STUDY

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

Policy Department for Economic, Scientific and Quality of Life Policies
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Skills development: The potential of the European Fund for Strategic Investments

Abstract

This study, commissioned by the EMPL Committee and Policy Department A, investigates the potential of using the European Fund for Strategic Investment (EFSI) to support skills development and Active Labour Market Policies (ALMP). It analyses the development of EFSI to date and explores projects in four EU Member States with funding models that could finance and scale up investments in skills development using EFSI financing in the future.

The study concludes that whilst there is potential to intensify the use of EFSI and its successor InvestEU to support these areas, a number of challenges related to the typical nature of investments and the national/local capacity to develop and structure investment projects in human capital would have to be overcome

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LIST OF ABBREVIATIONS

ALMP	Active Labour Market Policy
COSME	The EU programme for the Competitiveness of Enterprises and SMEs
EaSI	EU Programme for Employment and Social Innovation
EC	European Commission
EEA	European Economic Area
EESC	European Economic and Social Commitee
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
EIPP	European Investment Project Portal
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
GDP	Gross Domestic Product
IIW	Infrastructure and Innovation Window
NGO	Non-Governmental Organisation
NPB	National Promotional Banks
OECD	Organisation for Economic Co-operation and Development
PES	Public Employment Services
PbR	Payment by Results
PfR	Payment for Results
PPP	Public-private partnerships
SME	Small and Medium-sized Enterprises
SMEW	Small and Medium-sized Enterprises Window
SIB	Social Impact Bond
SPV	Special Purpose Vehicle
WISE	Work Integrating Social Enterprise

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GLOSSARY

Assets (tangible and intangible)	An asset is a resource with economic value that an individual, corporation or government owns or controls with the expectation that it will provide future benefit. A tangible asset is a physical asset such as land, vehicles, equipment, machinery, furniture, inventory, stock, bonds and cash. As a result, investment can be secured against the asset. An intangible asset is non-physical, such as patents, trademarks, franchises, goodwill and copyrights. Social outcomes are a form of intangible asset (such as skills and qualifications, or new organisations that support social outcomes). Social outcomes are often described as building human and social 'capital', but this form of 'capital', although capable of providing future returns, is intangible.
Active Labour Market Policies	Active Labour Market Policies (ALMP) are interventions in the labour market that aim at bringing individuals into gainful employment. They can comprise a variety of interventions, aimed at ensuring motivation and incentives to seek employment; increasing employability and helping jobseekers to find suitable employment; expanding employment opportunities for jobseekers and people outside the labour force.1
Commissioners	In the context of a Payment by Results (PbR) intervention, a provider is commissioned and contracted to deliver a specified set of results in return for payment. The Commissioner is the government department or agency, acting as counterparty to the contract, that is willing to pay for the contract.
Discount by results	An intervention in which a service provider receives a discount on a financial product (usually more favourable interest rates on a loan) on the achievement of pre-agreed outputs/outcomes, by a financial institution under contractual terms, which set out the required social outputs/outcomes.
Fiscal benefits of social investment	The provision of social outcomes has the potential, over time, to influence the future levels of public expenditure and tax revenues and, particularly, to reduce future spending and/or increase future revenues. The scale of these future benefits is uncertain, but provides a justification for social investment
Funding	The provision of financial resources, including grants and various forms of investment, in support of interventions
Funders	Funders are legal entities and comprise a potentially wide range of organisations with an interest in the outcomes of the interventions. These include government, private financial institutions and social investors

[1] http://www.oecd.org/employment/activation.htm

Financial guarantee	An undertaking by a legal entity to cover a specified share of losses incurred by investors, including the risk to lenders of a failure to recover loans, or losses incurred by shareholders. A "guarantee" would seek to underpin the funding and financial returns of the Intervention, which thereby would appear as a liability in the guarantor's balance sheet. A "guarantee" of the performance or delivery of a Service committed by a Provider under such a contract is a commercial, as opposed to financial, undertaking, and, hence, carries different and less onerous, financial obligations.
Human Capital	In the context of this study, human capital is understood to include the stock of knowledge and skills that can be amassed through investments in education and training. The present study focusses in particular on: Vocational education and training; Adult learning, in particular continuous learning in companies; Skills development to keep and gain employment; and Active Labour Market Policies (ALMP) for reintegration.
Intermediaries / Financial intermediaries	Organisations that facilitate and broker the development of investment opportunities, but are not necessarily funders. Intermediaries will mainly be involved in the performance management and the modelling, and support the undertaking of due diligence. In contrast, Financial intermediaries, for the purposes of this study, are the organisations contracted by the EIB and EIF to facilitate the take-up of EIB funds. These organisations are typically national banks, who have the capacity to appraise and take investment decisions, and are willing to contribute their own funding.
Intervention	An activity undertaken in the market by government in pursuit of public policy goals. The activity may be the provision of incentives / penalties or direct action. The social welfare benefits (social outcomes) of the intervention are expected to outweigh the costs of the intervention. In the context of this study interventions that rely exclusively on grant funding would be excluded. In addition, the study assesses the market for investment and excludes interventions that involve only Commissioners and Providers. All interventions must have an element of third party investment.
Investment	Investment is the purchase of assets (comprising goods (tangibles) and services (intangibles)) that are not consumed today, but are expected to generate future benefits. Investment of resources (money, time) is undertaken in return for capital gains and/or income. In the context of this study, the return is partly in the form of enhanced human and social capital, as well as comprising a financial return – the 'blended' return.
Payment by Results ("PbR")	An intervention in which a service Provider receives a (usually, lump-sum) payment on the achievement of pre-agreed outputs/outcomes, paid by the Commissioner (usually, government) under contractual terms, which set out the required social outputs/outcomes. The payment may include a small premium, if the benchmarks are achieved in full.
Public-private-partnership	Public-private-partnerships (PPP), also known under acronyms such as as "PPS" in the Netherlands, "P3" or "3P" in North America, and "PSP" in South East Asia, are contracts between a private party and government which allow

