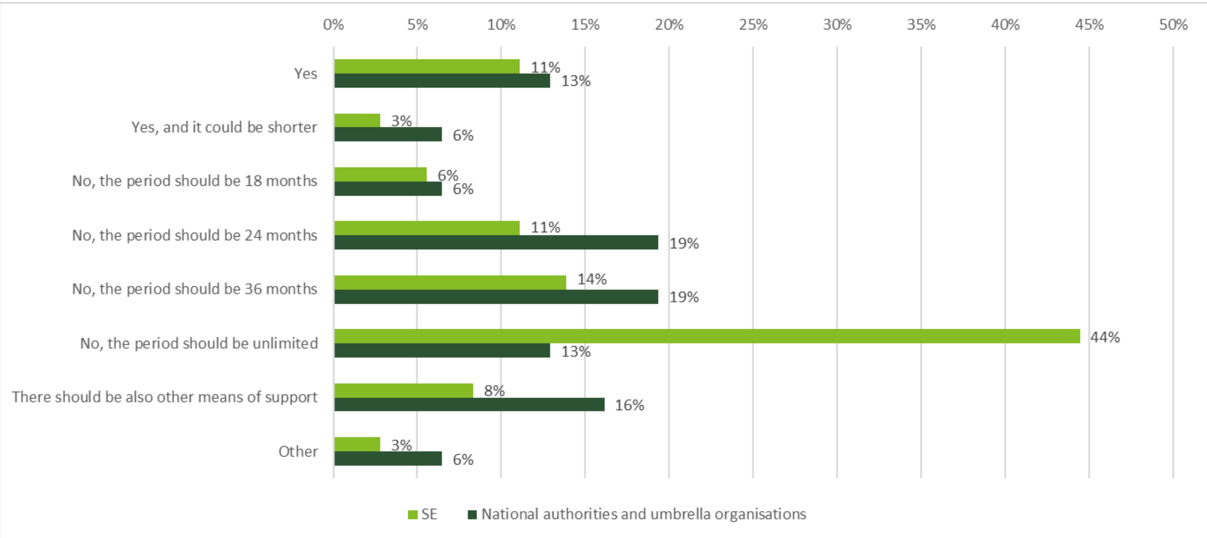
application. Receipt of the wage subsidy is limited to 12 months. The scheme is hardly used because of its administrative requirements and unpredictable results. In the Czech Republic, SEs tend to employ at least 50% of workers with disabilities in order to qualify as employers in the "protected labour market" in order to receive unlimited automatic State wage subsidies. The recruitment of disadvantaged workers has become a segregated domain of SEs that attract people with moderate degrees of disability.[91]

In the Netherlands, support for the recruitment of disadvantaged workers is regulated by the Participation Act. This includes support for job adaptation, job coaching, wage subsidies, sheltered work, day care and voluntary work. Every employer is entitled to financial benefits if they hire a disadvantaged worker.

All representatives of national authorities and umbrella organisations interviewed agreed that the aid intensity of 50% of eligible wage costs does not represent a limit for recruitment.[92] On the contrary, some respondents expressed concern about the eligibility period of 12 (or 24) months for (severely) disadvantaged workers. According to them, this period is not sufficient to achieve the desired objective of continuous employment. Most of the disadvantaged workers fail to keep the position and often end up unemployed again. This particularly affects people with mental health problems, who may need long-term psychological support. For this reason, the eligibility period could be extended to at least 36 months.

The survey results indicate that for the majority of respondents the maximum duration of State aid schemes for severely disadvantaged workers is an obstacle. However, respondents also suggest that other types of support, such as wage subsidies, should be considered. The majority (58%) of surveyed national authorities and umbrella organizations would like to increase the duration for the employment of disadvantaged workers. Of the SE respondents, 44% would prefer to remove any limits on the employment of disadvantaged workers. And 11% would extend the limit to 24 months, and 14% to 36 months. For severely disadvantaged workers, 36% would prefer unlimited support, and 12% would increase the time limit to 36 months.

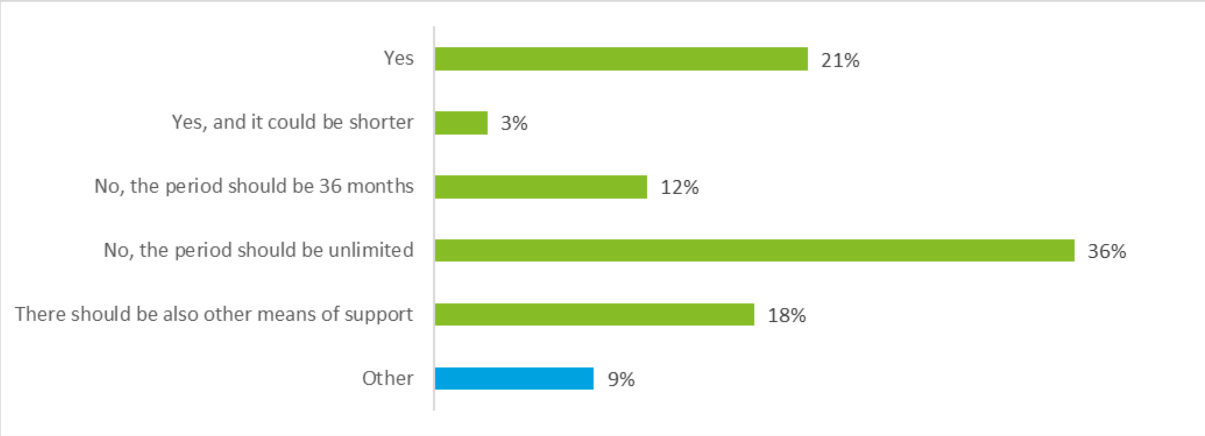
Figure 31 Sufficiency of duration allowed by EU law (i.e. 12 months) for the continuous employment of disadvantaged workers



Source: Survey among SEs and the Survey among national authorities and umbrella organizations

[91] The wage subsidy for moderate and severe disability is in the same amount.
[92] Some interview respondents however would welcome increasing the aid intensity to 75 % for severely disadvantaged workers. (Flanders)

Figure 32 Sufficiency of duration allowed by EU law (i.e. 24 months) for the continuous employment of severely disadvantaged workers

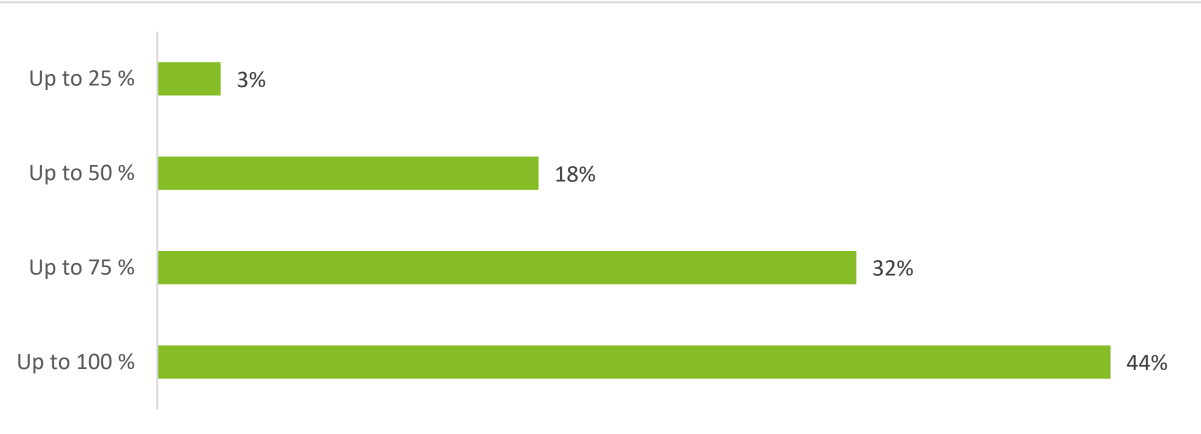


Source: Survey among SEs

Only 14% of respondents would retain the current 12-month period for disadvantaged workers, and 24% would keep the 24-month period for severely disadvantaged workers. The majority of respondents would opt to substitute the administratively demanding request procedures with an automated tax deduction system, along with career counselling, lifelong learning, and reskilling/upskilling programmes.

For severely disadvantaged workers, 44% of respondents would welcome an increase in the eligibility cost cap to 100%, while 32% would prefer it to be raised to 75% of the costs.

Figure 33 Preferred eligibility cap of wage costs covered for severely disadvantaged workers



Source: Survey among SEs

Respondents of the survey among national authorities, similar to SEs, indicated that the group of disadvantaged workers could be extended to include workers with chronic illnesses, victims of gender-based violence, released prisoners, migrants, refugees, and temporary protection holders[93].

The main barriers to accessing available State aid are generally administrative procedures at the national level related to the application, approval, and reporting of State aid. Employers who face administratively demanding application processes often give up on applying for State aid or resign themselves to not employing disadvantaged workers at all.

The table below shows the additional types of support that the SEs survey respondents prefer. In addition to training and adaptation, respondents would also welcome support for travel costs, mentoring, and accommodation costs among the eligible expenses.

The survey results indicate that SEs support the recruitment and assistance of (severely) disadvantaged workers as a means of promoting their continuous employment. According to the survey, 88% of respondents reported that recruited workers continue to work to some extent after State aid, while only 15% do not. However, in most countries, continuous employment is a requirement for receiving support. Additionally, 60% of respondents reported being able to re-employ the same workers after their dismissal or resignation. Of the respondents, 85% believe that additional support should be dedicated to the employment of disadvantaged workers, and 55% believe that the national legislative framework should be changed.

4.8. Task 8: Solutions that aid-granting authorities implemented to resolve issues with the implementation of Articles 32 and 35

The purpose of the task was to examine the solutions that aid-granting authorities implemented to resolve issues with the implementation of Articles 32 and 35.

Summary

The approach to public support for recruitment and assistance provided to disadvantaged workers varies among EU MS. While some countries, such as those in Central and Eastern Europe, the Nordic region, and the Baltic States, have stricter rules for recruiting disadvantaged workers. Others, like Spain, have more expansive criteria for eligibility and longer time periods. The maximum aid caps of EUR 5.5 million per year for recruitment and for assistance, beyond which aid must be notified to the Commission, seem to be no obstacle for the majority of interviewed respondents.

Findings

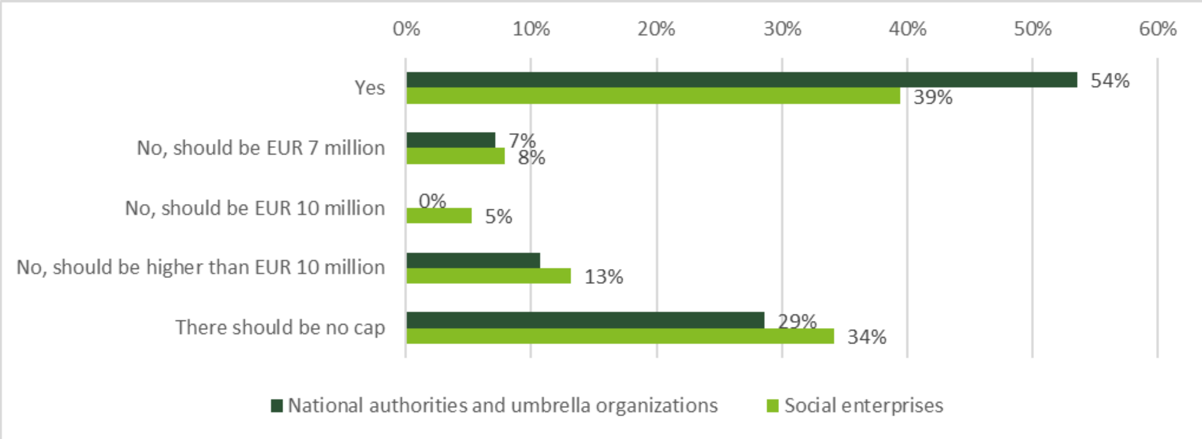
Some countries are exploring ways to support vulnerable and disadvantaged workers, such as drug addicts, released prisoners, persons with mental health problems, and women who have suffered gender-based violence, for longer than 12 months. MS implement most wage subsidy programmes targeting these groups under the *de minimis* rule to avoid any potential issues with Articles 32 and 35. According to the surveys and interviews, opinions on the maximum aid caps of EUR 5.5 million per year for recruitment and assistance differ between

[93] Temporary protection is an exceptional measure to provide immediate and temporary protection in the event of a mass influx or imminent mass influx of displaced persons from non-EU countries who are unable to return to their country of origin. For more details see the 2001 Temporary Protection Directive available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32001L0055&qid=1648223587338

SEs and national authorities and umbrella organizations. The majority of national authorities and umbrella organizations do not see it as an obstacle.

The majority of respondents interviewed did not find the maximum aid caps of EUR 5.5 million per year for recruitment and assistance to be an obstacle (aid exceeding these caps is not eligible for block-exemption and must be approved prior to implementing the aid). Surveys conducted among national and umbrella organizations and SEs revealed that respondents were divided into two groups: those who believe that the current cap is appropriate and those who would increase or cancel the cap. This is shown in the figure below. The same situation applies to the aid cap for assistance.

Figure 34 Suitability aid cap of EUR 5,5 million for recruitment of disadvantaged workers

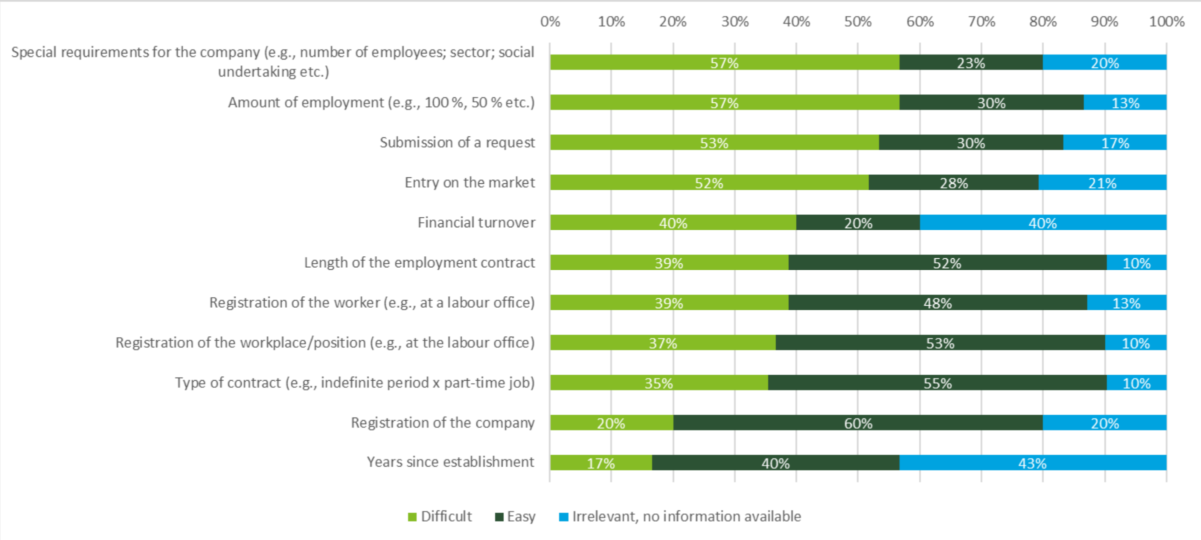


Source: Survey among SEs and the Survey among national authorities and umbrella organizations

A minor technical issue may be the definition of “regular employment”. One respondent suggested that the definitions of regular paid employment and Article 32(3) should be clearer. It was noted that regular paid employment may include short breaks, but the duration of these breaks should be defined. Implementing Article 32(3) may be challenging due to the difficulty in examining the average number of employees and their working hours and assess whether the reduction of working time was due to redundancy or other reasons. In Italy, a dynamic but fragmented system of tax reliefs is applied to overcome any difficulties with the Articles 32 and 35.

In the surveys, the national authorities and umbrella organizations identified a number of conditions that make it difficult for SEs to apply for support for recruitment of disadvantaged workers. In addition, national authorities may also set up other requirements, for example in regard to the number of employees, sector, and type of entity, which represent obstacles for SEs when applying for support.

Figure 35 Conditions making it difficult to apply for support for SEs



Source: Survey among national authorities

The results of the same survey revealed that the support schemes enable recruitment of disadvantaged workers in an existing workplace in 52% of cases and demand the creation of a fully new workplace in only 26% of cases, significantly reducing this potential barrier of the requirement to create new jobs.

According to the survey's respondents in Germany, State aid schemes for (severely) disadvantaged workers are not utilized in Germany. National schemes based on individual entitlements that are not selective do not fall under the remit of State aid.[94] Additionally, German Länder often establish individual funding streams.[95] However, these additional funding streams usually do not make use of the GBER but instead only allow State aid exemptions under the general *de minimis* Regulation. Therefore, although the new GBER appears to be more advantageous due to less strict eligibility criteria compared to German national law, it is not commonly utilised to subsidise the wages of (severely) disadvantaged workers. This is primarily because any State aid scheme under the GBER would have to be selective and not a general entitlement.[96] However, there is an important ESF-funded programme (Rückenwind) through which not-for-profit social economy organisations can professionalise their work, for example by training their employees. This programme is subject to State aid and uses the GBER. As these not-for-profit social economy organisations often employ (severely) disadvantaged workers, these workers benefit indirectly through this funding programme. Two organisations highlighted the importance of Article 31 Training Allowance. Latvia uses Section 6 of the GBER to support the recruitment of disadvantaged workers.

