

# Study in Focus

## Skills development: The potential of the European Fund for Strategic Investments

### BACKGROUND

The [European Fund for Strategic Investments](#) (EFSI) was established in June 2015 through Regulation (EU) 2015/1017 as the first pillar of the Investment Plan for Europe with an aim to mobilise EUR 315 bn into areas that are strategically important for the sustainable development and competitiveness of Europe. Besides human capital (included in “social infrastructure”), these areas include small and medium-sized companies (SMEs); research, innovation and development; energy; digital; transport; and environment and resource efficiency.

### FOCUS OF THE STUDY

A particular focus of this [study](#) is on measures for labour market integration such as job search assistance, training of vocational and social skills for disadvantaged groups. The question is to which extent the EFSI can be used to **stimulate a market of service providers, i.e. social enterprises** in the area of Active Labour Market Policies (ALMPs). The note explores relevant project examples from four EU Member States (Denmark, Finland, France and Italy) where innovative financing solutions have been developed.



### KEY FINDINGS

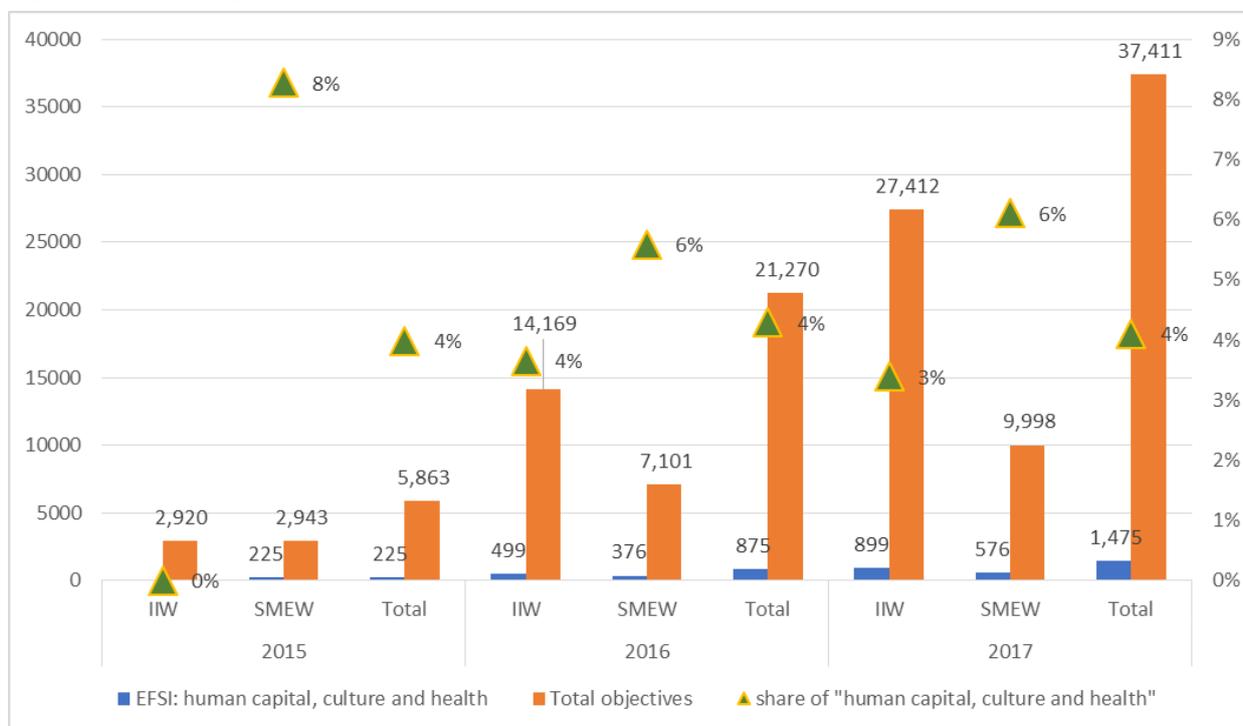
#### 1. Legal basis and practice

- **EFSI 1.0 and its prolonged version EFSI 2.0** adopted in December 2017 **both provide the legal basis** for investment in skills development and the social and solidarity economy, within both windows (the SME window and the Innovation and Infrastructure window).
- However, in practice there has been **very limited investment from EFSI 1.0 in skills development and ALMPs** more generally (only some EUR 1.5 bn = 4% in the area of social infrastructure (human capital, culture and health), to the end of 2017, mainly for buildings).
- **EFSI 2.0** has **introduced changes** some of which could help in promoting investments in skills development projects such as a focus on smaller projects, as well as an expansion of the capacity building mandate for the European Investment Advisory Hub (EIAH) to support investment partners. However, the overall focus of the EFSI programme remains on interventions in other areas.