	the beneficiary, i.e. government, - or their taxpayers, - to pay for the investment in public service assets (typically physical assets) at a later date. Countries which have been using the PPP mechanism with success are usually those with a long-term local capital market, or alternatively have an indigenous raw material, e.g. oil or gas, which they can export for hard currency revenues, thereby providing a foreign exchange hedge against revaluations or devaluations of the domestic currency versus world markets in the long term (i.e. 20-30 years, the typical lifetime of PPP contracts).
Results	A collective term for the provision of social outputs and outcomes
Social intervention	An intervention where the public policy goals relate to specific social policies. These policies, in the context of this study, relate to the improvement of the education and training of citizens
Social investment / Social Investor	The provision of loans, purchase of shares, or provision of guarantees in return for social impact (the asset) and (perhaps, nominal) financial return. The two main ways of funding asset investment are "loan" or "debt", and "equity"
Social 'debt' investment	An investment can be described as a "loan" or "debt" when the Funder (lender) will require repayment of the loan against an agreed schedule, and charge an agreed (perhaps, nominal) rate of interest. Lenders may take additional control of the Service delivery by imposing covenants and demanding the right to intervene in the delivery of the Service should performance fall below expectations and before default on the loan arises.
Social 'equity' investment	An investment can be described as "equity" investment when funders take a shareholding in the recipient organisations, and receives its return solely through dividends or financial outcomes. The equity investor also carries the delivery and full financial risks of the investment, and is subordinate to lenders in the event of failure. It is probable that an "equity" Funder will wish to exercise a degree of control and management over the delivery of the Service
Social enterprise	An organisation engaged in continuous activity of production and/or exchange of goods and/or services, but which has as its primary objective the achievement of a social impact. This does not exclude the possibility of producing a profit. It is expected profits are mainly reinvested in the enterprise
Social entrepreneurs	Individuals who seek to invest in and / or to establish and / or manage social enterprise and the achievement of social impact
Social Impact Bond (SIB)	An intervention where the Service Provider contracts with a Commissioner for funds to finance the provision of defined social outputs/outcomes. The bond is the contract held by the Commissioner and signed by the service provider, defining the funds to be provided and under what terms. A Social Impact Bond (SIBs) is a mechanism by which to shift financial risk from service Providers to investors, with investors underwriting service Providers based on their ability to deliver agreed social outcomes in return for a social and financial returns. Social Impact Bonds are not bonds in the conventional sense. While such Bonds apply over a fixed period, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being

	achieved. Therefore, in terms of investment risk, Social Impact Bonds are more akin to an equity investment.
Social Impact Fund	A fund paid into by social investors (and possibly government) to finance Interventions providing social outputs/outcomes
Social output	The direct consequence of the activity undertaken in the Intervention, determined only by the results arising from the Intervention (for example, the provision of pre-school or training places, or the finance for a student loan fund). The ability to deliver social outputs, rather than social outcomes (see below), is more deterministic.
Social outcome	A consequence of the intervention, resulting from the take-up of social outputs, but also determined by the behaviour of stakeholders, depending on their interest and the incentives offered (for example, the take-up of places and resulting effects on skills/qualifications; the engagement and participation of young adults in employment; the scale of student borrowing.). There is more uncertainty over the scope to deliver outcomes than social outputs, because other factors can also influence the response to the intervention (e.g. additional policy measures, or changes in economic and social circumstances)
Special Purpose Vehicles (SPVs)	A common approach in the delivery of Social Impact Bonds is the establishment, for the duration of an intervention, of a separate legal entity, described as a Special Purpose Vehicle (SPV), charged with the sole purpose and responsibility for delivering the intervention. The SPV enables the Provider and investor to contract with the Commissioner and is the recipient of the funds needed to undertake the Intervention. The SPV ring fences the assets and liabilities of the Provider and funding. It also enables the investor (or lender) to exercise some oversight and control of the intervention. The SPV therefore enables an element of performance management and governance to be exercised, and provides an early warning to investors of difficulties with delivering the intervention

EXECUTIVE SUMMARY

This study aims to explore the current and future potential of the European Fund for Strategic Investment (EFSI) for skills development. Skills development is understood from a lifelong learning perspective: from learning in schools, vocational and academic education and training, further adult learning, but also job search assistance and support to acquire the necessary social skills by disadvantaged sections of the community, often delivered in the context of Active Labour Market Policies (ALMPs), to achieve full labour market integration.

Previous research indicates that the full potential of EFSI has not been utilised. While EFSI-funds have mainly been invested in infrastructure, only around 4% of EFSI funding has been allocated to the area of skills development. Difficulties in developing bankable projects, small project sizes, and traditional dependency on public funding in the sector are some of the reasons for the low investment in skills development using EFSI-funds.

To recognise this imbalance of allocation of EFSI-funds and to allow for more investment in the skills development area, a second edition of the EFSI regulation was designed (EFSI 2.0). Against this backdrop, this study sets out to develop targeted actions that are necessary to improve the uptake of EFSI support for skills development. Therefore, its focus is on the potential of using EFSI and the proposed successor instrument InvestEU[2], to promote delivery of ALMPs in this area. It also presents project examples from four EU Member States where innovative financing solutions have been used for the skills development area, proving as inspiration for future EFSI use in the field.

Study conclusions

The study concludes that there is clear scope for relevant projects to make greater use of EFSI to support skills development investments and strengthen a healthy supply of potential investment projects. Such projects could make use of both the equity and loan finance instruments under the SME Window of EFSI. Political willingness of government actors will be key to further promote social investment especially where future public expenditure savings can be identified and monetised.

Greater use of EFSI for skills development and ALMPs strongly hinges on the learning ability of national actors such as National Promotional Institutions and potential government commissioners to ensure that these actors have the capacity to develop and structure projects.

The research undertaken for this study has underlined that there are some persistent challenges to the use of EFSI for purposes of supporting skills development. Primarily, such remaining challenges derive from the need to scale up social impact investment with sufficiently secure returns that it would attract co-investment from EFSI (with or without use of other programmes).

The proposed introduction of InvestEU in 2021-27[3] 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 strength technical assistance services under the Investment Advisory Hub, again supporting decision-making and investment planning by public authorities looking to utilise these resources. As well as making it

[2] https://europa.eu/investeu/

[3] http://europa.eu/rapid/press-release_IP-18-4008_en.htm

easier to use EU financial instruments, there is also 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.[4][5]

Action plan to help take up of EFSI funds in support of skills development

From the research conducted in this study, it seems that countries with established NPBs and project development capacity would be able to bring forward social investment programmes in skills development and ALMP on their own. In other regions however, social investments in skills development and ALMP is unlikely to grow substantially without actors such as the EIB, the EIF, national promotional institutions and governments taking action. We have summarised below the ten key actions that are needed to help the uptake of EFSI funds in support of 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, or bridge time periods needed to reap returns on more long-term interventions. Some of these early returns could be used to increase investment levels in other, more long-term oriented investments, such as, for example, early childhood or primary school education.

[4] http://ec.europa.eu/esf/main.jsp?catId=67&langId=en&newsId=9144

[5] https://ec.europa.eu/commission/news/eur-65-million-eu-financing-430-social-enterprises-netherlands-belgium-spain-and-france-2018-apr-12_en

3. **Simplify the sharing of good practices:** The EIAH, under its mandate for providing a platform for peer-to-peer exchange, 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, similar to its role in growing venture capital investments in Europe.