Interviews with national authorities revealed that Romania has broadened the scope of its disadvantaged workers program by lowering the age eligibility to 45 years. Meanwhile, Spain

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[94] For example, according to §16 (e) of the second book of Germany's Social Code (SGB II), wage subsidies exist for people that have been unemployed for two years; according to §16 (i) of the second book of Germany's Social Code (SGB II), wage subsidies exist for people that are over 25, have been receiving benefits under the second book of Germany's Social Code (SGB II) for at least 7 years, of which 5-6 years have to have been under the formal status of unemployment. There is also an integration grant under the third book of Germany's Social Code (SGB III), where up to 50 % of wage costs can be covered for the long-term unemployed, where aggravating factors make it harder to find work.

[95] E.g., in North-Rhine-Westphalia: https://recht.nrw.de/lmi/owa/br_bes_text?anw_nr=1&gld_nr=8&ugl_nr=81&bes_id=46108&val=46108&ver=7&sg=0&aufgehoben=N&menu=1),

[96] According to the feedback of Bundeslander authorities in Germany, this would be overall less favourable, due to the project-based nature of such aid schemes which does not allow continuous financing.

aims to provide prolonged support to various categories of disadvantaged workers. The table presented below illustrates the kinds of disadvantaged workers that employers can receive bonuses for under the Employment Promotion Programme administered by the Ministry of Labour and Social Economy provided they are employed indefinitely. It showcases the detailed breakdown of different disadvantaged groups by gender or age.

Table 4 Supported workers under the Employment Promotion Program of the Spanish Ministry of labour and social economy[97]

Groups	Description	Annual amount (in EUR)	Duration
Victims of gender or domestic violence	-	1.500	4 years
Victims of terrorism	-	1.500	4 years
People over 45 years of age registered in the employment office hired under the modality of support for entrepreneurs	Unemployed	1.300	3 years
	Women in underrepresented occupations	1.500	3 years
Young people between 16 and 30 years old registered in the employment office hired under the modality of support for entrepreneurs	Unemployed	1,000 the 1st year; 1,100 the 2nd year; 1,200 the 3rd year.	3 years
	Women in underrepresented occupations	1,100 the 1st year; 1,200 the 2nd year; 1,300 the 3rd year	3 years
Other groups and special situations	Workers in a situation of social exclusion (except for integration companies)	600	4 years
People with disabilities	In general	4.500	The entire term of the contract
	In case of severe disability	5.100	The entire term of the contract
Women with disabilities	In general	5.350	The entire term of the contract
	In case of severe disability	5.950	The entire term of the contract
People over 45 years of age with disabilities	In general	5.700	The entire term of the contract
	In case of severe disability	6.300	The entire term of the contract
Transformations of internship, relief, and replacement contracts into permanent ones due to anticipation of retirement age	Men	500	3 years
	Women	700	3 years

There are also exceptional cases of bonuses for employing disadvantaged groups on a temporary basis:[98]

Table 5 Bonuses in exceptional cases of temporary hiring

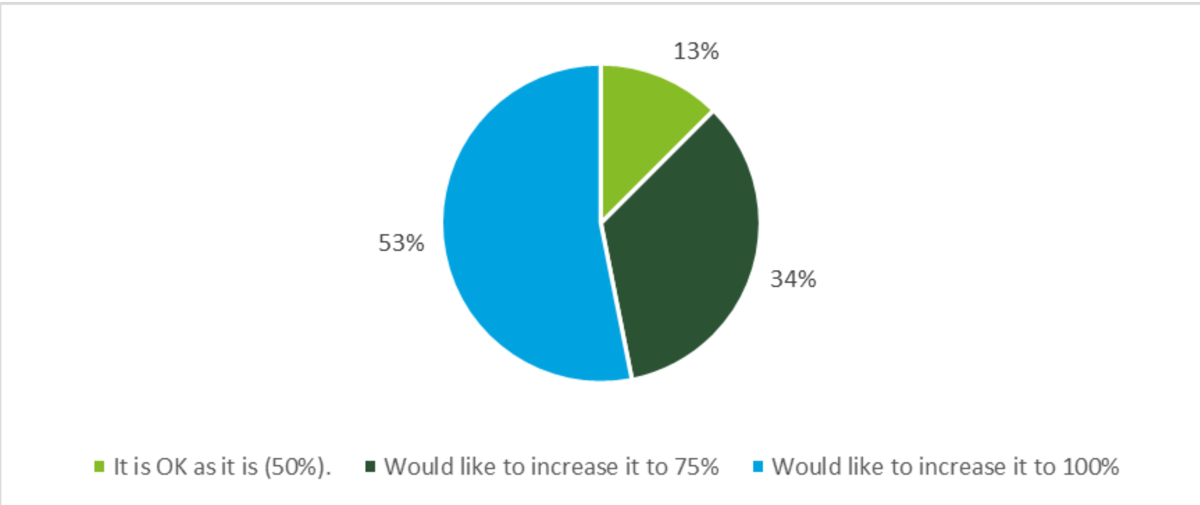
Collectives	Annual amount (in euros)	Duration

[97] Available here: https://www.mites.gob.es/es/informacion/incentivos/index.htm#
[98] Ibid.: https://www.mites.gob.es/es/informacion/incentivos/index.htm#

People with disabilities hired through the temporary employment promotion contract	Men under 45 years of age	Men over 45 years of age	Women under 45 years of age	Women over 45 years old	Duration
In general	3.500	4.100	4.100	4.700	The entire term of the contract
In case of severe disability	4.100	4.700	4.700	5.300	The entire term of the contract
Victims of gender or domestic violence and victims of terrorism	600	600	600	600	The entire term of the contract
People in situations of social exclusion (except for integration companies)	500	500	500	500	The entire term of the contract

The survey results among SEs suggest that the possibility of granting block-exempted aid under Article 35 for compensating the costs of assistance provided to disadvantaged workers may not be well-known, used, or implemented. Almost 20% of the respondents were not aware of this opportunity at all. The remaining respondents were almost equally divided between those who are using aid measures for assistance (42%) and those who are not (39%). Those who are using the aid have been compensating the labour costs of assistance staff in the vast majority of cases (84%). The majority of respondents would also like to increase the aid intensity. Specifically, 53% of respondents would like to increase it to 100%, while 34% would like to increase it to 75%.

Figure 36 What should be the cap for assistance aid intensity for eligible costs



Source: Survey among SEs

In some MS, issues occur in relation to the groups of disadvantaged workers as defined in the GBER and the allowed length of the support provided. MS that expand the scope of disadvantaged groups also target individuals with mental disabilities[99], released prisoners, and drug addicts. In certain countries, such as Spain, State aid/public support can be extended up to 36 months, based on national experience, to aid in the reintegration of individuals into the labour market. In contrast, other countries, like Finland, provide support for a maximum of 10 months. There is no uniform pan-European approach, as MS independently and autonomously apply their own rules.

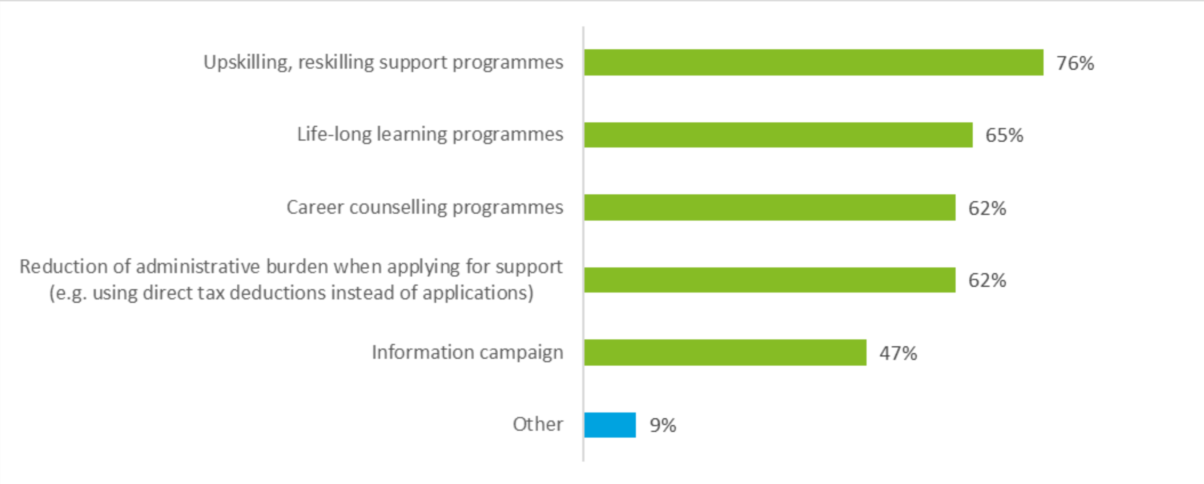
[99] People with mental health issues were most often additional target group mentioned by respondents of the survey among SE.

The survey results and interviews indicate that other groups should also be supported, including immigrants, workers in sectors affected by reductions due to climate goals, victims of gender-based violence, people with chronic diseases, refugees, and holders of temporary protection.

Challenges related to the size of the enterprise were rarely mentioned. For example, in the Walloon region, the maximum support for recruiting disadvantaged workers is graduated based on the size of the enterprise. However, the size may also be influenced by the links between the board of directors and shareholders (links between sister companies forming a group).

In the survey, SEs expressed a preference for additional support in recruiting (severely) disadvantaged workers (85%), followed by changes in national legislation (55%). The figure below shows other types of support preferred by the survey respondents. (See the list in Figure 38.)

Figure 37 Other types of support needed for the recruitment of (severely) disadvantaged workers



Source: Survey among SEs

Apart from supported assistance and training for disadvantaged workers, there are other means of support with great added value. Lifelong learning programmes might be one of such measures that would support the recruitment and employment of disadvantaged workers.[100] Common barriers to employment for disadvantaged groups include lack of relevant education, knowledge, and work experience.[101] For example, other universal barriers are companies' low awareness resulting in lower motivation to employ disadvantaged individuals (e.g., lack of information about the characteristics, productivity, and restrictions of people with partial work ability; or lack of information on potential financial risks due to the cost of absence, including sick pay and substitute personnel), discrimination, insufficient economic incentive to find education/employment, and retirement and pension benefits, including early retirement and disability benefits.[102]

[100] Recommendation results from conducted interviews in Flanders.
[101] Højbjerre, Andreas & Nielsen, Sarah & Jakobsen, Vibeke & Thuesen, Frederik & Thomsen, Rasmus & Saikku, Peppi & Mesiäislehto, Merita & Korpi, Tomas & Lorentzen, Thomas & Hardonk, Stefan. (2023). Barriers to employment for vulnerable groups in the Nordic countries. 10.6027/temanord2023-513.
[102] Ibid.

4.9. Task 9: Benchmarks on the duration of aid provided for the recruitment of (severely) disadvantaged workers

The purpose of the task was to develop meaningful benchmarks on the duration of aid provided for the recruitment of (severely) disadvantaged workers (including the existing practices and possible changes desired by stakeholders).

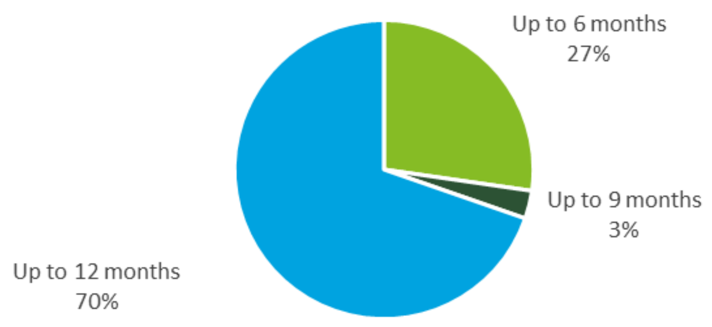
Summary

As outlined in Task 7, practices vary among MS and comprehensive information is not available for all MS. The survey results suggest that EU MS may not be fully utilizing the available time period for supporting severely disadvantaged workers. While 70% of cases receive support for disadvantaged workers for 12 months (and 27% for only 6 months), support for severely disadvantaged workers is received for 24 months in only 32% of cases. In the survey, 64% of respondents indicated that they receive support for recruiting severely disadvantaged workers for only 6 to 12 months.

Findings

The survey results indicate that support for recruiting disadvantaged workers is slightly more consistent for those who are just disadvantaged compared to those who are severely disadvantaged. The results suggest that the support provided is compliant with the allowed 12-month period in most cases.

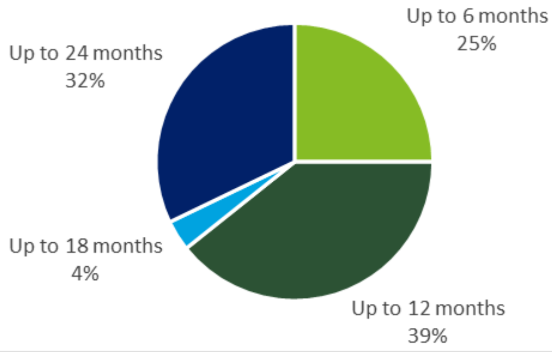
Figure 38 How long SEs usually receive support for the recruitment of disadvantaged workers



Source: Survey among SEs

The survey results suggest that EU MS may not be fully utilizing the available time period for supporting severely disadvantaged workers. While 70% of cases receive support for disadvantaged workers for 12 months (and 27% for only 6 months), support for severely disadvantaged workers is received for 24 months in only 32% of cases. In the survey, 64% of respondents indicated that they receive support for recruiting severely disadvantaged workers for only 6 to 12 months.

Figure 39 How long SEs usually receive the support for the recruitment of severely disadvantaged workers.



Source: Survey among SEs

As mentioned earlier, the duration of aid provided for recruitment varies significantly between countries. In Finland, the aid is limited to 5 months for disadvantaged and 10 months for severely disadvantaged workers, while in Spain, it can be extended up to 4 years for specific groups of workers. These groups are not listed in the GBER but may still fall under the *de minimis* criteria. The survey results show that approximately 80% of respondents would prefer to extend the aid for recruiting disadvantaged workers to 18-24 months. However, this extension would not affect MS that wish to apply stricter rules. Additionally, most interviewees agreed on revising the types of disadvantaged groups by including other types of vulnerable workers. In Germany there are public support schemes that can provide wage subsidy support for up to five years when employing a person over the age of 25, who has not worked (or only briefly) for at least six years and has received unemployment/citizens benefits during this time.

Table 6 Overview of time-duration of aid for recruitment based on survey´s results

Country	Public support duration – disadvantaged/severely disadvantaged in months
Austria	12 / 24 / 36[103]
Belgium	No information found
Bulgaria	12 / 24
Croatia	No information found
Cyprus	6 or 12 / 24

[103] There are various support models in Austria with different conditions, whether it postulates State aid or not is not clear from the public sources. The schemes include: “COME BACK” integration grant; Funding for the first worker; Promoting apprentice training; Solidarity bonus model that can be provided for up to 36 months for long-term unemployed and older than 45 years or disabled. Available at: https://www.wko.at/einstellen/ams-foerderungen-unternehmen

Country	Public support duration – disadvantaged/severely disadvantaged in months
Czechia	12 / 12
Denmark	4 / 12
Estonia	No information found
Finland	5 / 10
France	12 / 24
Germany	12 / 24[104] / 60[105]
Greece	No information found
Hungary	No information found
Ireland	12 / 24
Italy	12 / 24
Latvia	12 /12
Lithuania	No information found
Luxembourg	No information found
Malta	No information found
Netherlands	No information found
Poland	12 /12
Portugal	No information found
Romania	12 / 12
Slovakia	12 / 24
Slovenia	6 / 12
Spain	Up to 48 months (depends on the type of workers)
Sweden	24

[104] A person unemployed for 2 years. In the first year of the employment relationship 75 % and in the second year 50 % of the regularly paid wages is subsidised. Further information available here: https://www.arbeitsagentur.de/unternehmen/finanziell/foerderung-von-langzeitarbeitslosen

[105] A person who is over 25 years old, who has not worked (or only worked briefly) for at least 6 years and has received unemployment benefit II or citizen's benefit during this time. Subsidized wage costs in the first 5 years of employment: 100 percent in the first 2 years from the third year: decreasing annually by 10 percentage points from 90 to 70 percent. More information available here: https://www.arbeitsagentur.de/unternehmen/finanziell/foerderung-von-langzeitarbeitslosen

5. Case studies

This chapter presents the results of extensive research carried out in specific countries. The research was based on additional interviews with representatives of national authorities, financial intermediaries of State aid, SEs, and other stakeholders, including national umbrella organizations.

5.1. Czech Republic

The case study carried out in the Czech Republic included desk research of national documents and interviews with representatives of the Ministry of Labour and Social Affairs (MLSA), which is responsible for the social economy, as well as representatives of the National Development Bank, which acts as a financial intermediary for State aid in the form of financial instruments, Tessea (an SE network organisation) and a social cooperative.

Access to finance for SEs

According to MLSA data, there are around 240 verified SEs in the Czech Republic, with over 240 establishments. The catering industry remains the dominant business sector with a focus on workers with disabilities. The trade sector is the most prevalent with a share of 31%, closely followed by food production (22%), other production (22%) and promotional and gift items (21%). Restaurants (including cafes, restaurants, dining rooms, and bistros), grounds maintenance and technical services, and cleaning services and supplies – all 20%. In addition, textile production, recycling, and re-use account for 19%, while catering accounts for 15%.