- For EFSI financing, **skills development projects need to be economically and technically viable**, mature enough to be bankable, be additional as well as provide an aggregation potential. EFSI can play an important role in aggregating multiple smaller interventions using an **investment platform**, something that EFSI 2.0 facilitates further.

Figure: EFSI - funding by objectives



Source: EFSI Operational Reports for 2015-17; IIW - Infrastructure and Innovation Window; SMEW - Small and Medium-Sized Enterprises Window

## 2. Potential of EFSI for skills development and labour market integration

Overall, there is **scope for additional financing** and to use EFSI in the area of skills development. The findings in this study thus reinforces European Economic and Social Committee’s statement of the important role of social finance in meeting social needs adopted in 2016.

Countries like **Denmark, Finland, France and Italy** show that **socially motivated repayable finance can provide capital for the achievement of social outcomes** (outcomes-based commissioning).

The **need for interventions** for solving pressing challenges around unemployment and skills development is large in the surveyed countries. At the same time, municipalities are keen to adopt new and innovative funding models to solve their pressing societal issues, and government commissioners are encouraged by **successful pilot interventions**.

Three broad **types of interventions that might benefit from EFSI support** have been identified in this as well as previous studies: Payment by results interventions, loan and loan guarantee facilities, and public-private-partnerships. This study underlines the role of **Social Impact Bonds**.

The **main challenges** to use EFSI in human capital and skills development relate to a lack of awareness of the opportunity (actual role of EFSI and scope to generate financial return); concerns over the principle of using third party investors in a traditionally publicly funded area; lack of capacity to identify and build the necessary pipeline of potential investments and lack of maturity and scale for some of the interventions.

In a number of regions social investments in skills development and ALMP is **unlikely to grow substantially without help from European and national actors**.