5. **Flexible contractual arrangements to allow governments to engage and experiment:** Government commissioners should aim for flexible contractual arrangements which allow experimentation. 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 in the sector.

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 to more commercially oriented investors.

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. **For the next programming period**, the Commission's proposal[6] **suggests a move towards a single fund (InvestEU) that would provide support via a wide variety of financial products** – instead of the current various financial instruments. The Paper also highlights the need "to do more with less" which could lead to a higher use of budgetary guarantees (which are not fully provisioned unlike financial instruments). There will however be a need to preserve, under the roof of the future possible single fund, products which are close to 100 per cent provisioned and can take the first loss piece, in order to make sure coverage of the social sector does not decrease.

9. **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 (for instance Public and Private Employment Services), national, regional and municipal budgetary authorities which hold power and oversight of fiscal revenue and expenses/costs of social policies, as well as potential investors from both established financial markets (banks, investment and pension funds and insurance companies) and philanthropic or 'social' investors.

10. **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 in support of ESF objectives including skills development and ALMPs.

[6] https://ec.europa.eu/commission/publications/investeu-programme_en

1. INTRODUCTION: SCOPE OF THE STUDY PURPOSE AND APPROACH OF THE STUDY

This study aims to explore the current and future potential of the European Fund for Strategic Investment (EFSI) for skills development. Skills development is understood from a lifelong learning perspective: from learning in schools, vocational and academic education and training, further adult learning, but also job search assistance and support to acquire the necessary social skills by disadvantaged sections of the community, often delivered in the context of Active Labour Market Policies (ALMPs), to achieve full labour market integration.

The use of EFSI for skills development has previously been explored in research for DG EAC[7] and a recently completed study on boosting investment in social infrastructure in Europe[8]. This work indicates that the full potential of EFSI has not been utilised. Further research is needed as the basis of more targeted advice and support to potential project promoters, commissioners and investors in skills development and labour market integration.

Therefore, this study focuses on the potential of using EFSI and the proposed successor instrument InvestEU[9], to promote delivery of ALMPs and other public and private collaborations in this area, including the use of other EU funds (e.g. ESF).

The study reviews the legal and operational basis of EFSI and its use for skills development making use of relevant literature and discussions with interested stakeholders (Section **Error! Reference source not found.**). This is followed by the presentation of selected case studies from four countries (Finland, Denmark, France, Italy) of investment in skills development and ALMPs indicating funding structures capable of utilising EFSI (Section 0), which informs the development of proposals for further support and guidance to the relevant sections of the investment community (Section 0).

[7] ICF, 2017. Study on the feasibility of an education and training investment platform (DG EAC).

[8] Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe. Discussion paper 074, January 2018.

[9] https://europa.eu/investeu/

2. CRITERIA AND SCOPE FOR EFSI FUNDING OF SKILLS DEVELOPMENT

KEY FINDINGS

- EFSI 1.0 and its prolonged version EFSI 2.0 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, relevant interventions that lack maturity might receive more tailored support under alternative programmes, such as EaSI and the European Social Fund (ESF), or from a combination of these programmes.
- There has been very limited investment from EFSI 1.0 in skills development and ALMPs more generally. Only some €1.5 bn EUR (4%) has been provided by EFSI's two windows in the area of human capital, culture and health, to the end of 2017. EFSI 2.0 seeks to increase the share allocated to skills development.
- EFSI 2.0 has introduced changes of which could help in promoting investments in skills development projects. These include 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 with a relatively low proportion of EFSI resources being allocated to projects in the area of human capital, culture and health (4 percent of overall EFSI resources).
- EFSI has been used to 'top up' the financing of other relevant initiatives by providing financial guarantees such as the Employment and Social Innovation (EaSI) programme and the programme for the Competitiveness of Small and Medium-sized Enterprises (COSME). There might be further potential to extend guarantees for a wider range of interventions in the field of ALMP.
- Overall, there is scope for additional financing and to use EFSI in the area of skills development to strengthen investment capacity. But, this strongly depends on the learning ability of national actors such as National Promotional Institutions and potential government commissioners to take forward programmes and projects, informed by the exchange of best practices across actors involved in skills development.
- The main challenges to further use of EFSI in human capital and skills development relate to (i) a lack of awareness of the opportunity (both of the actual role of EFSI and the scope to generate financial return); (ii) concerns over the principle of using third party investors in a traditionally publicly funded area; (iii) lack of capacity to identify and build the necessary pipeline of potential investments and (iv) lack of maturity and scale for some of the interventions that we have reviewed as part of the previous work and the present study.
- 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.

2.1. EFSI 1.0 and its potential to support skills development and ALMPs

Skills development and ALMPs requires financing

Skills development or "lifelong learning", is in this study defined by the remit of the EMPL committee. The concept of lifelong learning includes vocational education and training; adult learning; apprenticeships; skills development to keep and gain employment; and Active Labour Market Policies (ALMPs) for reintegration.

Public sector spending cuts have reduced the government funding available for skills development and ALMPs. At the same time market failures make it difficult to monetise the economic benefits from skills development and for private investors to secure reliable investment returns. There is also a view that social investment can play an important role in meeting social needs, especially in the early stages as a tool to finance early intervention and innovation in welfare systems.[10] EFSI is a response to the resulting sub-optimal levels of investment in skills development.

Notably, the concept of skills development comprises different fields with different institutional set-ups and pre-conditions to use market-driven funding instruments such as the EFSI. Table 1.1: below provides suggestions of identified funding areas within lifelong learning, at the EU level. Funding models might cover both the provision of tangible assets (such as buildings or other physical infrastructure contributing to the provision of education and training) and intangible assets (a range of services leading to social impacts).

Table 1.1: Skills development areas and financing areas

Lifelong learning area	Funding areas
Vocational education and training	• Increase relevance of vocational and technical education • Public procurement relevant for private (profit or not for profit) service providers in the field of learning support, prevention and compensation of early school leaving • Continuous underfunding due to market failures (e.g "free-riding" where employers rely on other employers to meet costs of training)
Adult learning and ALMPs for reintegration	• Continuous underfunding due to market failures (e.g "free-riding" where employers rely on other employers to meet costs of training) • Increase the role of public procurement, public private partnerships for more in-depth services such as job search assistance, training, social skills • Keeping up with the rapidly changing needs for skills for jobs, as well as major new efforts in education systems necessary to keep up with the pace of the needed innovations. • Including support for integrating migrant populations

[10] EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe.