The criteria for defining an SE in the Czech Republic, in addition to the general principles, include a mandatory requirement of 30% employment of disadvantaged/disabled workers, which limits the range of potential beneficiaries of State aid. Most SEs (84%) employ people with disabilities. Among people with disabilities, those with a physical disability (80%), a mental illness (68%) and an intellectual disability (52%) are most likely to be employed. If an SE employs 50% or more people with disabilities, it is entitled to be registered in the "sheltered labour market" and receive automatic wage subsidies. In comparison to employment of people with disabilities in SEs, there is a considerable distance from the category of people who are long-term or repeatedly unemployed (52%), and even further from members of national minorities and marginalised communities (19%).

In 2018, SEs employed 5,254 people (excluding precarious employment), of whom 3,852 were disadvantaged. The recalculated number of all full-time positions was 3,501 full-time positions and 2,522 full-time positions for disadvantaged employees. The average length of service of all employees was 0.67 years. The average number of employees in an enterprise was 33. In integrated SEs, the average number of disadvantaged employees per enterprise was 29, with a recalculated number of full-time jobs of 19. The enterprises surveyed had an average proportion of 72% disadvantaged employees. Of the surveyed sample, 53% were micro-enterprises, 34% were small enterprises, and 13% were medium-sized enterprises.

In the Czech Republic, State support for SEs is provided by the MLSA and the Ministry of Regional Development (MRD) through grants and subsidies from the European Social Fund Plus and the European Regional Development Fund. There is no systematic state support for SEs in the form of subsidies, grants, or loans, nor in the form of tax relief or reduced social or health insurance contributions. MLSA provides support for soft activities, while MRD provides investment grants and subsidies. All support is provided under *de minimis* rules and for the sole purpose of work integration.

In 2018, the total revenue of the audited SEs was CZK 2,091.5 million (EUR 83.64 million). The average total revenue of an enterprise was CZK 13.1 million (EUR 520,000), and the median total revenue was CZK 6.7 million (EUR 268,000). More than half of the SEs surveyed (57%) reported a profit in 2018, almost a quarter (24%) reported a loss, and even less reported almost zero (19%). Deloitte's preliminary assessment of the financing gap for SMEs in the Czech Republic for the period 2014-2020 identified a fundamental excess of demand for individual operational programmes. This was eight times higher than the national allocation demand for the European Commission for the Employment Operational Programme (809%) and more than three times higher than the allocation demand for the Integrated Regional Operational Programme (350%). The total surplus was CZK 3,144 million (EUR 125 million). Created as part of the 2014-2020 Pre-Assessment, the Deloitte model broadly speaks of an investment need of CZK 1,292-1,766 million (EUR 51.68-70 million).

Based on the respondents' estimates, sales would account for over half (57%) of the total income, followed by contributions under the Employment Act (22%). Subsidies from European operational programmes only accounted for 11%. The Employment Act contributions are payments from the State to integrate people with disabilities into the labour market. They are not subsidies. According to the survey, almost 79% of SEs generated their income from their own activities.

More than half (55%) of the SEs surveyed say they are doing well or very well, while most of the others are doing moderately well; only 3% of the enterprises surveyed are doing poorly and none are doing very poorly. When assessing their strengths, aspects of social contribution, mostly related to the employment of disadvantaged people, slightly prevail. When assessing their weaknesses, the SEs surveyed most often mention problems that are usually faced by SME. In addition to the lack of money for investment and marketing, the problems include lack of employees and their turnover. A specific problem of SEs is the overload of management staff.

A recent survey conducted by the Czech MLSA among 100 SEs between 2017 and 2023 found that 19% of the supported SEs were unable to sustain their activities for another 12 months after receiving support. Additionally, 38% of these enterprises were unable to sustain their activities without a significant reduction in working hours or jobs. The standard commercial enterprises that expanded their business activities to social entrepreneurship and newly established SEs had the highest failure rate. After the end of support, 31% of respondents reported financial losses, while only 63% of respondents ended up with a financial surplus. SEs had an average of 7.7 full-time-equivalents, with 75% of employees being disadvantaged.

State aid is also provided in the form of financial instruments by the Czech National Development Bank. According to the Bank, the majority of the support is in the form of soft loans under the *de minimis* rule. To a limited extent, State aid is also granted under GBER Article 14. GBER Article 22 has been used exceptionally only in two cases where the amount was too high even after calculating the gross grant equivalent. State aid under Article 21 has never been used as the State Bank has not been mandated by the Parliament to provide risk financing. On behalf of the MLSA, the Czech National Development Bank provides State aid support to SEs through financial instruments in a programme called S-Enterprise (S-Podnik). The programme is financed by the ESF+ with a total budget of CZK 400 million (EUR 16 million). The aim of the programme is to support the creation and development of SE activities. The programme provides soft loans and consultancy. In the course of its operation, the S-Enterprise scheme has granted 42 soft loans amounting to CZK 178 million (EUR 7.44 million). The reasons for the rejection of applications are:

- 40% - economy of the client
- 24% - high risk of the client or the project (rating, reasonable project proposal, insolvency)
- 12% - conditions of the programme (definition of SE, nature of the project, related seller)
- 4% - abandoned investment activities

The average size of a soft loan is around CZK 4,5 million (EUR 180,000). Of the provided loans, 25 out of 35 were under the *de minimis*, 8 were under Article 14, and 2 were under Article 22 of the GBER. The bank does not provide risk finance aid at all.

Recruitment of disadvantaged workers

State aid is provided for the recruitment of disadvantaged and disabled workers by employment services under the MLSA. SEs often benefit from a combination of both State aid schemes, covering wage costs from both sources.

In the Czech Republic, the wage subsidy programme for the recruitment of disabled people is automatically and unlimitedly available to employers registered as "protected employers" in the "protected labour market". Recruitment of disadvantaged groups in the Czech Republic is made possible by the special status of an "established socially useful workplace". Such a workplace must be registered with the Labour Office in advance, only workers registered with the Labour Office can apply, and the Labour Office assesses and approves each individual application. Receipt of the wage subsidy is limited to 12 months. The scheme is hardly used because of its administrative requirements, with unpredictable results. This combination forms the landscape of SEs, which tend to employ at least 50% of workers with disabilities, in order to qualify as employers in the “sheltered labour market” and receive unlimited automatic State wage subsidies. Recruitment of disadvantaged workers becomes a segregated domain of SEs that attract people with moderate levels of disability.[106] The precondition for the implementation of the scheme is the long-term nature of the employment contract of the applicant – an employment contract for an indefinite period. In the case of the conclusion of a fixed-term employment contract, the condition for the payment of the allowance is that the agreed period of the fixed-term employment contract must exceed the period for which the allowance is paid by at least 6 months. In individual and justified cases, the duration of the employment contract may be negotiated differently. Any company can apply for wage subsidies for disadvantaged workers. However, this subsidy scheme has been suspended due to national budget cuts. The SEs interviewed do not make use of this scheme and rather focus on employing people with disabilities. The state subsidy provided does not reach 50% of the wage, and the maximum subsidy often does not even reach 50% of the minimum wage.

Conclusions

In the Czech Republic, the absolute majority of State aid to SEs and the recruitment of disadvantaged workers is granted under the *de minimis* rule. The size of the SEs and the market is rather small and does not require the application of the GBER. The conditions set out in GBER Article 21 are not relevant, Articles 32 and 35 are not implemented in practice and therefore do not pose any difficulties in accessing finance. Based on the internal analysis of the National Development Bank, the 5-year eligibility age condition of Article 22 and the small size of the enterprise to some extent limit access to finance for SEs. The **eligibility age**

[106] The wage subsidy for moderate and severe disability is in the same amount.

could be extended to at least 7 if not 10 years for startups, and the size of eligible enterprises could include medium-sized enterprises.

According to the respondents, State aid should additionally be accompanied by **reduced social and health insurance contributions and tax relief for employed disadvantaged workers**. This should be automated in order to reduce the administrative burden on companies. SEs would also benefit from State aid in the form of soft loans for investment. Extending the age of eligibility could be beneficial but is not currently a limiting factor.

5.2. Finland

According to the Social Economy Gateway, there were approximately 2,488 SEs in Finland in 2021, comprising of:

- Limited companies: 137
- Cooperatives: 295
- Foundations: 315
- Associations: 1741

The Ministry of Economic Affairs and Employment of Finland and the Centre of Expertise for SEs in Finland report that there are about 1,700 SEs in Finland with a combined turnover of nearly EUR 5.8 billion. Most companies operate in the health and social services, environmental, recycling, and employment sectors. SEs alone offer over 50,000 jobs. [107] The Knowledge Centre for SEs YYO[108] lists approximately 3 670 undertakings that could be labelled as SEs based on Statistics Finland's registers, the materials of the SE label of the Finnish Work Union, and the materials of SE networks Arvo and work-integrating SEs. Based on the 2023 survey and data from YYO, it is evident that although the average annual turnover of Finnish SEs is around EUR 1.7 million, the majority of them are rather small. Specifically, 49% of SEs reported an average annual turnover lower than EUR 100,000 and approximately 85% reported up to EUR 1 million.[109]

The Research Institute of the Finnish Economy (ETLA) conducted a study on the "Overview of SEs and Impact Investment in Finland" in 2015. The conclusions of the ETLA study seem to be still valid: "Based on a comprehensive survey, there are roughly 19,000 SEs[110] in Finland that employ around 125,000 persons. Self-identified Finnish SEs produce social value though their products or services and mostly in the field of social services and welfare. The main hindrances on the way of the growth of the sector are the lack of an unambiguous definition of an SE and the shortages in measuring the most important outcome, social impact. Measuring and valuing the impact is a key element in attracting funding for SEs. New means of impact investment attract not only attention but also capital that seeks for targets, especially in Europe. This additional funding is much needed in the sector that attracts it's outside financing currently mostly from the public sector and struggles to find financing critical for future growth."[111] This diversity of numbers of SEs results from different definitions of SEs and methodological approaches of the different counting institutions.

[107] https://tem.fi/en/centre-of-expertise-for-social-enterprises
[108] https://yyo.fi/data/
[109] HARRI KOSTILAINEN &; ARI NIEMINEN (EDS.): DIAK – SE 2023. Diaconia University of Applied Sciences, Helsinki 2023. http://urn.fi/URN:ISBN:978-952-493-420-6
[110] Number of surveyed undertakings that declared using more than a half of their profits for social purposes.
[111] https://www.etla.fi/en/publications/esiselvitys-yhteiskunnallisesta-yrittamisesta-katsaus-yhteiskunnallisiin-yrityksiin-ja-vaikuttavuusinvestoimiseen-suomessa/

Since June 2023, the SE Act has ended（1351/2003 revised 924/2012)[112], and the SEs in Finland are in a regulatory vacuum, as there is no specific regulatory framework for SEs. This vacuum has not been filled even by the Strategy for SEs Publications of the Ministry of Economic Affairs and Employment from 2022.[113] The Finnish Ministry of Economic Affairs and Employment allocated EUR 3 million in a discretionary government grant to a consortium of six organisations[114] to launch a new Centre of Expertise for SEs for 2021-2023. The Centre of Expertise aims to assist SEs in enhancing their capabilities, awareness, resources, and competence related to their business model. The strategy not only defines an SE, which can be validated and certified by the Finnish SE Mark[115], but also outlines goals, such as introducing social employment as a criterion in public procurement.

A 2019 survey of SEs in Finland ("**Yhteiskunnalliset yritykset Suomessa**", Harri Kostilainen, Diak) identified the following challenges for SEs in Finland:

- Low awareness of the SE business model
- Lack of reliable and comprehensive statistical data on SE
- Little research-based knowledge is available about social entrepreneurship and its impacts
- Unavailability of advice and guidance services specialised for SE
- Shortcomings in business and funding skills

The survey also confirmed the characteristics of the SEs ecosystem previously analysed by the European Commission in 2019, concluding that "the emerging ecosystem does not support the specific characteristics of SEs. Organisations find it difficult to secure financial support. Moreover, most funding instruments are designed for traditional businesses and non-profit organisations and are not specifically designed for SEs."[116]

Access to finance for SEs

Due to the absence of a legal framework specifically targeting SEs, they are considered as any other enterprise without specific support schemes. SEs face significant barriers in accessing finance due to their unattractiveness to private investors due to low return on investment, which makes investment risky, and a general lack of awareness and appreciation of the social purpose of their business model. As a result, SEs in Finland have to compete for financial resources with all other enterprises, which have much better conditions. In some general support schemes, SEs may have an even worse default situation, for example in the case of associations, which are not eligible for some support schemes, but only limited liability companies. SEs are partly supported by the European Cohesion Fund, ESF+ and support schemes for SMEs and startups. Where State aid is granted, small amounts fall under *de minimis* and never under the GBER.

Funding channels include social banks and various intermediary organisations, crowdfunding platforms and fund managers focusing on impact investing. Given the limited financial resources in Finland, SEs are showcases for innovation and experimentation, risk-taking, organisational skills, sales skills, analytical skills and the desire to explore new opportunities. There are no specific criteria in public procurement that would favour SEs. The strategy aims

[112] See: https://www.finlex.fi/fi/laki/smur/2003/20031351
[113] To be downloaded here: https://tem.fi/en/centre-of-expertise-for-social-enterprises
[114] Arvo – the Finnish Association of SEs, the Diaconia University of Applied Sciences, Rehabilitation Foundation, Pellervo Coop Centre, Silta-Valmennusyhdistys and Vates Foundation.
[115] https://suomalainentyo.fi/en/services/finnish-social-enterprise/
[116] Strategy for SEs Publications of the Ministry of Economic Affairs and Employment 2022.

to promote the application of social factors in public procurement in order to finance SEs, initially using the "reserved procurement contract" at the municipal level.[117]

The Finnish social and health sectors are complex and to a large extent in the hands of public authorities that are addressing the needs of disadvantaged people. This may lead to a lower sense of importance to support SEs. Not-for-profit charitable organisations may receive public or government grants and subsidies to provide charitable activities mainly for their members and communities, but these funds may not be used for business purposes. Some SEs may use these funds to develop, pilot and launch services or products that could be monetised at the end of the grant. As the majority of services are concentrated in the larger municipalities, community-based local SEs could add value, particularly in rural areas.

There are no functioning tax incentive deduction schemes that would facilitate the financing of SEs. The only existing tax deduction concerns universities promoting science, research or art. The SGEI institution is hardly used in Finland; there are only a few exceptional cases.

Recruitment of disadvantaged workers

Through the pay subsidy reform that entered into force at the beginning of July 2023, an employer hiring an unemployed jobseeker may receive financial assistance in the form of a discretionary subsidy covering 50% of payroll costs. A 70% subsidy may be received for employing those with reduced capacity for work. In some situations, an association, foundation or registered religious community may receive a pay subsidy of 100% of payroll costs. An employment subsidy of 70% may be received for the employment of those aged 55 or over. In this case, pay subsidy is granted without consideration of expediency.

The purpose of pay-subsidised work is to promote the employment of jobseekers on the open labour market. Pay subsidy may be granted to employ unemployed persons who have gaps in their professional skills or have a permanent disability or illness that reduces their opportunities to obtain a suitable job, or persons aged 60 or over who are long-term unemployed.[118]

The number of pay subsidy periods initiated annually has varied between 28,000 and 35,000 in 2015–2021. On average, during a year, the number of people employed with pay subsidy has varied between 17,400 and 22,700. Annually, around EUR 200-250 million is paid in pay subsidies.[119]

In Finland, wage subsidies are granted for five months[120] for disadvantaged workers and ten months for severely disadvantaged workers. The scheme is open to all legal entities. The scheme does not target workers in sectors with a gender imbalance or single adults with dependants. The scheme supports primarily the recruitment of persons that have not been in regular employment, persons who have gaps in their professional skills or have a permanent disability or illness that reduces their opportunities to obtain a suitable job, or newly persons aged 55 and over. In Finland the scope of support was increased only recently (January 2023) from 50% to 70% for persons with disabilities; it still does not reach the permitted maximum limit of 75%. The scope was also only recently increased for employers of disadvantaged workers who are entitled to a 50% wage subsidy now, compared to 30 or 40% in the past.[121] The maximum amount of subsidy paid to companies is EUR 1,260 per

[117] In 2023 there were at least 20 SEs meeting the criterias.
[118] More information at the official website of the Ministry of Economic Affairs and employment of Finland: https://tem.fi/en/pay-subsidy
[119] Ibidem.
[120] The time frame was recently reduced from 6 months.
[121] https://valtioneuvosto.fi/en/-//1410877/pay-subsidy-reform-simplifies-regulation-and-promotes-the-employment-of-people-in-a-vulnerable-labour-market-position

month or EUR 1,770 per month for severely disadvantaged workers.[122] If a non-profit association or fund employs an individual who has been unemployed for over two years, the subsidy may cover all the salary costs (100%), provided the individual's working hours do not exceed 65% of the industry's maximum working hours. The assigned tasks for the hired individual must not pertain to operations classified as business activities. Annually, the 100% subsidy can be used to employ five people on average. The maximum subsidy for wages for a non-profit organization is EUR 2,020 per month and is provided under *de minimis* rules. In Helsinki, additional support of EUR 800 per month is provided, which must be applied for separately.[123]

A recent research project[124] has shown that "the pay subsidies granted to the private sector (companies) are, alongside apprenticeship training, the most effective tool affecting employment. The effects of vocational employment training come with a delay and are relatively expensive. Pay subsidies improve earnings, increase employment months while simultaneously decreasing unemployment months."[125] According to the national authorities, there is no evidence that a shorter duration of the wage subsidies would lead to lower results. Similarly, the support scheme for non-profit organizations and funds that cover 100% of wages seems to be less effective than the scheme for private employers that covers only 50% or 70%. Research on the impact of wage subsidies[126] conducted by the ETLA concluded that "the length of the pay subsidy period or the duration of the preceding unemployment period have no significant effect; the effects are similar for pay subsidy periods of less than or more than six months and after an unemployment period of less than and more than one year." In Finland, there is a specific *de minimis* public support scheme for wage subsidies for apprenticeship employment that is unlimited in time. There is no State aid scheme for support under GBEER Article 35.