## ACTION PLAN WITH A VIEW TO SKILLS DEVELOPMENT AND ALMP

- 1. Technical assistance and capacity building:** The European Commission and the EIB group should further strengthen their efforts in providing technical assistance in capacity building in project development and project design, as well as providing opportunities for mutual learning amongst existing local infrastructure provided by national promotional institutions and managing authorities. The proposals for a continuation of the European Investment Advisory Hub (EIAH) as part of InvestEU will help.
- 2. Encourage programmes of intervention rather than focus on single projects:** Established project promoters (social impact fund managers and NPBs with sufficient technical ability) should work to identify and introduce 'programmes' of intervention rather than supporting individual projects. This would help share and diversify risks, revenue and costs of due diligence and management, and help build revolving loan funds where repayments can be re-lent. Across such a portfolio of interventions, financial returns of more short-term interventions (for instance focussing on activation of certain individuals into the labour market) could be used to cross-subsidise financial returns from other interventions funded by the programme which generate higher social impacts, but lower financial returns.
- 3. Simplify the sharing of good practices:** The European Investment Advisory Hub should be equipped to provide a more active role in assisting national promotional institutions and social impact fund managers in sharing good practice concerning contract design, due diligence processes, accounting and legal principles, as well as the evaluation and estimation of short-term (results) and long-term (fiscal) benefits. This would help establish common frameworks at EU and national level which new project ideas could be evaluated against.
- 4. Active identification of interventions in the human capital sector and potential for investment platforms:** the EIAH, under its mandate to provide pro-active advisory support on the establishment of investment platforms, should be equipped to actively identify portfolios or 'programmes' of interventions in the human capital sector which could be attractive for co-funding by EFSI. This could lead to the EIB group providing sufficient market scale-up to the impact investment sector and ensure buy-in of larger institutional investors.
- 5. Flexible contractual arrangements to allow governments to engage and experiment:** Such arrangements could for instance prioritise payment by performance over payment by results principles, meaning that payments to investors are linked to the relative scale of achieved results, and not paid as lump-sum linked to achievement of a certain threshold, or pilot certain legal and monitoring arrangements. This would help in engaging further government commissioners.
- 6. Tax reliefs to interventions in human capital:** Member States could offer tax reliefs to EFSI-type interventions in human capital, recognising that such discounts are in fact a cost to government which would have to be assessed against the estimated economic and social return of individual interventions. Whilst such discounts would have to be set within the limits of EU state-aid provisions, they could be used to make investment propositions more attractive.
- 7. EFSI channelled instruments specialised in human capital:** Only a small fraction of EFSI has a pure social / human capital dimension. More of EFSI support could be channelled by the European Commission to instruments specialised in these areas to bring firepower to existing EU interventions (potentially easier under InvestEU). The additional budget brought by EFSI (relatively small in EFSI terms of € 100 million) to financial instruments with a strong social dimension was however substantial from the perspective of the receiving financial instrument (EaSI Guarantee Financial Instrument had an initial budget allocation of € 96 million, plus

€ 16 million for capacity building initiative). The resources allocated to EaSI financial instruments had been rapidly absorbed for reasons of strong market demand and in that context a reinforcement was much needed (total amount of operations signed already reach € 105 million by end 2017). Additionally, new financial instruments in support of education could be explored, e.g. providing risk coverage on student lending (including apprenticeship, adult learning and the acquisition of skills in general) incorporating the best practices acquired e.g. in the implementation of the Erasmus+ facility.

8. **Awareness raising on using financial instruments for human capital.** All relevant actors at European, national and regional level should engage in awareness raising as to the potential and good practices in using financial instruments for human capital investment. Such a concerted effort would have to bring together in particular actors that in the past did not closely interact (formal education and training sector, actors in the labour market, budgetary authorities, as well as potential investors involving established financial and also philanthropic or 'social' investors).
9. **A targeted conference on the future use of ESF and financial instruments such as those offered by EFSI should be organised by key EU stakeholders involved.** It seems clear that as the basis of providing the necessary scale and technical capacity ESF programmes offer the best opportunity for larger programmes targeted at skills development and especially ALMPs. Member States are reluctant to allow ESF programmes to engage with financial instruments, not least because of the perceived complexity and loss of ownership. In the context of InvestEU particularly, a joint conference could help facilitate the development of a mutual understanding between DG EMPL and EFSI/EIAH (including national promotional bodies) as the basis for planning the creative combination of ESF and EFSI financial instruments.

## A VIEW TO INVEST-EU 2021-2027

The proposed introduction of InvestEU in 2021-27 as the successor to EFSI with its approach based on a **single umbrella** for different financial instruments should provide **easier access to finance for interventions in skills development**. InvestEU is also proposing to integrate and **strengthen technical assistance services** under the Investment Advisory Hub, again supporting decision-making and investment planning by public authorities looking to utilise these resources.

Further, InvestEU can make it **easier to use EU financial instruments**. There is, for example, provision for Member States to allocate some part of their **Cohesion Policy Funds including ESF** to benefit from the EU loan guarantee, increasing the financing for structural needs including skills development.

At the same time, the research suggests that **other EU programmes such as EaSI and the European Social Fund (ESF) might be more tailored** to support some interventions in the field of human capital and skills development, as they allow for projects with lower or more uncertain returns to be supported. Recently, further guarantees have been provided under EaSI worth a total of € 115 million, using EFSI resources.

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