Lifelong learning area	Funding areas
All education and lifelong learning	Physical infrastructure: • Building new/renovating existing educational facilities • Public procurement and public-private partnerships, and energy performance contracting (EPC) • Technological needs: updates and accessibility of IT-facilities; enabling technology (to provide adult learning courses); energy efficient technology.

Source: ICF, 2017. Study on the feasibility of an education and training investment platform.; EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe.; Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe.

Overall EFSI architecture and its instruments allow for skills development

EFSI is the first pillar of the wider Investment Plan for Europe, the so-called Juncker Plan of collective and coordinated efforts to reverse the downward trend in investment and put Europe on the path to economic recovery. This plan has three objectives, which correspond with its three pillars (see Table 1.2: below).

Table 1.2: The three pillars of the Junker Plan

Objective	Pillar
Making smarter use of financial resources	- European Fund for Strategic Investments
Provide visibility and technical assistance to investment projects	- European Investment Projects Portal - European Investment Advisory Hub
Removing obstacles to investment	- Deepening the single market - Improved regulation - Removing bottlenecks

Source: European Commission

EFSI 1.0 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 € 315 billion 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.

More specifically, the EFSI 1.0 regulation already provided legal scope for skills development stating that: "The *EFSI should support projects in the fields of human capital, culture and health, including projects*

in the fields of education, training, the development of ICT skills and digital education …"[11] *Article 9 in EFSI 1.0 regulation limits operations to particular objectives, which include: "g) human capital, culture and health, in particular through: (i)* ***education and training; […]*** *(v) social infrastructures,* ***social and solidarity economy;"***[12]**.** While the legislation does not specify education and training, it mentions that "the EFSI should support projects in the fields of human capital, culture and health, including projects in the fields of education, training, the development of ICT skills and digital education, as well as projects in the cultural and creative sector, in tourism and in social fields."[13] The legislation however requires that investment in those fields should adopt a holistic approach "which in each case displays appropriate respect for the intrinsic value of education and culture".[14] The guarantee provided under EFSI 1.0 from the EU budget allows the EIB Group to take on higher volumes of risk financing without impacting its AAA credit rating.

Financing is provided through two investment windows using equity (share capital) and loan financing or some combination of equity or loan finance:

1. the **Infrastructure and Innovation Window** (IIW) implemented by the EIB; and
2. the **SME window** (SMEW), implemented by the EIF.

The Infrastructure and Innovation Window (IIW) is primarily focused on investment in physical infrastructure (tangible assets) and support for research and innovation in new technologies and related goods and services. The IIW is suitable to support the construction and upgrade of education buildings and has indeed supported PPP type interventions in the past, but there appears to have been no use of this window for funding human capital and skills development to date given its focus on physical assets or the application of new technologies.

We therefore focus on the SME window. With its role to promote social entrepreneurship and to develop the social economy, the SME window has proved to be the tool promoting growth with the highest potential to deliver relevant social effects.[15]

[11] Regulation (EU) 2015/1017

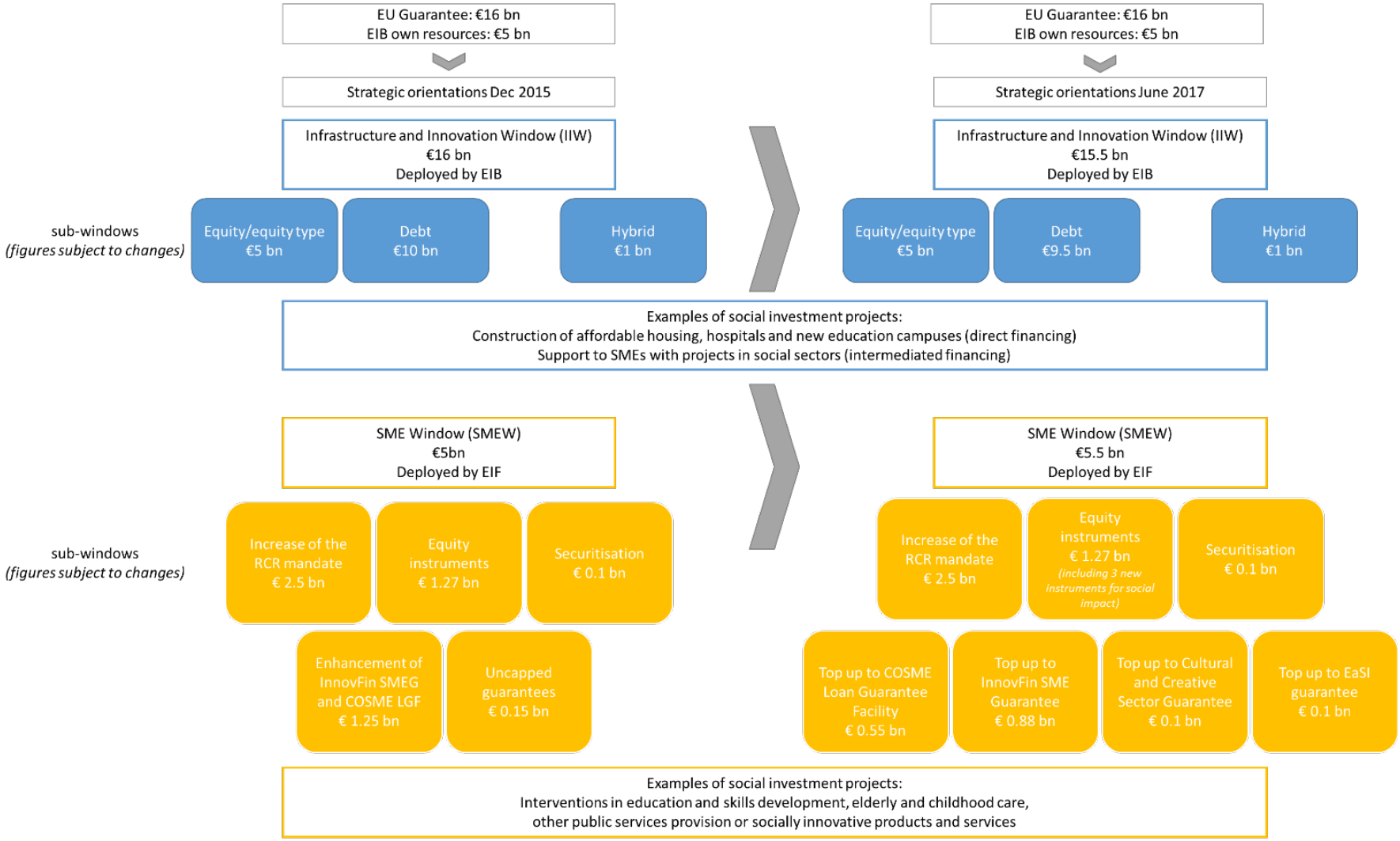
[12] Ibid.