The support is redistributed by employment offices at municipal level. According to the SEs interviewed, support should be tailored to the specific needs of certain target groups. For example, people with mental health problems may need much longer support. Some SEs would prefer the support to be provided for a longer period, for example, support for 24 months with the amount gradually decreasing after 12 months following an assessment of recruitment effectiveness.

Finland seems to be a typical EU MS that does not make full use of the European regulatory framework (in particular the GBER). There is potential to extend the duration of support for the recruitment of disadvantaged workers, as well as to introduce State aid for risk financing in support of SMEs and SEs. Existing schemes under the *de minimis* rules do incubate startups but may not provide sufficient support for SEs growth. Similarly, SEs in Finland indicated a rather low awareness among the political representation as well as investors and the general public about the different business nature and social impact of SE, which could have a negative impact on access to finance.

Conclusions

In summary, the landscape of SEs in Finland is diverse with varying estimates of the number of SEs due to different definitions and counting methodologies. Despite this diversity, SEs play a significant role in the Finnish economy, particularly in sectors such as health, social

[122] https://valtioneuvosto.fi/en/-//1410877/pay-subsidy-reform-simplifies-regulation-and-promotes-the-employment-of-people-in-a-vulnerable-labour-market-position
[123] https://www.hel.fi/en/business-and-work/employers/financial-support/pay-subsidies-for-employers
[124] I.e., VN Teas research project on the overall costs of unemployment for the national economyLink to an external website (January 2019), conducted by Pellervo Economic Research PTT; research project on the impact of pay subsidiesLink to an external website, conducted by the Research Institute of the Finnish Economy ETLA
[125] https://tem.fi/en/pay-subsidy
[126] Available at: https://tietokayttoon.fi/-/palkkatuen-vaikutusten-arviointi

services, environmental services, recycling, and employment. However, they face challenges, including a lack of awareness of the SEs business model, limited access to reliable statistical data, insufficient research-based knowledge, and shortcomings in business and funding skills.

The absence of a specific legal framework targeting SEs contributes to difficulties in accessing finance, as they compete with other enterprises for resources. SEs often rely on public funding, crowdfunding, and impact investing for financial support. Challenges also exist in public procurement, where SEs do not benefit from specific criteria favouring their participation.

Recruitment of disadvantaged workers is supported through wage subsidies with different subsidy periods and eligibility criteria. While these subsidies have shown some effectiveness in promoting employment, there are opportunities to tailor support to the specific needs of different target groups, such as individuals with mental health problems.

5.3. France

France's highly developed social and solidarity economy (known as *Economie Sociale et Solidaire* or ESS) has traditionally included mainly associations, cooperatives, mutuals and foundations. The 2014 legislation (the so-called *dite loi Hamon*[127]) opened up ESS to commercial companies. However, in order to be certified as ESS, they must meet the following criteria set out in Articles 1 and 2 of the 2014 law:

- **Respect the principles mentioned in Article 1 Paragraph 1**: pursue a goal other than the sole sharing of profits, establish democratic governance uncorrelated with contributions in capital, have a management in which the profits are mainly devoted to the maintenance and development of the company's activity
- **Seek social utility within the meaning of Article 2**, further detailed in the following paragraph
- **Apply the following management principles**: withdrawal of at least 20% of profits for a development fund, allocation of at least 50% of profits to carried forward profits and required reserves and a ban on capital amortization

Following the 2014 ESS law, the Solidarity Enterprise of Social Utility (ESUS) accreditation was created (*LOI n° 2014-856 du 31 juillet 2014 relative à l'économie sociale et solidaire Article 11*[128]). Several criteria are to be met for receiving the accreditation.[129] Accreditation is then granted for five years, after which it must be renewed. For companies that have existed for less than three years, the accreditation must be renewed after two years. The Treasury Department of the Ministry of Economy and Finance maintains a national list of accredited "social utility companies". As the *Financer Accompagner Impacter Rassembler (finance-fair)* summarizes in their Finansol label: "With the ESUS accreditation, enterprises have access to specific financing and investment mechanisms, to compensate for their lack of access to market financing and their limited profitability:

[127] See: https://www.legifrance.gouv.fr/loda/id/JORFTEXT000028738036
[128] See: https://www.legifrance.gouv.fr/loda/id/JORFTEXT000029313296
[129] Their objective is to provide, through their activity, support to people in vulnerable situations either because of their economic or social situation, either because of their personal situation and particularly their needs in terms of social, medico-social or health support, or to contribute to the fight against their exclusion; 2) their objective is to contribute to the preservation and development of social bonds or to the maintenance and strengthening of territorial cohesion; 3) their objective is to contribute to citizenship education, in particular through popular education and implementation of methods of participation involving, in the territories concerned, the beneficiaries of these activities. They thus participate in the reduction of social and cultural inequalities, particularly between women and men; 4) their objective is to contribute to sustainable development, energy transition, cultural promotion, or international solidarity, therefore that their activity also contributes to producing an impact either by supporting vulnerable populations, or by maintaining or the recreation of territorial solidarity, or through participation in citizenship education.

- **Solidarity employee savings.** All employees' savings plans are required to offer at least one solidarity fund, also called "90/10 funds". Those funds earmark 5% to 10% of their resources to financing the solidarity and social economy, and hence ESUS accredited structures; the remaining 90% to 95% must be managed following ISR principles. This mechanism is the biggest contributor to solidarity savings: indeed, in 2019, it represented 62% of all savings, which amounts to EUR 9.7 billion, according to Finansol's 2020 barometer for solidarity finance[130].
- **The LDDS saving account**. Since 2020, the *Livret développement durable et solidaire* (LDDS) has a donation mechanism: every year, a donation campaign is directed towards all savers, encouraging them to donate a part of their savings to a selection of ESUS organizations. Furthermore, the LDDS (as the other regulated saving account *livret A*) is required to devote 5% of their resources to the financing of social and solidarity economy.
- **Solidarity life insurance**. Following recent developments in the French law, starting in 2022, all life insurance plans are required to offer investment in at least one solidarity fund (90/10 funds, see above).
- **IR PME ESUS fiscal discount – the so-called Madelin system that falls under State aid.** Once qualified as ESUS, enterprises are eligible also to benefit from income tax reduction available for investors who decide to invest into ESUS. Until the end of 2021, investors benefitted from a 25% tax reduction. In 2022 the rate dropped to 18% of the sums invested each year up to a ceiling of EUR 50,000 for a single person and EUR 100,000 for a married or civil partnership couple."[131] The company benefiting from this mechanism also needs to meet certain criteria, stretching from the GBER conditions such as eligibility age, to *de minimis* and national conditions.[132] Investments are allowed only to companies that are not older than seven years, except from investments into new geographic or product markets. It is patient capital; the investors have to keep their shares usually for five to seven years in order to access the tax reduction. It is only for retail investments, not for investment funds. The return on investment in SEs is very low, or even zero. This means that the tax reduction is often the only return on investment the retail investors can obtain. It is not known how many SEs benefit from the ESUS status. According to the estimations of FAIR, the scheme may make up to EUR 10 million for SEs annually.

According to other FAIR´s estimates, EUR 117 million was invested in SEs in 2022. The Madelin scheme seems to be very efficient and, according to some SEs, when they grow old and leave the scheme after seven years of existence on the market, the investments often decrease significantly in amounts (around a 40-50% decline on average) as well as in the number of investors.

According to the latest data from the National ESS Observatory (*L'Observatoire national de l'ESS - ONESS*) in 2022, the social and solidarity economy includes more than 154,000 enterprises with more than 212,000 establishments, creating around 2.6 million jobs. ESS represent the following most typical types of organisations:

- 120,749 associations or 79% of ESS jobs with 2 million jobs (full-time and part-time combined)
- 23,880 cooperatives or 12% of ESS jobs with 313,239 jobs
- 7,329 mutual insurance companies or 5% of ESS jobs with 137,738 jobs
- 721 foundations or 0.5% of ESS jobs with 122,916 jobs

[130] See: https://www.finance-fair.org/sites/default/files/2022-04/barometre-finance-solidaire_0.pdf?pdf=barometre
[131] https://www.economie.gouv.fr/particuliers/reduction-impot-revenu-investissements-entreprise-pme-madelin#
[132] More information can be found here: https://entreprendre.service-public.fr/vosdroits/F37091

- 2000 ESUS approved ESS companies including 70% associations, 19% commercial companies and 10% cooperatives, i.e. 1.3% of ESS jobs[133]

A well-known example of a notification to the Commission is the State aid SA. 55869 (2019/N) France – “IT-SMEs” (income tax for small and medium-sized enterprises) scheme for investments in Mutual Funds for Investment in Innovation (FCPI) and Local Investment Funds (FIP).[134] The European Commission approved an “IT-SMEs” scheme entitling individuals to tax reductions equal to 18% of the amount of payments made in respect of all eligible subscriptions made directly to the capital of ESUS. The approved scheme also included reductions in income tax in the case of SMEs:

- For individuals who subscribe directly to the capital of eligible companies or subscribe in cash to the capital of a holding company, which in turn invests in eligible companies (direct SME window)
- For individuals who invest indirectly in SMEs by subscribing to units in mutual funds for innovation (hereinafter referred to as FCPI) or local investment funds (hereinafter referred to as FIPs), which in turn invest in eligible companies (indirect SME component)

The scheme has been in force since January 2020 and will end in 2025. On the basis of 2017 revenues, the budget, which consists of uncollected tax revenues, is estimated at around EUR 160 million annually for the entire scheme (including the direct component). The estimated budget for the notified strands alone, applying the same approach, is estimated at around EUR 100 million annually.

Entrusting SEs with SGEI is a very new concept in France. The initial phase began in 2019 and only seven SEs are entrusted with SGEI in France so far, all real estate companies. On the contrary, France is very progressive in terms of incentivising private investment through tax relief. However, according to some respondents, it could be difficult for some SEs to meet all the necessary criteria to qualify as ESUS. SEs active in the real estate sector can benefit from a different status and public support. According to the ESEM Fact sheet for France from 2022,[135] SEs´ average age is around 16 years and the median is 6 years of age. Several older SEs may therefore bump into the maximum eligibility age criteria for receiving State aid under the GBER.[136] The report reveals a quite equal representation of SEs at different stages (around 30% each), from the startup phase through early implementation to late implementation and growth. This reinforces the argument that for a sample of old SEs the maximum age limit for accessing State aid may lead to obstacles in financing the enterprises. Around 59% of the surveyed SEs in 2022 were micro (less than ten employees) and 23% small enterprises. This may further lead to the assumption that there will be only a minority of SEs (that can still play an important role on the market) limited by the GBER conditions.

Created jobs are distributed among the following sectors:

- **Social action:** long-term care facilities, support at home, institutional work and work-related assistance[137], structures for integration through economic activity, organisations of support and prevention of social exclusion, charitable associations – with **59.5% of Jobs in the ESS sector**
- **sport and leisure:** associative clubs not attached to a national federation, leisure centres – with **58.1% ESS** jobs

[133] Ibid.
[134] Aide d’État SA. 55869 (2019/N) France - Dispositif IR-PME pour les investissements dans les FCPI et FIP, available here: https://ec.europa.eu/competition/state_aid/cases1/202032/283398_2179298_72_2.pdf
[135] EUCLID: Country Factsheet: France French SE Monitor 2022.
[136] At the same time the median age is around 6 years.
[137] Also see: https://www.service-public.fr/particuliers/vosdroits/F1654?lang=en

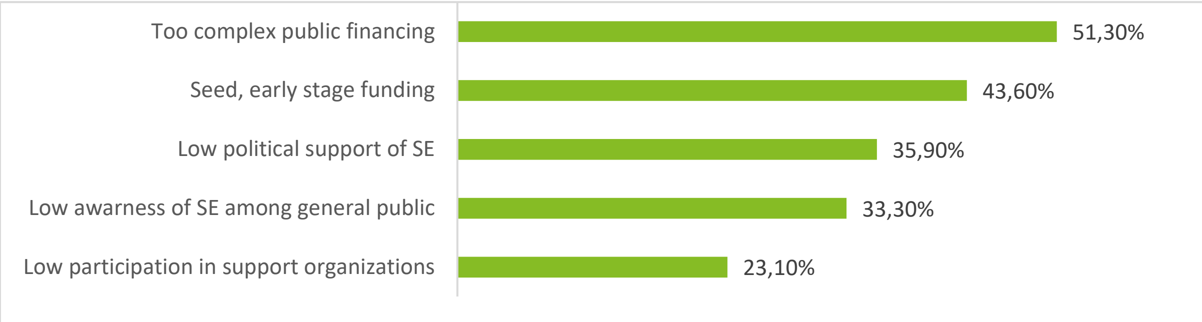
- **Arts and entertainment:** live performance associations, independent labels, production companies, concert and performance halls, libraries, cinemas, radio stations and associative publishing houses – with **31.1% of jobs falling under the ESS**
- **Financial and insurance activities:** cooperative banking sector, mutual sector – with **29.7% jobs relating to the ESS**
- **Education:** vocational high schools, apprentice training centres, rural family homes, teaching schools oriented towards alternative pedagogies, continuing education organizations for adults, associations for popular education – with **19.4% of jobs in the ESS sector**

At the national level, the Secretary of State for the Social and Solidarity Economy and Associative Life (under the Prime Minister) is in charge of defining and implementing policies for the development of the social and solidarity economy, encouraging solidarity-based consumption and promoting associative networks. It works in partnership with the French Treasury (part of the Ministry of the Economy, Finance, Industry and Digital Economy), which is responsible for social and solidarity finance.[138]

According to the 2022 BPI France report, there are currently around 1,900 commercial enterprises of social benefit within the SSE (ESUS) and 1.3 million associations.[139] The number of SSE enterprises has increased significantly since 2017, when there were only around 193 enterprises.[140]. However, this significant change may be due to a change in the ESUS certification methodology.

According to the findings of the 2022 ESEM report[141], while 61.5% of SEs respondents receive grants from government/local/public authorities, around 35% of them "perceive national policy support for social entrepreneurship as low, very low or non-existent". Almost 70% of SE respondents seek public funding, 49% foundation funding and only 33.3% bank loans. The study also identified a funding gap of 35% of the financing needs of the SEs surveyed. French ESEM SEs only managed to secure enough funds to cover 64.7% of their 100% financing needs in the last 12 months. At the same time, almost 72% have a secure financial plan for more than 12 months ahead. The majority of SEs benefit from a hybrid funding model, using a mix of government grants, subsidies and own revenues. The key barriers identified by the survey are:

Figure 40 Top barriers for SE (France)



Source: European SE Monitor 2021-2022: Report on France

[138] SEs and their ecosystems in Europe, Country Report, France, 2019, available at: https://social-economy-gateway.ec.europa.eu/my-country/france_en

[139] BPI France, 2022; Impact assessment study on cross-border activities of associations, 2023; National list of "Entreprise Solidaire d'Utilité Sociale" (ESUS) accreditations, 2023

[140] Social enterprises and their ecosystems in Europe, Country Report, France, 2019

[141] EUCLID: Country Factsheet: France French SE Monitor 2022.

The representatives of French social investors (FAIR) interviewed believe that the assimilation of SEs into general SMEs is an obstacle to the growth of SE. While most SMEs may need state or public support, especially in the early stages, in order to establish themselves in the market, SEs face a permanent market failure in access to capital due to restrictions on profit distribution. Therefore, age-eligibility criteria for State aid are a major problem for SEs to receive private investment, e.g. through the Madelin system. Another example typical of France is the specific group of SEs active in the real estate sector (social housing). These SEs build, renovate and rent housing (apartments) to vulnerable people at lower prices than on the general market. For this specific group, the ceilings on State aid set out in the GBER are a major obstacle. All these limits have the effect of freezing the development and aspirations of SEs. They have to reduce their activities and change their business model.

Access to finance for SEs

France has likely the most advanced landscape of impact investment in the EU. The 2023 Panorama study by FAIR[142] reveals some of the key features of the environment. The French impact-finance market includes 66 stakeholders representing EUR 14.8 billion in assets under management spread across 153 investment vehicles.[143] According to the 2023 Panorama study, the prevailing trend indicates that a significant proportion of investment vehicles (2%) are aligned with both impact and financial return objectives. In contrast, 35% prioritise impact generation. Although 55% of these investment vehicles maintain return expectations below the market average, it is noteworthy that only 31% expect returns to be significantly below the market. This observation offers a positive perspective on the balance between financial return and impact considerations.[144] Debt financing appears to be the most preferred financing instrument (57%), followed by equity (33%) and quasi-equity (9%). At the same time, there is a persistent risk of not achieving the expected return on investment, mentioned by 29% of respondents, and impact washing (mentioned as a risk by 36% of respondents), together with the most significant and typical obstacle: measuring impact (44%).