[13] Regulation (EU) 2015/1017, paragraph 20, p. L 169/4.

[14] Ibid.

[15] EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe. Available at: https://www.eesc.europa.eu/sites/default/files/resources/docs/final-study.pdf [Accessed 23 April 2018]

Figure 1.2: Architecture of EFSI and evolution of EFSI 1.0 Sub windows across time



Scope for EFSI SME Window to support skills development

The EFSI SME window managed by the European Investment Fund (EIF) and delivered through financial intermediaries provides equity (share capital) and loan facilities to innovative and fast-growing SMEs and midcaps with up to 3,000 employees.

Equity side: Relevant innovative investment instruments, but limited guidance for potential investors / social entrepreneurs

The EFSI SME window's equity investment (SMEW EP) includes the Early Stage and the Expansion and Growth Stage windows. These instruments could in principle be used for supporting investments in human capital and skills development, and are suitable to support new modes of intervention such as Payment by Result schemes, as they focus on providing equity to high-risk undertakings in SME. Under these at least € 150 million shall be committed to the area of social impact investments targeting social enterprises and social sector organisations.

More specifically in relation to social entrepreneurship and impact investing, independent from the initial EFSI 1.0 evaluation[16] the EIF launched three innovative investment instruments operating via intermediaries (see Table 1.1:) linked to:

1. incubators and accelerators,
2. business angels, and
3. payment-by-results schemes

All three instruments can in theory be used for skills development and ALMP projects, as they focus on building support for social enterprises which often act as service providers of skills development and ALMP services.

Whilst guidance is provided for intermediaries interested in EIF's social entrepreneurship and impact investing products, no specific guidance is available on how these EFSI instruments could be used for investments in human capital and skills development.

[16] European Commission, 2016. Commission Staff Working Document. Evaluation accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub.

Table 1.3: Specific products for social entrepreneurship and impact investing under EFSI Equity instruments

	Investment in or alongside Financial Intermediaries linked to incubators/accelerators	Investment alongside Business Angels or in BA Fund	Payment-by-Results
Type of investments scheme	Investment or co-investment scheme	Investment or co-investment scheme	Investment or co-investment scheme
Type of counterpart	Typically venture capital funds linked to incubators, accelerators, and/or that provide incubation services to Social Enterprises	Typically business angels or business angels funds targeting Social Enterprises	Typically investors in Payment-by-Results schemes (NPIs, PbR manager or arranger, etc.)
Type of underlying products	Long term risk capital investments in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, other type of mezzanine financing	Long term risk capital investments in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, other type of mezzanine financing	Long term risk capital investments in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, other type of mezzanine financing, and/or debt
Type of target beneficiaries	Primarily Social Enterprises established or operating within the EU ranging from pre-commercial stage up to early growth stage	Primarily Social Enterprises established or operating within the EU ranging from seed stage up to expansion stage	Social Enterprises and Social Sector Organizations established or operating within the EU

Source: EIF guidance to social impact investors. Available at: http://www.eif.org/what_we_do/equity/efsi/call/Guidance_for_social_impact_investors.pdf

Whilst no comprehensive overview is available on the demand and state of play of these instruments (calls to select intermediaries under EFSI Equity have been issued in October 2016), interviewees at the EIF confirmed that negotiations are underway with several intermediaries in setting up products that will use the EFSI equity instruments.

Debt side: Relevant investment instruments when combined with existing EU financial instruments and grant programmes

The SME window (debt instruments) provides loan finance, delivered through financial intermediaries who offer loans or loan guarantees to enterprises, including social enterprises, that can supply services such as training and labour market integration of disadvantaged groups. Under EFSI 1.0 loan funds have been combined with EU programmes to frontload and then top up four EU programmes, including three relevant for the scope of the present study: the COSME, EaSI and Cultural and Creative Sectors Guarantee Facilities (see Table 1.4:). These top ups have increased the 'firepower' of supported programmes – doing more of the same, i.e. providing easier access to guarantees, loans, equity capital, microcredits and finance for inter alia social enterprises and SMEs with projects in the social or cultural and creative sector[17] [18].

Table 1.4: Frontloading and top up of existing instruments

		Frontloading	Top up (signed in November 2017		
Guarantee Facility	Target group	Date of EFSI frontloading	Initial size (in € million)	EFSI participation (in € million)	New Size (in € million)
COSME Guarantee Facility ("COSME LGF")	SMEs	22-Jul-15	900	550	1450
EaSI Guarantee Financial Instrument ("EaSI GFI")	Micro-enterprises/ Households/ Social Enterprises	16-Dec-16	96	100	196
Cultural and Creative Sector Guarantee Facility ("CCS GF")	SMEs in Cultural and Creative sector	Not applicable (CCS GF launched in June 2016)	121	60	181

Sources: Joint EC and EIF proposal on EIF - SME Window Guarantee Facilities available at:

http://www.eib.org/attachments/strategies/efsi-smew-guarantee-facilites-en.pdf

[17] https://ec.europa.eu/growth/smes/cosme_en

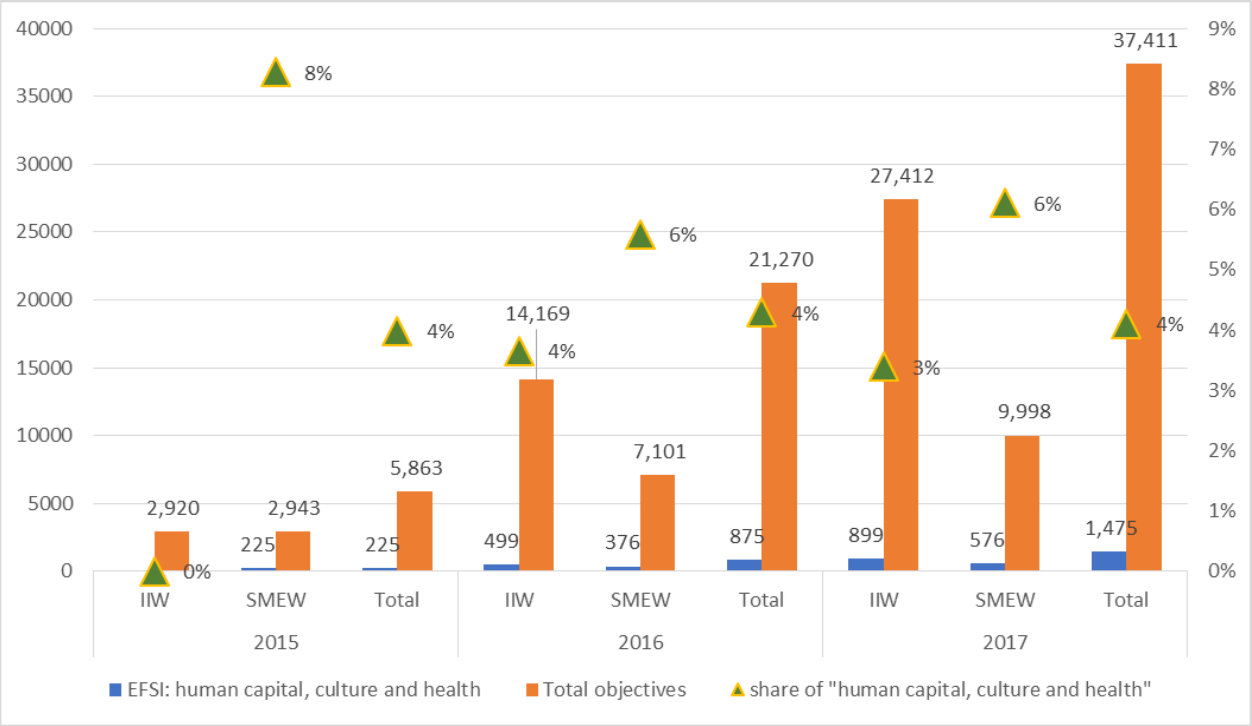
[18] http://ec.europa.eu/social/main.jsp?catId=1081

2.1.1. Use of EFSI to support investments in skills development is low

As of 31 December 2017, agreements to provide around € 899 million of EFSI funding to projects in the area of 'human capital, culture and health' have been signed under the Infrastructure and Innovation Window. These agreements will mobilise a total of € 5.4 billion of investment. Under the SME Window, agreements have been signed to provide € 576 million in the area of 'human capital, culture and health'. These agreements will mobilise a total of € 3.8 billion of investment. Thus in total across both windows, EFSI has so far provided € 1.5 billion of funding in the area of human capital, culture and health, **representing 4 per cent of total EFSI funding allocated so far**. Signed EFSI agreements in this area are expected to result in a total of € 9.2 billion of investment, 4.5 per cent of the overall investment mobilised by EFSI so far.

As shown in Figure 1.3: there has been no significant evolution as to the share of EFSI funding going to the objective over 2015-2017.

Figure 1.3: EFSI funding by objective (cumulated values)



Source: EFSI Operational Reports for 2015-17

There are a number of possible reasons for this low take-up.

Projects in the area of skills development and human capital investment are often of small size, particularly when no investments in physical assets are concerned. For instance, while EFSI top up doubled the size of the EaSI programme (see Table 1.4:), it represents 2 per cent of the amount available under SMEW.

A further explanation for the low use of EFSI for skills development could be that the efforts which have been made over the course of EFSI 1.0 to increase social investments under EFSI, notably as part of the SMEW, have only been introduced recently. Beyond this, there is currently only a nascent pipeline of potential projects in the area of skills development which meet EFSI eligibility criteria. This is often attributed to the fact that national governments (as potential commissioners) as well as financial intermediaries might lack the capacity or political will to develop suitable projects for funding under EFSI.

In sum, the low use of EFSI for skills development can be attributed to:

- the inherent challenge of establishing a bankable project when monetisation of the workforce and community benefits is difficult and project scale is small;
- the technical capacity and political will to support project development at Member State level, recognising the string tradition of relying on public expenditure in this area; and
- a lack of clarity for promotors as to the choice between EFSI or other programmes which might be more suitable, such as the European Social Fund (ESF) or the EU Programme for Employment and Social Innovation (EaSI) and the lack of guidance on how combined funding might be utilised.

No detailed breakdown is available for the individual fields listed under the sector of 'human capital, culture and health'. Table 1.5: below shows a breakdown of EFSI funding and investment mobilised for relevant sectors of activity using NACE codes, as of 31 December 2017.

Table 1.5: EFSI funding and investment mobilised, by NACE level 1 sector, as of 31 December 2017

Sector (window)	EFSI funding (€ million)	Investment mobilised (€ million)
Education (IIW)	61	271
Education (SMEW)	15	243
Human health and social work activities (IIW)	487	2,499
Human health and social work activities (SMEW)	72	800
All sectors (IIW)	27,412	131,135
All sectors (SMEW)	9,998	75,940

Source: EFSI Operational report, 2017

In summary EFSI 1.0 has allocated only a small share of finance (4%) to skills development, almost all through the SME window. Both equity and debt instruments have been used. Some of the difficulties of financing areas such as social investment have been recognised by the EC and EIB (such as the small scale of projects and the need to build technical capacities of potential investors and project coordinators) and addressed in EFSI 2.0.

Research point to the failure of the investment plan for Europe to cease the opportunity to move towards promoting promote a more inclusive EU. Especially long-term investments in social infrastructures and services have been largely overlooked by EFSI 1.0, as well as tackling youth unemployment.[19] At the same time, the investment gap in social infrastructure investment has been estimated at €100-150 billion per annum, and will reach €170 billion by 2030. Reforms have also been

[19] EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe.

called for to tackle the rapidly changing needs for skills in the future, major new efforts for adult and lifelong learning as well as integration of migrant populations.[20]

Behind this backdrop, more widely, there was a discussion about the opportunity to strengthen the focus in EFSI on human capital and to refocus EFSI 2.0 towards social investment[21]. Concerns had been raised over the low volume of investment in human capital under EFSI 1.0, and the New Skills Agenda called for exploring the potential of EFSI to 'boost private sector investment in skills development'.[22] With no arrangements to secure sufficient funding for a human capital investment strategy, EFSI 1.0 was seen as inadequate to address market failures and investment gaps in human capital in Europe. This wider failure reflected the need to reinforce investment in human capital, something described as "critical to Europe's future"[23] [24] [25] [26] for growing the competitive advantage of the European economy[27].

The discussion emphasised the need to support lifelong learning in SMEs, skills upgrading, apprenticeship schemes and vocational training and re-activation policies. It was argued that this would not only help to tackle unemployment but would also contribute to enhanced competitiveness within the EU.[28] Focusing on human capital and social investment in EFSI could also promote synergies between EFSI and the European Pillar of Social Rights, the Social Investment Package and the European Alliance for Apprenticeship, especially within co-financing skills upgrading programs for SMEs employees, apprenticeships and reactivation policies.[29]

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[20] Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe. Discussion paper 074, January 2018.