Recruitment of disadvantaged workers

In France, subsidies for the employment of disadvantaged workers[145], including reductions in social contributions, are general measures. As they are accessible to all companies under the same conditions, they are not selective and are therefore not considered to be State aid under EU regulations.[146]

According to the interviewees, local authorities and the France Travail[147] (*ex Pôle emploi*) would be willing to increase their co-financing of training but are blocked by the maximum of 70% set by the European regulation in Article 31. **The recommendation therefore would**

[142] Panorama 2023 de la finance à impact. Le NAB France, collectif pour l'investissement à impact. Finance Fair 2023. The study reflects and brings data of social impact funders who are members of FAIR, management companies that are members of France Invest's Impact Commission, the Social and Territorial Cohesion Department of the Investment Department of the Caisse des Dépôts et Consignations and Proparco, the subsidiary of the French Development Agency (AFD) in charge of investment.
[143] Ibid.
[144] Ibid.
[145] Disadvantaged workers in France include also persons homeless people, refugees, migrants with subsidiary protection status, asylum seekers, residents in a rural revitalisation zone or in a priority neighbourhood for urban policy, released prisoners or people under house arrest. For more details see: B-WISE, Skills for the future: WISEs ready! Available at: Synthetic Country Fiches (bwiseproject.eu)
[146] Verified by the Directorate General for Employment and Vocational Training (DGEFP), Ministry of Labour, Health and Solidarity
[147] French governmental agency which registers unemployed people, helps them find jobs and provides them with financial aid. See: https://www.francetravail.fr/accueil/

be to remove this ceiling of aid intensity for training support for disadvantaged workers.

According to the 2022 ESEM study[148] only 46.2% of the surveyed SEs in France involve their beneficiaries directly in the production of services or processes. Beneficiaries are most often people with very low income/debts/poverty (36%), with equal representation of people living in rural/remote areas and the long-term unemployed (both 28%).

The duration of integration pathways is regulated by the Labour Code, which allows employment contracts of up to 24 months. Exceptionally, these contracts can be extended beyond the maximum duration in order to allow for the completion of a vocational training measure in progress at the end of the contract. For integration projects, this duration can be extended to 60 months considering the distance from employment of the people on the journey.

Exceptionally, this employment contract may be extended beyond the maximum planned duration by *Pôle emploi* after an examination of the employee's situation with regard to employment, the employer's contributory capacity and the employer's actions. Support and training carried out within the framework of the initially planned duration of the contract includes:

a. Employees aged 50 and over or people recognized as disabled workers encountering particular difficulties which hinder their long-term integration into employment, regardless of their legal status
b. Employees encountering particularly serious difficulties whose lack of support would hinder their professional integration, by successive decisions of no more than one year, within a limit of sixty months

SGEI

SGEI seem to be applied in France, but the extent to which they are used by SEs could not be defined in this Study. A concrete example of a sector where SGEI are typically applied is the health sector, where services and their reimbursement are clearly defined by type of treatment, patients, and beds.

Conclusions

In France, the ESS is well-established, traditionally consisting of associations, cooperatives, mutuals, and foundations. The 2014 legislation expanded ESS to include commercial companies meeting specific criteria. The concept of SE was legally defined under this law, leading to the creation of the ESUS accreditation. ESUS accreditation provides access to various financing mechanisms, including solidarity employee savings and tax incentives.

As of 2022, France has over 154,000 ESS enterprises, creating approximately 2.6 million jobs. However, challenges persist, including limited access to financing and State aid eligibility criteria. Impact finance is advanced in France, with significant investments aligned with impact objectives. Recruitment of vulnerable workers primarily occurs through integration companies, yet funding for training remains insufficient to meet all needs.

While SEs apply SGEI in sectors like healthcare, the extent of their utilization remains unclear. Despite progress, obstacles persist in access to funding and support, underscoring

[148] EUCLID: Country Factsheet: France French SE Monitor 2022.

the need for continued policy refinement to support the growth and sustainability of SEs in France.

5.4. Italy

In order to be classified as an SE in Italy the scope of activities must be of general interest and must be carried out as the main activity of the company, that is it must generate at least 70% of the total turnover.

According to Euclid's 2022 ESEM Report, SEs in Italy can take about 15 legal forms, the most in the EU. The most common forms are the limited liability company (47.4%), the innovative startup with a social vocation (27.3%) and the benefit company (15.9%). The great variety of legal forms that SEs can take also leads to a high demand of a specific national legal status of the SE (preferred by 90.9% of ESEM's surveyed SEs).

SEs in Italy appear to be relatively young, with a median age of four years and an average age of eight years. Almost half of them (45.5%) have already reached an early stage of implementation and growth, and almost 30% are in the startup phase. However there are also traditional organizations in Italy, social cooperatives that have been on the market for more than 20 years. Of the SEs in the ESEM 2022 study, 80% were identified as micro-enterprises with less than 10 employees. The majority of activities are relatively equally concentrated on information and communication (23%), education (21%) and professional, scientific and technical activities (18%). In a European comparison, Italian SEs employ one of the lowest proportions of people with disabilities (18%), and only 34% of their beneficiaries are involved in the production of their processes or services. SEs in Italy generate up to 75% of their income from trading activities, one of the highest rates in the EU, with only 51% using a hybrid model combining trading and non-trading activities.

Identified kay barriers:

- Too complex public financing (44.3%)
- Lack of supportive fiscal framework (40.9%)
- Lack of options to finance the organisation once started (36.4%)

On the contrary, lobbying for SEs does not seem to be an obstacle in Italy, nor does access to support for social entrepreneurship. SEs also do not feel discriminated against in public procurement.

An SE constituted as a company may utilize up to 50% of its annual profits and surpluses to freely increase the share capital subscribed and paid by the shareholders. This is subject to the changes in the annual general national consumer price index corresponding to the financial year in which the profits were generated. Additionally, the SE has the option to distribute this amount of profits and surpluses, including through the issue of financial instruments and dividends to the shareholders. However, this distribution should not exceed the maximum interest rate on interest-bearing postal bonds, increased by two and a half points in relation to the capital actually paid.[149]

Access to finance for SEs

[149] Consulente per Associazioni ed Enti del Terzo Settore. Available at: Imprese Sociali - Associazioni ed Enti del Terzo Settore (consulenzebernardello.it)

According to the 2022 ESEM Report, the financial resources of SEs in Italy are represented by public funding (45.5%), private donations (29.5%) and bank loans (18.2%). EU funding has not been used as much, with only 24% of SEs having applied for EU funding in the past. The funding gap is on average around 43%, meaning that SEs are able to secure around 57% of their funding needs.

Social-impact investors play an increasingly significant role in financing SEs in Italy. Social-impact investors seek to generate both financial returns and positive social or environmental outcomes. They may provide equity investments, loans, or other forms of financing to SEs that demonstrate a clear social mission and potential for impact. There is also a growing network of social banks and financing institutions that specialize in providing financial products and services to SEs.

The Social Impact Fund managed by Banca Etica[150] and the Impact Investing Fund managed by Fondazione Oltre Venture[151] provide equity, debt, long-term capital return, and hybrid financing to SEs that demonstrate a strong social or environmental mission. Italy also hosts numerous social innovation competitions and challenges that provide funding and support to promising SEs. For example, the Social Impact Prize organized by Impact Hub Milan[152] awards grants and mentorship to social entrepreneurs with innovative solutions to social and environmental challenges. Business incubators and accelerators, such as Impact Hub Roma and the Social Renaissance Factory in Milan, provide support services to early-stage SEs, including access to financing, mentorship, training, and networking opportunities. Also crowdfunding platforms and peer-to-peer lending networks offer alternative sources of financing for SEs in Italy.

ESIF funds support a wide range of initiatives, including social entrepreneurship, job creation, and regional development. SEs can access ESIF funding through grants, loans, and other financial instruments administered by regional authorities and government agencies. For instance, in the region of Emilia-Romagna, the POR FESR program allocated funds to promote social innovation, including support for SEs engaged in areas such as healthcare, education, and environmental sustainability. Only in 2021 did Emilia-Romagna allocate EUR 30 million for social innovation projects under this program.

The Italian government provides grants and subsidies to SEs through national initiatives. For example, via the *Impresa Sociale* program offers financial support to SEs that demonstrate a strong social impact and contribute to the development of disadvantaged communities. Grants under this program can range from EUR 10,000 to EUR 100,000, depending on the scale and scope of the project. In 2020, the government allocated EUR 15 million to support SEs through this program.

Fondo per l'Impatto (Impact Fund) is a public-private partnership that invests in SEs addressing social and environmental challenges. The fund, managed by the Italian Ministry of Economic Development and various financial institutions, has mobilized over EUR 100 million in investments since its inception.

Tax breaks for SEs

In order to promote and develop SEs, Italy has introduced tax relief on profits or operating surpluses that increase the SE's indivisible reserves, which are tax-exempt and are actually used to carry out the statutory activity or to increase assets. Tax incentives are also provided to encourage capital investment in enterprises that would otherwise be disadvantaged

[150] https://www.bancaetica.it/about-us/our-network-italy/
[151] https://www.fondazionesocialventuregda.it/en/investimento/oltre-venture/
[152] https://milan.impacthub.net/

compared to profit-making enterprises that are not subject to the aforementioned limits on return on capital.[153] Social cooperatives may enjoy tax exemptions on corporate income tax (IRES) and value-added tax (VAT) for certain activities deemed to be of social utility. Additionally, investors in SEs may qualify for tax credits or deductions on their investments, incentivizing private capital flow into the sector. However it was not possible within this study to confirm whether this is considered to be State aid.

Recruitment of disadvantaged workers[154]

Numerous tax deduction initiatives aimed at bolstering the employment prospects of marginalized workers exist within both the social economy and broader sectors across Italy. The overwhelming majority of these support mechanisms are accessible to any qualifying organization and thus do not qualify as State aid. In certain instances, such as the provision of assistance to Work Integration Social Enterprises (WISEs), accompanying benefits may include reductions in social contributions alongside other regionally tailored incentives. Notably, the regulatory landscape governing these initiatives is intricate and subject to frequent revisions, encompassing both national mandates and regional adaptations, further complicated by overarching budgetary constraints. A comprehensive overview of the predominant schemes is delineated within the table presented below:[155]

Typology of compensation measure	Targeted beneficiaries*	Description of the compensation measure. (refer to the relevant regulation)	Amount of each compensation measure
Incentives for recruitment of disadvantaged persons	Young people under 35 never employed before on a permanent basis	Contribution exemption for open-ended recruitment.	50% for 36 months 100% for 36 months for the years 2021 - 2022 Duration of 48 months in the South of Italy
	NEETs (enrolled in the Youth Guarantee programme)	Contribution exemption for 12 months for hiring also with apprentice or fixed-term contract	8,060 euro
	Young graduates	Upgrading and modernization of laboratories of educational institutions that employ their own young graduates	10,000 euro
	Recruitment in Southern Italy	Contribution exemption for new hires	30% until 2025 20% until 2027 10% until 2029
	Recruitment of young people or workers unemployed for at least 6 months in Southern Italy	Contribution exemption for 12 months	8060 euro
	Recruitment of apprentices	Reduction of contribution charges	Contributions fixed at 10%. 100% relief for the first three years for companies with less than 9 workers

[153] Consulente per Associazioni ed Enti del Terzo Settore. Available at: Imprese Sociali - Associazioni ed Enti del Terzo Settore (consulenzebernardello.it)
[154] Particularly the field of recruitment of disadvanataged workers coud not be properly validated by national authorities, due the absence of contact detailes.
[155] B-WISE, Skills for the future: WISEs ready! Country Fiche, May 2021. More info at: Synthetic Country Fiches (bwiseproject.eu)

Typology of compensation measure	Targeted beneficiaries*	Description of the compensation measure. (refer to the relevant regulation)	Amount of each compensation measure
	Recruitment of apprentices	Possibility of employment with two lower contractual levels than the duties performed. Exclusion from the calculation of the number of workers with respect to Law 68/1999. Training costs of apprentices are not included in the calculation of IRAP	
	Workers receiving the unemployment benefit (NASPI)	Monthly contribution to the hiring company	20% of what the worker would have received in unemployment benefits
	Young people up to 29 years old	Under expansive solidarity contracts (new hires with reduced working hours), contributions to cover labour costs	15% the first year 10% the second 5% the third
	Women without employment for 24 months or 6 months in the poorest areas	Reduction in social security contributions for 12 months (or 18 months if hired on a permanent basis)	50% of contributions In 2021-2022, the percentage may reach 100%, subject to an annual limit of €6,000.
	Prisoners	Tax credit, applicable up to 24 months after the end of the sentence	520 euros per month
	Prisoners in semi-freedom	Tax credit, applicable up to 18 months after the end of the sentence	300 euros per month
	Disabled with reduced working capacity >79%.	Contribution	70% of salary for 36 months
	Disabled with reduced working capacity >67%.	Contribution	35% of salary for 36 months
	Psychic and intellectual disabilities >45%.	Contribution for recruitment of not less than 12 months	70% remuneration for 60 months
	Workers in redundancy	Contribution equal to the amount of the redundancy fund, which can also be used by the worker himself if he intends to start a self-employment activity	
	Workers laid off for 3 months	In addition to the previous measure, reduced contribution rate	10% contribution rate
	Workers laid off for 3 months	Reduction in contributions. Currently the measure has not been refinanced	50% reduction in contributions
	Workers with outplacement allowance	Reduction in contributions	50% for 12 months, increased to 18 months for open-ended contracts
	Recruitment of trainees	Possibility of increasing the quota of trainees for those who employ at least 20% of them	
	Citizenship income recipients	Contribution relief	Equal to the amount of the citizenship income
	Young people up to 35 years of age with minor children	Bonus	5,000 euro for hiring
	Workers aged 50 or over who	Contribution relief	50% for 12 months,

Typology of compensation measure	Targeted beneficiaries*	Description of the compensation measure. (refer to the relevant regulation)	Amount of each compensation measure
	have been unemployed for 12 months		increased to 18 months for open-ended contracts
Funding for training & guidance before recruitment	Workers with reduced working capacity >50%.	Grants to bodies that train disabled workers	Defined on a regional basis on the basis of the allocation of resources from the State to the Regions
Funding for the adjustment of workplace to better suit the needs of disadvantaged workers	Workers with reduced working capacity >50%.	Grants for workplace adaptations, removal of architectural barriers, training of the person responsible for work integration	Defined on a regional basis

There are also initiatives linked to funding for the training of fragile subjects by the European Social Fund Plus, which is generally implemented on a regional basis. It should also be mentioned that a substantial part of the training is carried out through the interprofessional funds, which are fed by contributions from companies, even though this training is aimed at all workers and not just disadvantaged workers.

There are three primary legislative avenues pertaining to the employment of disadvantaged workers:

1. A general mandate stipulating that organizations exceeding a certain employee threshold[156] must integrate individuals with disabilities into their workforce
2. A support framework tailored for WISEs, predominantly comprising social cooperatives, to engage disadvantaged workers. This encompasses individuals with physical, psychological, and sensory disabilities, as well as those grappling with substance abuse, addiction, psychiatric disorders, individuals in correctional facilities, and minors facing significant challenges
3. Assistance extended to disadvantaged workers delineated within the GBER

The second strand delineates a specific tax deduction initiative designed exclusively for WISEs, particularly those structured as social cooperatives, aimed at facilitating the hiring of the aforementioned categories of disadvantaged workers. This support mechanism is not bound by a predetermined timeframe but is contingent upon the annual reassessment of disadvantaged status, evaluated across various criteria specific to each demographic. The tax deduction effectively diminishes labour-related expenses by approximately 40%, concurrently augmenting the net income of disadvantaged individuals by nearly 10% for equivalent gross remuneration. However some WISEs deem this support as insufficient. Conversely, WISEs not operating as social cooperatives presently do not avail themselves of the aforementioned benefits. However, upon completion of the notification process to the EU, as stipulated by the implementing decrees of the Third Sector Reform, they will become eligible for profit detaxation on reserves and the deductibility of subscribed capital.

[156] Companies with less than 15 employees are not subject to any obligation to hire disabled people; companies with 15 to 35 employees must hire one disabled person; companies with 36 to 50 employees must hire 2 disabled people; companies with more than 50 employees must hire 7% disabled people

During the early 1990s, amendments to public procurement legislation introduced provisions enabled the allocation of specific sectors of public procurement contracts to WISEs. Although this opportunity persists, its utilization has dwindled compared to previous decades.

SGEI

An interesting example of the application of SGEIs is provided by the Province of Trento. Due to the declining and ageing population in mountain areas and the concentration of services in urban areas, many food shops in rural areas are unable to survive. In order to maintain the food supply in rural mountain areas, the Province of Trento has entrusted selected cooperative food shops above a certain altitude with the provision of SGEI.

Conclusions

In Italy, SEs play a vital role in addressing societal challenges and promoting social inclusion. To qualify as a SE, activities must serve the general interest and comprise at least 70% of the company's total turnover. The country boasts a diverse array of legal forms for SEs, with the most common being limited liability companies, innovative startups with a social vocation, and benefit companies. Despite their relatively young age, Italian SEs are making significant strides, with many in the early stages of implementation and growth.

Access to finance remains a key challenge for Italian SEs, with barriers including complex public financing, a lack of supportive fiscal frameworks, and limited options for financing once operations are underway. However, social impact investors are increasingly stepping in to provide much-needed capital, alongside initiatives such as crowdfunding, peer-to-peer lending, and social innovation competitions. Government support through grants, subsidies, and public-private partnerships further bolsters the sector's growth.

Tax breaks and incentives are available to promote the development of SEs in Italy, including tax exemptions on profits used to increase indivisible reserves and tax credits for investors. However, this Study was unable to confirm the classification of these measures as State aid.

The application of SGEI in Italy is exemplified by initiatives such as the Province of Trento's support for cooperative food shops in rural mountain areas, ensuring the provision of essential services to underserved communities.

5.5. Germany

The 2021-2022 ESEM Report identified approximately 13 different legal forms of SEs in Germany, distributed relatively equally across the education, information and communication and health and social sectors. According to the study, up to 19.5% of Germany´s limited liabilities companies would identify themselves as companies with charitable purpose, so-called *gemeinnützige Gesellschaft mit beschränkter Haftung* (gGmbH). gGmbH is a corporation entitled to corporation and trade tax reductions. Although more than half of the identified SEs are younger than four years, a few old traditional SEs increase the average age to 14 years. In the early implementation and growth stage, the rate of SEs was 40%, compared to 28% in the later implementation or steady stage. The median age of the SEs was rather young, and the average annual turnover did not exceed EUR 50,000 (34%).[157] The landscape of SEs appears to be rapidly evolving, with around 44% of them founded between 2019 and 2021.

[157] 12% of SEs with average annual turnover between EUR 50,000 – 100,000, around 33% between EUR 100,000 and 1 million, 16% above EUR 1 million.

Access to finance for SEs

According to the interviewees, there is currently no specific State aid scheme for SEs in Germany. There is also no specific legal framework at the central or State level. The federal government and especially the municipalities and large cities run support programmes for SME, including SEs. The federal government supports organisations that pursue the common good and has published a National Strategy for Social Innovation and SEs, which aims to improve the conditions for the Social Economy, mitigating disadvantages and expanding needs-tailored support.[158] Among others the strategy aims to improve fair access to finance and support programs for SEs and proposes 70 different measures, many of which are already being implemented. Some are entirely new instruments, while others are extensions of existing platforms such as the INVEST startup grant scheme, the EXIST programme, EXIST Women and REACT with Impact. REACT with Impact "provides subsidy towards the costs of counselling and accompanying measures aims to make it easier for the Economy for the Common Good companies to make use of external counselling".[159] This is supposed to increase their attractiveness for investors (investment readiness).[160]

The strategy also aims at exploring the possibilities to provide State aid under the GBER. The lack of use of the GBER was also partly due to the fact that some startups were classified as "enterprises in difficulty" under the GBER due to their business models, which are mainly based on hybrid forms of financing (such as subordinated loans, 'dormant' participations and convertible loans), leading to the companies' exclusion from public funding under the GBER. Another important reason for the low level of government support for SEs has been the strong and robust welfare state with direct advantages for people in need and therefore beyond state aid (e.g. a strong social insurance system for disease, care, age, as well as for disadvantaged workers), and the prevalence of a network of well-established charitable or non-profit organisations[161] with deep-rooted cooperation with government authorities in providing goods or services to vulnerable people. However, in light of the economic downturn, the distribution of welfare is undergoing a significant change, meaning that SEs may play a greater role in the future.

SEs in Germany tend to be small businesses, often combining non-profit and philanthropic activities to access funding. This allows them to survive and access grants or subsidies. On the other hand, **this can hinder their access to some public sources** (e.g. in some types of public procurement), **as they cannot prove a sufficient for-profit business model**.

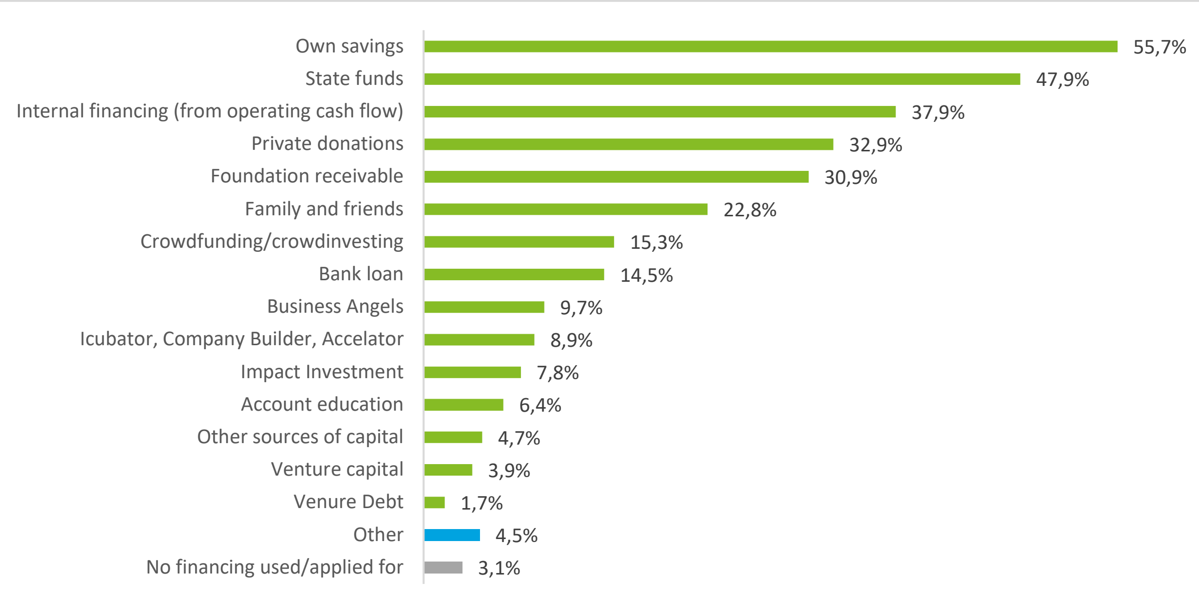
SEs in Germany have access to different types of training, but it is reported to be administratively demanding for small undertakings. The 2022 ESEM Report[162] indicates significantly lower representation of government/public/local authorities grants among income sources (39%) in comparison to other countries (e.g. 57.5% in Spain, and 61.5% in France). However **public funding seems to be the most successful source of income**, 38% of 2022 ESEM respondents indicated that they obtained all or at least part of the inquired amount. The second most successful strategy was crowdfunding, making every second campaign fully satisfied. On the contrary, venture capital funding proved to be one of the least successful forms of funding, with only 16% accessing the desired sources. The SEs surveyed were almost equally represented in the B2B (37%) and B2C (34%) markets.

[158] Available at: https://www.bmwk.de/Redaktion/EN/Publikationen/Mittelstand/national-strategy-for-social-innovations-and-social-enterprises.html
[159] https://www.esf.de/portal/EN/REACT-EU/react-with-impact.html
[160] "Develop and strengthen entrepreneurial skills and the employability of a company's employees, thereby securing and creating jobs in the long term."
[161] So called "gemeinnützige Organization".
[162] Country Factsheet: Germany German SE Monitor 2022, available at: https://socialenterprisemonitor.knowledgecentre.euclidnetwork.eu/reports/#countryResearch

Compared to conventional startups, the public sector is an insignificant customer group. Among the SEs surveyed in the ESEM, 20.9% are active in the B2G (Business to Government) market, while only 4.7% in the 2021 German Startup Monitor do business with the public sector.[163] German SEs seek other sources of funding, often trading with for-profit companies (37%), private donations (33%) and foundation funding (31%). **The funding gap is partly filled by the widespread use of *pro bono* work** (47%) and volunteering (35%). Despite inadequate government support, the **funding gap is only 35.7%.** This funding gap particularly affects young companies and companies in the process of being created that lack access to funding (the main obstacle identified by 45% of 2022 ESEM respondents).

For 80% of the 2022 ESEM respondents, the key barrier in accessing finance is lack or non-existent political support of SE.[164] The side effect of the lack of government support is a confusing environment of different support programmes from different organisations that are difficult to navigate. Inadequate support for startups and ongoing funding and a lack of patient capital seems to be typical of Germany. Other phenomena hindering access to higher amounts of finance for SEs in Germany may be represented by gender effects. The high proportion of women among SEs could be a factor in the lower annual turnover. Female founders are significantly less likely than men to receive venture capital or business angel returns. They are also often disadvantaged in financing rounds by the so-called gender bias: men are five times more likely than women to request large amounts of financing (over EUR 1 million).[165]

Figure 41 Type of funding of SEs in the last 12 months (Germany)



Source: Deutscher Social Entrepreneurship Monitor 2021/2022

In Germany SEs meeting several criteria[166] may obtain status as a non-profit organization, so-called *gemeinnützige Organisation*. As such, it is entitled to exemptions from corporation tax and trade tax. The organisation also benefits from a reduction in sales tax (7%).

[163] Ibid.
[164] Ibid.
[165] Hirschfeld, A., Gilde, J. & Wöss, N. (2020). Female Founders Monitor 2020 (Bundesverband Deutsche Startups e. V., Hrsg.). Berlin. Zugriff am 28.01.2022. Verfügbar unter: https://femalefoundersmonitor.de/wp-content/uploads/FemaleFoundersMonitor2020.pdf in ESEM Germany Report 2022.
[166] The organization identifies its charitable purpose in its statutes. 2) The organization undertakes in the statutes to use the income directly and exclusively for the statutory purpose. 3) The organization proves in its annual financial Statements that it meets the requirements for tax relief and receives a so-called exemption notice from the tax office every three years.

Inheritance and gift taxes are also waived for non-profit organisations. For example, a will donation can be used entirely for the purpose of the organization. However, the income must be used immediately for the selfless statutory purpose. In addition, no reserves or assets may be built up. Almost 60% of all SEs in Germany apply for grants and subsidies from the federal government at a later stage.

There is a vibrant philanthropic and venture environment in Germany representing private investors, banks, philanthropists, and business angels as well as public/municipal support for innovative startups. However, this highly diverse landscape of opportunities at different levels and in different regions can paradoxically lead to poor coordination and fragmentation of support and poor orientation of SEs among these opportunities. Support for SEs as an innovative and sustainable instrument for social inclusion is especially advanced at the level of the different federal States than at the level of the federal government. One example is Investitionsbank Berlin, the economic development bank of the Land of Berlin, which mainly uses ESF+ funding to support social inclusion in the form of soft loans and guarantees. In the current ESF+ funding period 2021-2027, Investitionsbank Berlin offers 16 funding instruments covering different topics such as business startups, counselling, orientation, integration, (further) education and coaching. The capital city of Berlin has made around EUR 143 million available for the 16 funding instruments. The expected total volume of induced funding, including national co-financing, is around EUR 360 million.[167] Similar initiatives are being introduced also in other federal States, such as Hessen, Hamburg, and others. At the central government level, the KWB development bank could be another potential example. However, reports suggest that even these schemes may discourage SEs from applying for support due to relatively complicated application procedures and administrative burdens.

Germany has also piloted a social impact bond scheme in the past to support innovation and sustainability in social services and intends to launch a pilot investment in an impact investment fund that supports SEs.

Innovation

Promoting social innovation on the same narrative level as technical innovation in public policies and support programmes is believed to be able to trigger a greater eruption of innovative social ideas.

There are no specific tax incentives to support private investment in SEs. In Germany, private and public employers with at least 20 staff members are legally obliged to fill at least five per cent of their staff with severely disabled people or other eligible persons. If this quota is not met, an equalisation levy must be paid, starting at EUR 140 per staff member per month and varying according to the degree of compliance. The table below shows the forecast for 2024:[168]

Table 7 Compensation of unoccupied compulsory workplaces (Germany)

Size of the undertaking	Number of compulsory workplaces	Number of occupied compulsory workplaces	Costs for non-occupied compulsory workplaces	Costs for non-occupied compulsory workplaces in 2024
		0%	360 €	720 €
60+	5%	> 0% to < 2%	360 €	360 €
		2% to < 3%	245 €	245 €

[167] https://www.ibb.de/de/arbeitsmarktfoerderung/arbeitsmarktfoerderung.html
[168] https://www.rehadat-ausgleichsabgabe.de/verstehen/was-ist-die-ausgleichsabgabe/

Size of the undertaking	Number of compulsory workplaces	Number of occupied compulsory workplaces	Costs for non-occupied compulsory workplaces	Costs for non-occupied compulsory workplaces in 2024
		3% to < 5%	140 €	140 €
40 to 59	2%	0%	245 €	410 €
		> 0% to < 1%	245 €	245 €
		1% to < 2%	140 €	140 €
20 to 39	1%	0%	140 €	210 €
		> 0% to < 1%	140 €	140 €
less than 20	No compulsory workplace			

Source: Rehadat, Ausgleichsabgabe, available at: https://www.rehadat-ausgleichsabgabe.de/verstehen/was-ist-die-ausgleichsabgabe/

SGEI

According to available resources[169], Germany seems to be quite advanced in the use of SGEI. It spent EUR 155.8 million in 2018 and EUR 192.7 million on SGEI. The average entrustment varies and depends on the nature of the services, stretching from three years in the case of social services to 40 years in the case of social housing (constructions of new buildings). The SGEI is often entrusted by federal states and municipalities.

Recruitment of disadvantaged workers

There are many support schemes for the recruitment of disadvantaged workers in Germany. The elementary support scheme entitles the employer, inside and outside the social economy, to receive up to 50% of the subsidised wage for a maximum period of 12 months. This type of integration subsidy is conditional on the newly created job being maintained for at least the same period as the wage subsidy (usually 12 months).[170]

The long-term unemployed are supported under the Participation Act. This is further divided into two streams: **"Integration of the long-term unemployed"** and "**Participation in the labour market"**. Under the Integration scheme, workers who have been unemployed for two years receive a wage subsidy for up to 24 months. In the first year of the employment relationship, the employer is subsidised by 75% and in the second year by 50% of the regularly paid wages. In addition, the scheme subsidises the costs of holistic support during employment (coaching) and training costs. The Participation Scheme subsidises the hiring of workers over the age of 25 who have not worked for at least six years (or have only worked for a short time) and who have received unemployment benefits or citizen's allowance during this period. Employers receive wage subsidies for up to five years of employment. 100% wage subsidy for the first two years, decreasing by 10 percentage points per year from 90% to 70% from the third year. The scheme also covers coaching and training costs up to EUR 3,000.[171]

None of the support schemes for the recruitment of disadvantaged workers in Germany falls under the GBER. All support happens outside State aid rules in their view.

Conclusions

[169] See: germany_de.pdf (europa.eu)
[170] https://www.arbeitsagentur.de/unternehmen/finanziell/eingliederungszuschuss-zur-foerderung-arbeitsaufnahme
[171] https://www.arbeitsagentur.de/unternehmen/finanziell/foerderung-von-langzeitarbeitslosen

The landscape of SEs in Germany is characterized by a diverse array of legal forms, with approximately 13 different structures identified, primarily concentrated in sectors such as education, information and communication, and health and social services. While many SEs are relatively young, with over half being under four years old, the sector also includes traditional entities, contributing to an average age of 14 years.

Despite the absence of a specific State aid scheme for SEs at the national level, the German government, particularly at the municipal level, provides support through various programs aimed at SME, including SEs. The National Strategy for Social Innovation and SEs outlines goals and measures to support organizations pursuing the common good, improve access to finance and public support, and facilitate investment readiness through initiatives like REACT with Impact.

Challenges persist in accessing finance, with SEs relying on a mix of funding sources such as public grants, private donations, crowdfunding, and foundation funding. The availability of venture capital funding remains limited, posing difficulties for some SEs, particularly those in the early stages of development. Germany's robust philanthropic and venture environment offers opportunities for private investment, but fragmentation and complexity in the support landscape can impede SEs' ability to navigate available resources effectively. While public funding plays a significant role, administrative burdens and inadequate support for startups are identified as key barriers, which the National Strategy intends to overcome.

Recruitment support schemes for disadvantaged workers in Germany proved to be extensive. Schemes dedicated to the recruitment of the long-term unemployed, such as the Integration subsidy and the Participation scheme, provide wage subsidies and holistic support to employers hiring long-term unemployed individuals, contributing to social inclusion and economic participation. These schemes provide support up to two and five years of employment respectively.

5.6. Spain

There is a wide variety of SEs in Spain, ranging from small micro-enterprises to large, well-established companies with a growing interest in social entrepreneurship over the last decade. The different levels of maturity of the enterprises require different types of support. The use of State aid and the types and instruments used to support SEs in Spain vary across the 17 regions. In some regions State aid is granted under the *de minimis* rules, in others under the GBER.

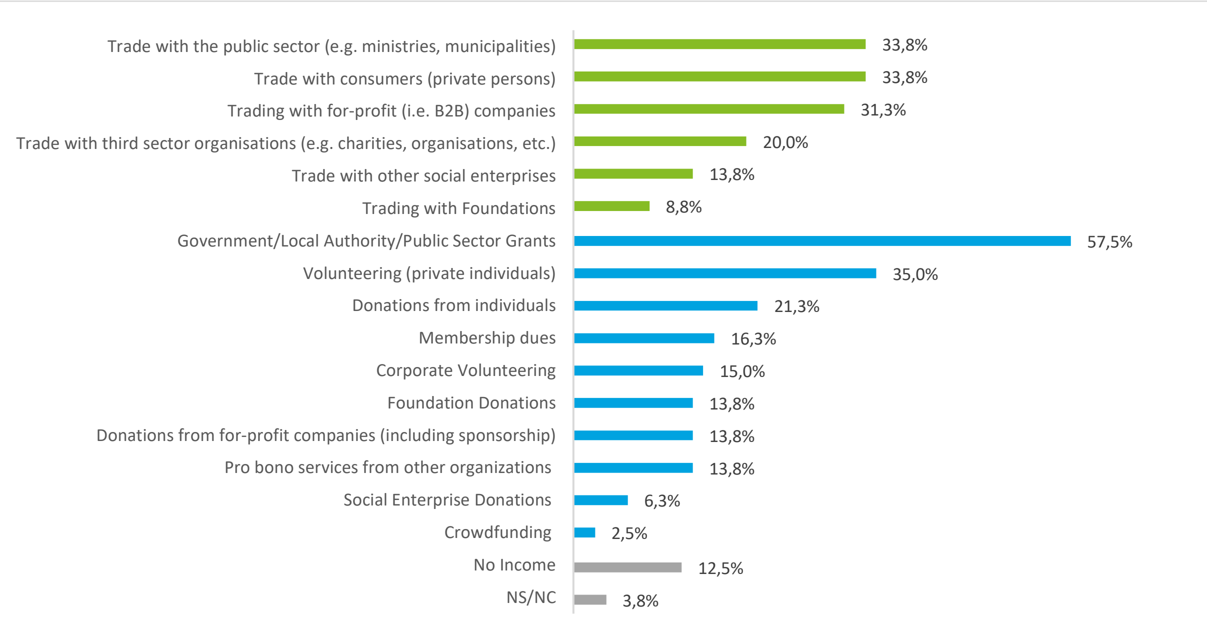
According to the national authorities interviewed, the social economy is quite broad, encompassing more than 43,000 different entities. Around 300 of these are considered as Employment Integration Enterprises (EIE) with more than 10,000 employees. They are funded under the SGEI exemption and have to comply with a number of strict conditions, such as the percentage of employed vulnerable workers at risk of social exclusion. EIEs operate in all sectors of the economy, as their main purpose is to integrate excluded people into the labour market. Work integration contracts with workers are then limited to three years, which is considered the best period for work integration. The support is conditional on the workers having open-ended employment contracts. The integration of these workers is supported by training staff, which is supported by GBER Article 35. This support seems to be widely used in Spain. The form of support is a combination of reduced social and health insurance contributions, tax deductions and wage subsidies. The decision on the social exclusion of a worker and therefore categorization as a disadvantaged worker is taken by the public social services on an individual basis.