[21] European parliament, 2017. The European Fund for Strategic Investments as a New Type of Budgetary Instrument, p.23. Available at: http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/572710/IPOL_IDA(2017)572710_EN.pdf [Accessed on 23 April 2018].

[22] European Commission (2016) Working together to strengthen human capital, employability and competitiveness, COM(2016) 381 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0581&from=en

[23] European Commission, 2016. Europe investing again - Taking stock of the Investment Plan for Europe and next steps, Brussels, 1.6.2016 COM(2016) 359 final, p.3 Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0359&from=EN [Accessed 23 April 2018].

[24] European parliament, 2017. The European Fund for Strategic Investments as a New Type of Budgetary Instrument, p.23. Available at: http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/572710/IPOL_IDA(2017)572710_EN.pdf [Accessed on 23 April 2018].

[25] EIB, 2016. Restoring EU competitiveness 2016 updated version. Available at: http://www.eib.org/attachments/efs/restoring_eu_competitiveness_en.pdf [Accessed on 23 April 2018].

[26] EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe. Available at: https://www.eesc.europa.eu/sites/default/files/resources/docs/final-study.pdf [Accessed 23 April 2018].

[27] Rinaldi, D., 2015. Commission's Investment Plan Lacks Human Capital Component. *Europe is talking – the blog of the College of Europe community.* [blog]. Available at: https://coleurope.wordpress.com/2016/01/03/commissions-investment-plan-lacks-human-capital-component/ [Accessed 23 April 2018].

[28] European parliament, 2017. The European Fund for Strategic Investments as a New Type of Budgetary Instrument, p.23. Available at: http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/572710/IPOL_IDA(2017)572710_EN.pdf [Accessed on 23 April 2018].

[29] European parliament, 2017. The European Fund for Strategic Investments as a New Type of Budgetary Instrument, p.29. Independent evaluation of the EFSI Regulation - 2015/1017. Available at: http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/572710/IPOL_IDA(2017)572710_EN.pdf [Accessed on 23 April 2018].

2.2. EFSI 2.0 and key changes relevant to investment in human capital and skills development

Following the overall success of its initial operations, especially in terms of volumes (investment mobilised) and broadly positive evaluations by the EIB and EC, an extended timeframe (end of 2020) as well as an increased fund size of EFSI was proposed and subsequently approved in September 2016[30].

EFSI 2.0 was adopted in December 2017 as Regulation (EU) 2017/2396. Table 1.6: below shows the high-level characteristics of EFSI 1.0 and its extension into EFSI 2.0. By large, whilst there were changes that might indirectly enable further use for skills development, there was no explicit change towards stronger focus on skills development.

The essence of the programme remains the same under EFSI 2.0. EFSI is a demand- or market- driven instrument; and not a policy driven instrument. The sectoral and geographic concentration mentioned above could be a mere reflection of market demand (e.g. EFSI investments in EU 13 broadly correspond to EU 13 's share in the EU GDP[31]).

Table 1.6: The high-level characteristics of EFSI and its extension

	EFSI 1.0	EFSI 2.0
Timeframe	2015 – 2018	Extended to 2020
Investment target	€ 315 billion	€ 500 billion
Financing		
EU guarantee	€ 16 billion	€ 26 billion
EIB own capital	€ 5 billion	€ 7.5 billion

Source: EIB Group

There is no explicit change under EFSI 2.0 in how it could support investments in human capital or skills development, neither with regards to the sectors targeted nor the governance arrangements of the programme. However, a number of indirect changes that were introduced might allow a more extensive support for projects in this area, as they seem to support stronger focus on smaller interventions, stronger support for social enterprises which often are service providers of VET, ALMP and payment by result interventions, as well as more scope for supporting capacity building at national

[30] European Commission, 2016. Europe investing again - Taking stock of the Investment Plan for Europe and next steps, Brussels, 1.6.2016 COM(2016) 359 final, p.3 Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0359&from=EN [Accessed 23 April 2018].

[31] ICF, 2018. Independent evaluation of the EFSI Regulation - 2015/1017. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/efsi_evaluation_-_final_report.pdf

level to help government commissioners and financial intermediaries in developing payment by results interventions.

The main general changes in EFSI 2.0 relate to increased transparency; larger proportion of environmentally sustainable projects; a greater focus on smaller projects; more technical support at the local level and to improving the business environment in the EU.[32]

In addition, EFSI 2.0, in its introductory recitals, notes the importance of an increased focus on social enterprises and social services: "In line with the exceptional market demand for SME financing under the EFSI which is expected to continue, the EFSI SME window should be enhanced. **Particular attention should be paid to social enterprises and social services, including through the development and deployment of new instruments that are adequate for the needs and specificities of the social enterprises and social services sector."[33]**

In fact, **the increased focus on social enterprises and social services** mentioned in the recital has been translated quickly into actions, still within the timeframe of EFSI 1.0 (for instance, the topping up of the EaSI instrument and the launch of the three specific instruments under EFSI equity – see sections above).

This increased focus on social enterprises and social services, the fine-tuning of delivery instruments and stronger focus of linking EFSI with other existing instruments (e.g. EaSI) could support use of EFSI in social investment and skills development.

Table 1.7: provides further detail about the key changes brought about by EFSI 2.0 with potential implications for investment in skills development and human capital.

Table 1.7: Changes in EFSI 2.0 with the potential to stimulate investment in skills development

Area of change in EFSI 2.0	Description	Implication of change for social investment
Smaller projects & investment platforms	- EFSI 2.0 (further)[34] encourages the EIB Group to help national promotional banks set up investment platforms to bundle several small-sized projects by theme or by region in order to attract investors (Article 6). - The EIB shall, where appropriate, delegate the appraisal, selection and monitoring of small-scale sub-projects (i.e. projects where the EFSI contribution is below € 3 million) to financial intermediaries or approved eligible vehicles, in particular investment platforms and national promotional banks or institutions (Article 9)	 + could ease social investment since these are typically small scale

[32] European Commission, 2017. The Investment Plan for Europe. Extension of the European Fund for Strategic Investments. Available at: https://ec.europa.eu/commission/sites/beta-political/files/efsi-2.0-factsheet_en.pdf [Accessed on 10 May 2018].

[33] Regulation (EU) 2017/2396 §23 (p. L 345/35)

[34] Already under EFSI 1.0, the legal basis provided no restriction on the size of projects eligible for EFSI support for the operations conducted by the EIB or the EIF via financial intermediaries.