The results of the 2022 ESEM survey[172] indicate the average SE in Spain is 15 years old, and half of the SEs are more than 11 years old. Almost half of SEs are in their early implementation and growth phase (45%) and only a quarter are in their late implementation phase. Around 53% of Spanish SEs have less than ten employees, 21% could be classified as small, 11% as medium and 14% as large enterprises.

Access to finance for SEs

Similarly to France, a considerable proportion of individuals in Spain, approximately 30%, resort to bank loans and private donations. Despite the fact that 74% of the population has a secure financial plan for the upcoming year, SEs in Spain face a funding gap of 41%, as they are only able to secure an average of 59% of funding. It is worth noting that the public sector plays a significant role in financing SEs in Spain. As per the findings of the 2022 ESEM survey, 60% of SEs' income comes from commercial activities and 40% from non-commercial activities. In both cases, approximately 50% of the primary source of income is derived from the government, local authority, or public sector. This income is generated through business with the public sector or through grants and subsidies, which make up 57.5% of the total income. According to the survey data, half of all SEs applied for public funding in the last 12 months. Of those applicants, 70% received some or all of the requested funding, with 51.3% receiving partial funding and 20.5% receiving full funding. Based on the ESEM survey, 57.5% of the surveyed companies identified the public sector as their primary source of income. The chart below provides an illustration of the main sources of income.

Figure 42 Main sources of income for SEs (Spain)



Source: European SE Monitor 2021-2022: Report on Spain

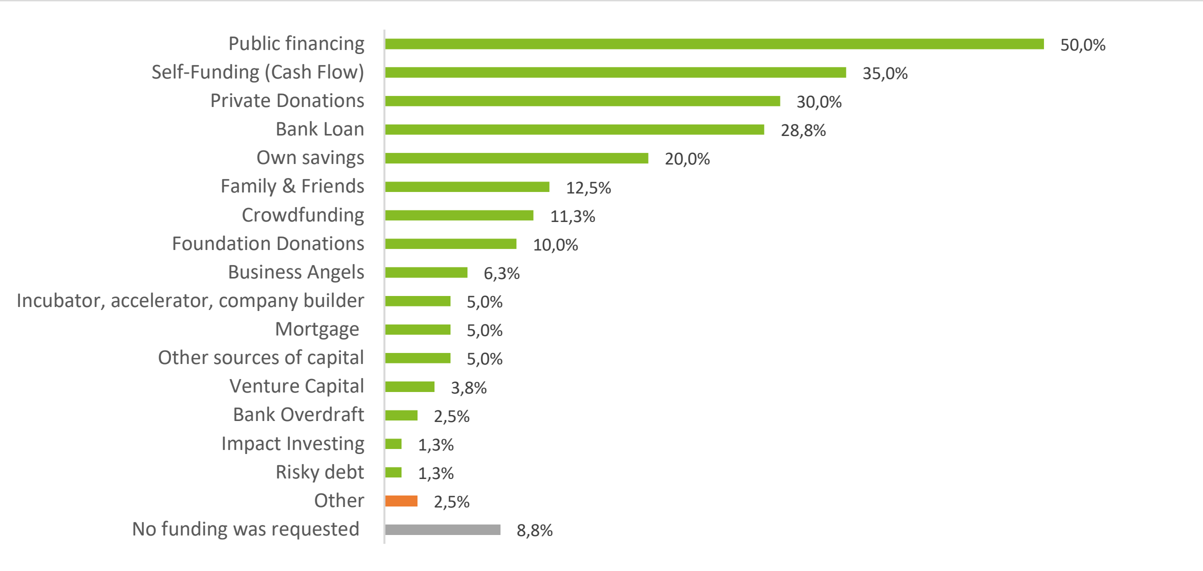
Nonetheless, 20% of the surveyed organizations identified "complexity of public funding" as a major obstacle. In contrast, 65% of SEs consider political support for SE to be low, very low, or non-existent, while only 7.6% view it as high (6.3%) or very high (1.3%).[173] Esade (2021) reports that Spanish SEs encounter financing challenges due to limited availability of funding

[172] Esade Center for Social Impact: European SE Monitor (ESEM) 2021-2022, Facvt sheet, available here: https://knowledgecentre.euclidnetwork.eu/country_mapping/spain/#CountryFactsheet and https://knowledgecentre.euclidnetwork.eu/country_mapping/spain/

[173] Necesidades de financiación de las empresas sociales en España Mayo de 2021, available here: https://www.esade.edu/faculty-research/en/esade-center-social-impact/impact-entrepreneurship/financing-needs-of-social-enterprises-in-spain

during early stages of development and lack of funding specifically designated for projects with social impact. In the last 12 months, 50% of SEs surveyed applied for public funding. Approximately 70% of these social entrepreneurs obtained part or all of the requested funding, while only 5.1% did not receive it. The most common types of financing after public funding were self-financing through cash flow (35%), private donations (30%), bank loans (28.8%), and personal savings (20%). The figure below displays the results of the survey on the types of funding that the surveyed enterprises applied for in the previous 12 months:

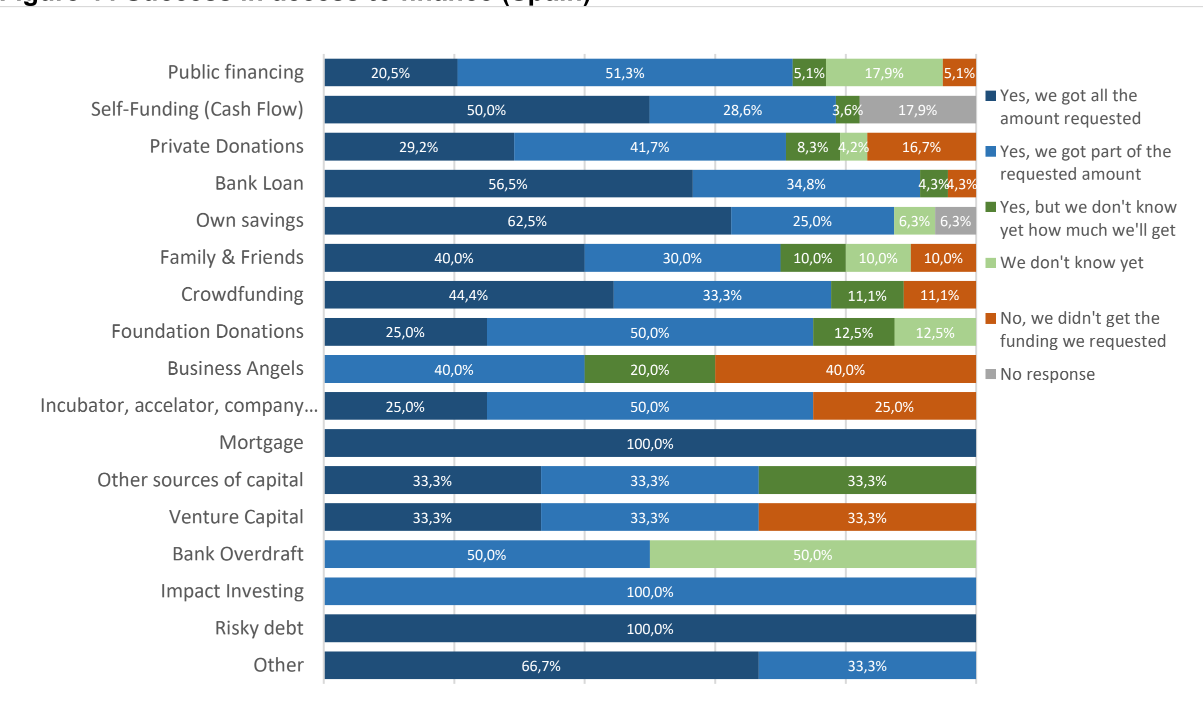
Figure 43 Types of funding of SEs in last 12 months (Spain)



Source: European SE Monitor 2021-2022: Report on Spain

The following figure of survey results presents the successfulness rate when applying for different types of funding:

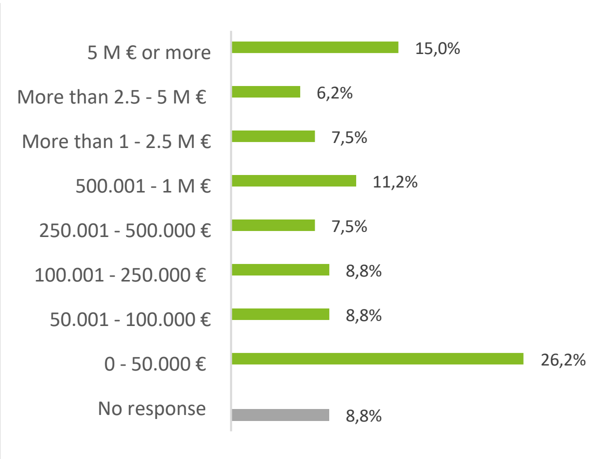
Figure 44 Success in access to finance (Spain)

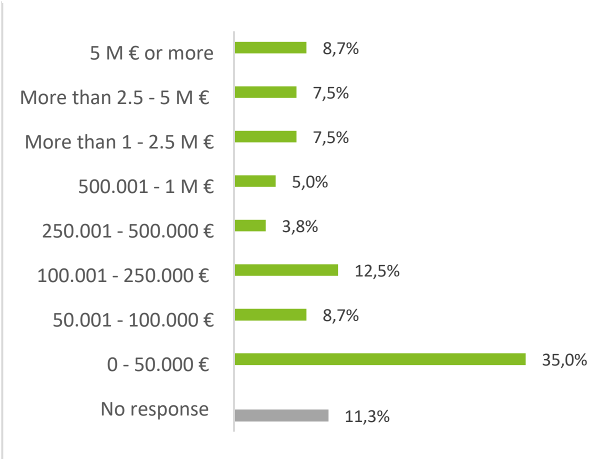


Source: European SE Monitor 2021-2022: Report on Spain

The results of the survey revealed the average revenue of SEs, where 26.2% of surveyed enterprises earn less than EUR 50,000 and 50% earn less than half a million euros. This rate increases further if donations and grants are excluded, as shown in the second figure:

Figure 45 Total income for the last 12 months, including business grants) Figure 46 Total revenue for the past 12 months excluding non-business income (donations,

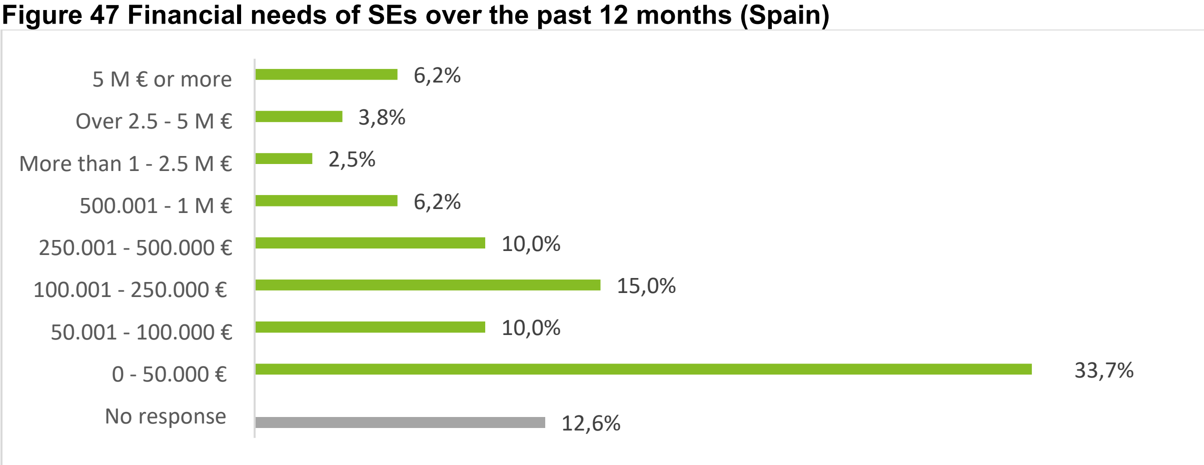




Source: European SE Monitor 2021-2022: Report on Spain

This reported revenue mirrors the financial needs identified by the respondents as showed in the figure below:

Figure 47 Financial needs of SEs over the past 12 months (Spain)



Source: European SE Monitor 2021-2022: Report on Spain

This enables continuous support of the employment integration enterprises. According to national authorities, the SGEI or GBER rules provide more effective support than *de minimis*, which is still used in some regions of Spain and may hinder growth aspirations. Regional authorities decide on the use of different instruments, while SGEI appears to be a more common model in Valencia. In some other regions, support is provided through reduced social security.

The current maximum finance cap of EUR 16.5 million per undertaking (GBER Article 21) does not appear to be an obstacle for SEs in Spain at present. However, this may change in the future as the social economy sector evolves. For the sake of further development of the social economy sector, Spanish state authorities would welcome the introduction of general block exemption for SEs that would revoke all maximum aid amounts, maximum eligibility age requirements that are limiting the access to finance at the moment or near future.

While SEs in Spain can survive without major State aid support, the sector's flourishing is limited. For more intense development of the sector, a clear definition of SE is crucial. This definition should distinguish between enterprises with a primary social purpose, participatory democratic governance structures, and decision-making processes, and limit of profit sharing from all other profit-oriented enterprises. Such definition would be followed by verification of these conditions by state authorities and time-bound certification. This definition may be limited to WISEs that employ a certain percentage of vulnerable or disadvantaged workers and have rules for profit sharing.

There is currently no specific scheme in Spain that incentivises private investment in SEs. Efforts are being made to explore ways to apply socially responsible criteria to procurement procedures. According to the 2022 ESEM Report, 23% of the main beneficiaries of SEs are individuals with mental illness, health problems, or psychological and neurological disabilities, in addition to long-term unemployed workers. This supports the argument made by the interviewed respondents that these disadvantaged workers should be included in the Regulation's list.

Recruitment of disadvantaged workers

A detailed description of the recruitment of disadvantaged workers in Spain is included in Chapters 4.7 and 4.8.

Conclusions

The landscape of SEs in Spain is characterized by a wide variety of entities, ranging from small micro-enterprises to large, well-established companies, demonstrating a growing interest in social entrepreneurship over the last decade. These enterprises operate across diverse sectors, with a significant focus on integrating excluded individuals into the labour market through EIEs, which benefit from State aid exemptions under the SGEI or the GBER.

Despite variations in State aid implementation across Spain's 17 regions, EIEs play a crucial role in social inclusion, with approximately 300 entities employing over 10,000 workers. These enterprises receive support through reduced social security contributions, tax deductions, and wage subsidies, facilitating the integration of disadvantaged workers into the workforce.

The 2022 ESEM Report highlights the average age of SEs in Spain as 15 years, with around half being more than 11 years old. This poses a serious obstacle when accessing risk finance under State aid. While a considerable proportion of funding comes from the public sector, SEs face a funding gap of 41%, relying on diverse funding sources such as public grants, private donations, bank loans, and personal savings.

6. Recommendations for the European Commission and / or EU Member States

6.1. As regards access to finance

SEs encounter challenges in accessing finance due to a number of factors: limited entrepreneurial skills, incomplete knowledge of funding sources, risk-aversity on the part of investors and banks, and insufficient networks. The financial crisis, COVID-19 pandemic, energy crises, and the Russian military aggression against Ukraine have led investors to adopt lower-risk strategies and prioritize absolute returns, making private investment less accessible to SEs. Furthermore, banks often face increased administrative and operational costs when providing smaller loans to SEs. Additionally, SEs are often unable to provide guarantees, which can make it difficult for them to access credit.

Many respondents find the GBER to be an unfamiliar and challenging area. **The majority of support for SEs is provided today through State aid *de minimis* schemes**. This Study concludes with a set of mutually complementary or substitute recommendations:

- **Promote discounts on insurance and tax benefits.** The provision of support through complex support frameworks entails an administrative burden that SEs may find difficult to overcome due to a lack of capacity and know-how. For small SE-type undertakings, automated expenditure reductions, such as reduced insurance premiums or tax breaks, will facilitate access to finance.
- **In order to acknowledge their specific operational and business model, a specific regime could be introduced for SEs in the GBER as regards access to finance.** In this regime, the eligibility age of the company would be extended or released as such[174]. Also, introducing one major exemption for enterprises that genuinely pursue social objectives and reinvest profits would bring greater effects than a number of small changes to the technical parameters.
- **Such an exemption would necessarily need to be accompanied by a framework or mechanism of defining, validating and re-certifying SEs.** This could be done on the EU MS States level and would entitle SEs to specific State aid support. Such a framework should be based on the SE definition embedded in the ESF+ Regulation.
- **Improve the awareness, knowledge and capabilities of the national authorities, financial intermediaries and other stakeholders** in EU MS by the European Commission to use and apply State aid rules to support SEs and social economy in general [175]. For example, this can be done by studying the regulatory, market and public-support conditions in the countries with the highest number of SEs.
- **Simplify the GBER in its drafting and, to the extent possible, content-wise as well.** Particularly for Articles 21 and 22, reduce the number of dependencies and conditionalities determining the eligibilities and maximum aid amounts and reduce the overall number of paragraphs by Article and clarify the

[174] It is to be underlined that the Enabling Regulation (Council Regulation (EU) 2015/1588 of 13 July 2015) requires the GBER to entail caps or limits for the categories of aid it allows. The absence of any cap as regards eligibility age would have to be checked against this requirement.

[175] Same conclusion also appears in the EASPD study from 2023: "Insufficient knowledge of and capability by public administrations to use the full potential of the State aid Framework to support social service provision and the development of the social economy" in *Impact of State Aid on the Development of the Social Economy and on Service Providers for Persons with Disabilities*. Brussels. November 2023.

overall presentation with clearer wording. **The European Commission should better clarify the interplay between public procurement and State aid rules and promote application of social considerations within public procurement on the EU MS level** to "align legal recognition of the specific characteristics of the social economy and the not-for-profit sector with public procurement and State aid legislation"[176].

- **Raise awareness about various tax incentivising schemes for SEs and recruitment of disadvantaged workers among EU MS.** Promote the use of tax relief to support recruitment of disadvantaged workers. Such schemes proved to be more efficient and less administratively demanding for all involved parties.[177]

Recommendations for Article 21a:

- Remove the requirement in Article 21a that an investor must be a natural person (this excludes business angels, for example) and open the investor category to any type of person.

6.2. As regards recruitment of disadvantaged workers

There are very different approaches and support schemes among EU MS on how to boost the recruitment of (severely) disadvantaged workers. **Although some public authorities use the GBER, most support is provided under the *de minimis* Regulation.** Since the *de minimis* aid ceiling was increased to EUR 300,000 in 2024, the situation does not seem problematic today. However, many of the interviewed and surveyed respondents agreed on the following recommendations.

Recommendations for GBER Articles 32 and 35:

- **The list of disadvantaged workers could include a more comprehensive typology of vulnerable workers** and/ or introduce a mechanism that would allow MS to somewhat include additional types of workers.

Recruitment aid could be extended to 24 months for disadvantaged workers and 36 months for severely disadvantaged workers – or even be released from all binding time periods.

6.3. Other recommendations:

The study also identified other recommendations that could facilitate access to finance for SE. In some MS, the inclusion of socially responsible considerations in public procurement procedures proved to be an effective way of adding social value to the use of public funds. Given the low capacity of many SEs, reducing administrative burdens is a key measure to support their growth. Replacing administratively burdensome grants and subsidies schemes with reduced tax rates or social and health insurance contributions would widen the range of SEs supported.

[176] Recommendation from the study *The social impact of public procurement. Can the EU do more?*, Policy Department for Economic, Scientific and Quality of Life Policies Directorate-General for Internal Policies, EU, October 2023

[177] E.g., Recruited disadvantaged workers may be freed from social and health insurance, SEs recruiting certain percentage of disadvantaged workers may be subjected to lower taxes or reduced securities etc.

- **Promote socially responsible public procurement.**[178] National and primary municipal authorities should be provided with more guidance and practice examples on how to apply socially responsible criteria, reserved contracts and considerations[179] within the public procurement procedure to the advantage suppliers engaging disadvantaged workers in the delivery of procured goods or services. More consultation and clarification from the European Commission on the application of horizontal social clause and collective agreements is needed.
- Expand GBER Article 47 "Investment aid for resource efficiency and for supporting the transition towards a circular economy" to include a reference to social considerations.
- Explore the possibilities of promoting the financial sustainability of SEs through tax incentives, in particular through differential VAT rates, taxation of disadvantaged workers and reduced social and health insurance contributions.

***

[178] As laid out in the Directive 2014/24/EU. For more infromation see the report: The social impact of public procurement

[179] E.g. horizontal social clause, social and employment clauses, reserved contracts and division of contracts into lots, exclusion grounds, selection criteria, pre-market consultations, innovation partnerships and other tools and mechanisms. For more information see the results of the Bying for social impact project of the Euroepan Commission: Social procurement - European Commission (europa.eu)

7. Annexes

7.1. Annex 1: Literature and documents

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7.2. Annex 2: GBER & social enterprises, basic concepts

1. Definition of a social enterprise under EU law
2. State control in a nutshell
3. Access to finance: presentation of Articles 21, 21a and 22 GBER[180]
4. Recruitment of disadvantaged workers: presentation of Articles 32 and 35 GBER
5. Concept of service of general economic interest (SGEI)
6. Further reading

1. Definition of a social enterprise under EU law

Under EU law, a 'social enterprise' means:

An undertaking, regardless of its legal form, including social economy enterprises, or a natural person which:

> (a) in accordance with its articles of association, statutes or with any other legal document that may result in liability under the rules of the Member State where a social enterprise is located, **has the achievement of measurable, positive social impacts, which may include environmental impacts, as its primary social objective** rather than the generation of profit for other purposes, and which provides services or goods that generate a social return or employs methods of production of goods or services that embody social objectives;
>
> (b) **uses its profits first and foremost to achieve its primary social objective**, and has predefined procedures and rules that ensure that the distribution of profits does not undermine the primary social objective;
>
> (c) **is managed in an entrepreneurial, participatory, accountable and transparent manner**, in particular by involving workers, customers and stakeholders on whom its business activities have an impact.
>
> (Source: Regulation 2021/1057, ESF+)

2. State aid control in a nutshell

For a measure to qualify as "State aid", different criteria must be fulfilled. Without going in the details of these criteria, one can just keep in mind that **State aid is essentially a transfer of State resources that favours an undertaking or a group of undertakings** and distorts, or threatens to distort, competition. State aid can take many forms (subsidies, granting of loans with preferential interest rates, tax breaks…).

If a public measure is State aid, it is in principle not acceptable (i.e. "incompatible with the internal market") **except if there is a justification for it**. The possible justifications (for instance, environmental protection, recruitment of disadvantaged workers…) are spelled out in different EU texts.

[180] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. Consolidated text after the amendment from June 2023: EUR-Lex - 02014R0651-20230701 - EN - EUR-Lex (europa.eu)

In principle, the national authorities that want to implement the State aid measure have to notify it to the European Commission for its prior authorisation. Today however, **many types of State aid measures can be implemented directly if they comply with the conditions spelled out at EU level in the so-called General Block Exemption Regulation** ("GBER" – Regulation 651/2014).

3. Access to finance: presentation of Articles 21, 21a and 22 GBER

Risk finance is a general term that covers the typical means by which undertakings, and in particular SMEs, finance their operations. They do so with capital invested by their owners or with credit provided by banks. Loans to SMEs are often backed by guarantees obtained from third parties in order to reduce the risk borne by the lender. The GBER incentivises access to finance to SMEs and startups by corporate and private investors through loans, guarantees, equity or a mix of these financial instruments.

Article 21: Risk finance

The objective of Article 21 is to incentivise private investment in riskier but commercially viable SMEs. The private investors receive an advantage that constitutes State aid, because, for example, the public co-investor accepts more risk or delayed remuneration, but the investments are expected to be profitable. The text of Article 21 has been updated extensively over the years. **The presentation of its main provisions below takes into account the revision operated by the Regulation of 23 June 2023**.

Risk finance may take the form of loans, guarantees, equity or a combination thereof. The beneficiaries must be unlisted **SMEs** which were not registered for more than ten years or undertook their first commercial sale or certain environmentally friendly investments within the previous seven years.

The risk finance must be provided only through financial intermediaries or fund managers. Financial intermediaries and fund managers must be selected through an open, transparent and non-discriminatory procedure. They must make profit-driven decisions on the basis of viable business plans.

The total amount of risk finance that may be granted to any single undertaking has been raised from EUR 15 million to EUR 16.5 million. This amount is the maximum nominal amount of equity or loan or the nominal amount of the underlying loan in case of guarantees.

Risk and profit must be shared between the public and private investors, but they may be skewed in favour of the private investors in order to incentivise them to invest. However, the losses borne first by the public investor are subject to certain limits and preference must be given to asymmetric profit sharing rather than asymmetric loss sharing.

The participation of private investors must exceed certain thresholds that vary with the age of the recipient SME. These thresholds range from a minimum of 10% for SMEs that have not started their operations to a minimum of 60% for SMEs that carry out certain environmentally friendly investments. The thresholds are lower for recipient SMEs in assisted regions under Article 107(3)(a) TFEU (i.e. regions less wealthy than EU average) or are included in the recovery and resilience plans of MS or are supported by European structural funds.

Box 1: Fictional examples - Aid with a financial intermediary

A Member State sets up a Fund of EUR 100 million in order to support social enterprises. After an open selection process, a private bank is chosen to act as the financial intermediary.

- **The medium-sized social enterprise "Good Food" active in bio and local food supply seeks fresh capital. The first commercial sale of Good Food was in 2019. It is, therefore eligible for funding. After a due diligence process carried out by the intermediary, Good Food receives EUR 5 million of new equity, of which EUR 3 million is from the Fund and EUR 2 million is from a private investor. However, the Fund accepts to bear a first loss up to 25% of the total investment. This condition is not acceptable to a private investor, hence the injection constitutes state aid, even though the investment is expected to be profitable as per Article 21(15) of the GBER.**

- **A social enterprise called "Slow Fashion", registered in 2020, intends to open a large shop for circular and ethical clothes. It needs a loan of EUR 2 million. Slow Fashion has not made any commercial sale so far, it is therefore eligible for funding. After due diligence carried out by the intermediary, it can receive the sum, from which EUR 1.8 million will be contributed by the Fund and EUR 0.2 million by a private investor. The Fund accepts not to receive any interest in the first year of the loan. This would not be acceptable to a private creditor, but the investment is expected to be profitable.**

- **Suppose Slow Fashion, from the above example, was not seeking a loan but a guarantee on a loan from a private bank. In that case, the Fund would provide a guarantee not exceeding 80% of the loan's principal, but it charges a premium below the corresponding market rate.**

Article 21(a): Risk finance aid to SMEs in the form of tax incentives for private investors

This is a new article that was **added by the amendment of the GBER operated by the Regulation of 23 June 2023**.

The eligible private investors must be natural persons. That is, they must not qualify as undertakings. For example, a private investor that acts as a "business angel" and is involved in the day-to-day management of an undertaking is considered to be an undertaking itself and would not be eligible to receive aid under Article 21(a).

The conditions of Article 21(a) are, to a certain extent, similar to those of Article 21, especially with respect to the eligible SMEs and the maximum amount of risk finance.

However, there are also significant differences, such as, for example, that it is **not necessary that the risk finance is provided via a financial intermediary**. Nonetheless, MS may choose to incentivise investment by private individuals via measures operated by financial intermediaries.

Another difference between the previous version of Article 21 (before June 2023) and the new Article 21(a) is that the latter lays down maximum thresholds for the tax relief that may be granted to individuals. Such thresholds were not existing before. The thresholds range between 20% and 50% of the invested amount, depending on the age of the recipient SME and the environmental friendliness of the investment. An additional bonus of 15% may be granted for investments in SMEs in Article 107(3)(a) regions (i.e. regions less wealthy than EU average) or SMEs that are supported by the recovery and resilience plans.

Box 2: Fictional example - Aid without a financial intermediary

Alternatively to the setting-up of the Fund (see Box 1), the Member State announces that investments up to EUR 50,000 in social companies and other SMEs, made by private investors, are deductible from personal income tax. Furthermore, when the shares are sold, any profits are exempted from capital gains tax. For newly established social enterprises that have not yet sold any product, the combined relief from income tax and capital gains tax may not exceed EUR 25,000, corresponding to the maximum permitted aid intensity of 50% of the invested amount, which in this case is EUR 50,000.

Article 22: Startups

GBER defines startups as **small**, unlisted undertakings that, in general, are registered for less than five years. The maximum amounts of aid fixed by the June 2023 amendment of the GBER are as follows: grants (up to EUR 0.5 million), loans (up to EUR 1.1 million), guarantees (up to EUR 1.65 million), equity (up to EUR 0.5 million) or tax incentives (up to EUR 0.5 million). Higher amounts are allowed for investments in startups located in assisted areas under Article 107(3)(a) or (c) TFEU[181].

For small innovative enterprises, the amounts indicated above in brackets may be doubled. An innovative enterprise is one that develops new products or spends more than 10% of its operating costs on research and development.

A new feature introduced by the 2023 revision of the GBER is that State aid up to EUR 1 million may now support the transfer of intellectual property rights from research organisations to eligible undertakings. A research organisation is an entity that carries out independent research for the advancement of scientific knowledge or for educational purposes and therefore is not classified as an undertaking. A typical but not exclusive example of research organisation is a publicly funded university or research institute.

Box 3: Fictional examples - Aid for startups

- **The small social enterprise “COMP4U” aims to provide computer skills to disadvantaged groups. COMP4U was registered in 2019, therefore it is eligible for funding under Article 22 of the GBER. It receives a loan from a local authority with below market rate of interest of 0.5% per year. Because COMP4U operates in an area that is eligible for assistance under Article 107(3)(c), the amount of the loan (with a duration of 10 years) can be up to EUR 1.65 million.**

- **The small social enterprise “Flora For Ever”, active in a big city since 2021, delivers flowers with bikers at homes and offices. The enterprise is located in an assisted area. It can receive a guarantee from the regional government covering 80% of a loan (10 years) of up to EUR 1.65 million. The premium for the guarantee is lower than the rate charged by private banks.**

- **The small social enterprise “Unlimited recycling”, recently registered in a Member State, collects and resells parts from scrapped cars. It is located in an Article 107(3)(a) region. Therefore, it can receive a grant (or a capital injection)**

[181] In State aid law, two types of assisted areas are distinguished. Based on the Treaty, there are “107(3)(a)” regions, designating regions that are in a less favourable economic situation compared to the EU average. Secondly, there are “107(3)(c)” regions, designating regions that are in a less favourable economic situation compared to the national average.

of up to EUR 1 million from the national authorities.

4. Recruitment of disadvantaged workers: presentation of Articles 32 and 35 GBER

The GBER defines how MS may support the employment of disadvantaged workers.

Article 32: Recruitment of disadvantaged workers

GBER defines in Article 2(4) who may be regarded as a "**disadvantaged" worker as a person who:**

- is not in regular paid employment for the previous six months, or
- is between 15 and 24 years of age, or
- is over 50 years of age, or
- has no secondary or professional qualifications, or
- is single with dependents, or
- is a member of an ethnic minority.

Please be aware that "disadvantaged workers" are not "disabled workers" that are defined differently and for which other (more generous) State aid possibilities are spelled out in the GBER.

Aid for the recruitment of disadvantaged workers may be granted in the form of **wage subsidies**, up to 50% of the eligible costs.

The eligible costs are the wage costs over a **12-month** period or a **24-month** period in the case of **severely disadvantaged workers** (i.e. those that are not in regular employment for at least 24 months or that are not in regular employment for at least 12 months and belong to one of the categories mentioned for disadvantaged worker). If the period of employment is less than 12 or 24 months, the aid must be reduced *pro rata*. However, recruited workers must be entitled to employment for at least the minimum period that is laid down in national law.

Individual aid for the recruitment of disadvantaged workers must be notified to the Commission if it exceeds EUR 5.5 million per undertaking, per year.

Article 35: Compensation of the costs of assistance provided to disadvantaged workers

The objective of the aid is to support the disadvantaged worker's autonomy and adaptation to the work environment.

The aid intensity may not exceed 50% of the eligible costs. The eligible costs are the expenses incurred as a result of employing staff solely to assist disadvantaged workers and training such staff in assisting disadvantaged workers.

Aid to compensate for the costs of assistance provided to disadvantaged workers must be notified to the Commission if it exceeds EUR 5.5 million per undertaking, per year.

5. Concept of service of general economic interest (SGEI)

The European Commission has defined SGEI as "economic activities which deliver outcomes in the overall public good that would not be supplied (or would be supplied under different conditions in terms of quality, safety, affordability, equal treatment or universal access) by the market without public intervention". Specific EU rules allow the provision of State aid to entities that are entrusted with this kind of specific missions. Besides a Communication, that clarifies key concepts, the "SGEI package" consists of a Regulation, a Decision, and a Framework, which specify the conditions under which State aid in the form of public service compensations are compatible. The basic principle is that public funding can compensate the costs of the specific mission but that overcompensations should be avoided.

Further reading

In case you want to know mare about State aid rules in general and the role they play for social economy in particular, you can consult the **EU Social Economy Gateway** under:

https://social-economy-gateway.ec.europa.eu/topics-focus/state-aid-social-economy_en

European Commission, DG EMPL, unit G3 "Social and Inclusive Entrepreneurship".

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