Area of change in EFSI 2.0	Description	Implication of change for social investment
European Investment Advisory Hub	The new legal base also extended the mandate for the European Investment Advisory Hub (EIAH), which is run by the EIB. The new mandate includes the following elements: - providing a single point of entry for technical assistance for authorities and project promoters; - assisting project promoters, where appropriate, in developing their projects so that they fulfil the EFSI eligibility criteria; - leveraging local knowledge to facilitate EFSI support across the Union and contributing actively where possible to the objective of sectorial and geographical diversification of the EFSI referred to in Section 8 of Annex II by supporting the EIB and national promotional banks or institutions to originate and develop operations, in particular in less-developed and transition regions, and, where necessary, by helping to structure demand for EFSI support; - providing a platform for peer-to-peer exchange and sharing of know-how regarding project development; - providing pro-active, advisory support, where necessary, by means of local presence, on the establishment of investment platforms, in particular cross-border and macroregional investment platforms involving several Member States and/or regions: - using the potential of attracting and financing small-scale projects, including through investment platforms; - providing advice on the combination of other sources of Union funding, such as the European Structural and Investment Funds, Horizon 2020 and the Connecting Europe Facility established by Regulation (EU) No 1316/2013, with the EFSI with a view to resolving practical problems linked to the use of such combined sources of funding	 + social investments need local TA support + investment platforms will be facilitated + combination of EFSI and ESIF will be facilitated

Source: ICF own review based on Regulation (EU) 2017/2396

3. FINANCING MODELS FOR EFSI FUNDING OF SKILLS DEVELOPMENT: LESSONS FROM PRACTICES AND USE CASES IN SELECTED MEMBER STATES

KEY FINDINGS

- Interventions identified as potential prospects for EFSI support are: Payment by results for educational and training outcomes; loan funds to students and adult learners to increase participation and skill level and/or provision of credit risk cover to financing of students; and more conventional public-private partnerships.
- The findings in this study reinforces EESC's statement of the important role of social finance in meeting social needs (see EESC, 2016, p.62). This study presents examples in the surveyed countries (Denmark, Finland, France and Italy) where socially motivated repayable finance provides capital for the achievement of social outcomes, and enables the delivery against 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. As such, this study specifically focuses on ALMP-measures identified in the surveyed countries.
- Three broad types of interventions that might benefit from EFSI support have been identified in this as well as previous studies (see ICF, 2017): Payment by results interventions, loan and loan guarantee facilities, and public-private-partnerships. This study adds to previous research by extensively exploring Social Impact Bonds as possible arenas for the usage of EFSI funds.
- While the integration of the private sector in social interventions can enable flexibility, efficiency and the delivery of better services and outcomes, there are still challenges to the use of EFSI for purposes of supporting human capital, mainly related to scaling up to a size attractive enough to yield attention from private investors.

3.1. Recap of funding models

Based on our country research and literature review, there are three broad types of interventions that the study team has identified as potential prospects for EFSI support in the area of skills development, especially in the field of ALMPs:

- Payment by results for educational and training outcomes, paid for by government as commissioners, justified on the basis of the fiscal benefits that are considered to accrue and by the impact that the project would have;
- Loan funds to students and adult learners to increase participation and skill level and/or provision of credit risk cover to financing of students, including apprenticeships, adult learners etc., as well as loan funds to cover skills acquisition in general;
- More conventional public-private partnerships (PPP) to leverage investment into the supply and refurbishment of education buildings (under the IIW).

Discount by result schemes found in Italy can be considered a mix between PbR and loan funds.

This is partly in line with other types of financing models specified in the literature (see the box below).

The High-Level Task Force on Social Infrastructure (2018) recommend the below funding solutions for promoting investment in social infrastructure:

Short term (2018-2020):

1) Investment platforms: in order to attract private capital and participation in the sector, the investment platform should have a blend of different financing such as grants, subsidies, guarantees and financial instruments;

2) Social impact bonds: the issuing of social bonds should be promoted

3) Payment by results: learn from schemes paying for results and further develop social impact schemes;

4) Data and standard setting for impact investing: need to be promoted and developed as well;

Medium-term (2020-2022):

5) Setting up of a public-private fund dedicated to social investment: this can be explored by opening up the equity capital structure to long-term investors;

Long-term (beyond 2022):

6) The fund becomes one of the main European instruments for financing social investment and infrastructure and the new model for financing EU social infrastructure is operational.

Source: EESC, 2016. The investment plan and the Social Pillar: a step towards a new strategy for Europe. p. 62-63

EESC (see EESC, 2016, p. 62-63) list four types of investment approaches that are relevant for social investments:

1) Outcome based contracts: such as SIBs or Payment by Results.

2) Investments aimed at achieving scale: such as financing small schemes to achieve scaling

3) Working Capital: an investment to finance the time-lag between spending money and collecting income. This can be useful for grant payments arriving in arrears.

4) Financing of assets (including properties in residential care): such as charity bonds, that are issued related to this investment.

Source: Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe. Discussion paper 074, January 2018. p.x.

3.2. Various funding models within the skills development space…

In the case of intangible assets, the opportunities and associated risks may satisfy 'additionality' concerns, but the level of return may be too low to support EFSI involvement, as discussed above. The range of intervention types discussed below reflect the wide range and variety of target social outcomes.

Various PbR projects are currently being set up with pilots of c. € 0.5 million to € 6 million within the EU. A payment by results (PbR) project with an outlay in the order of, say, €1 million is expected for local, municipal scale interventions in education and training opportunities, whilst bigger interventions such as the €10 million Koto-SIB discussed further below remain the exception.

Across a Member State or across multiple Member States, there may be a significant number of alike opportunities amounting to €50-100 million overall when aggregated under an investment platform. However, assembling the projects into a portfolio / platform, to which many investors could confer resources, is likely to be a major undertaking, requiring considerable up-front funding, due diligence and patience at the side of project promoters, platform sponsors and investors.

In the case of cross-border or national student loan fund proposals, these represent a different scale of opportunity, easily surpassing €50 million depending on scale and scope.

Investment opportunities based on tangible assets, especially educational buildings, represents a bigger opportunity in value, and continue to be supported by conventional EIB lending. However, such opportunities have not been the focus of the country research conducted and presented below.

3.3. …but a remaining nascent stage of projects and design of interventions

Establishing the possible range of investment return for different investment opportunities is difficult given the embryonic nature of projects and their diversity, as well as the lack of robust reviews of achieved (as opposed to estimated) returns. In the case of social investment, the return depends heavily on the government view as to the value of a given social impact, in part informed by estimates of future cost savings (from avoiding social problems) and tax receipts from higher earnings. Experience of UK SIBs is that returns in the range of 4-7 per cent may be possible over the contract period (typically 3 years). For loan funds, higher returns of, say, 10 per cent per annum may be viable.

The development and design of interventions to deliver skills development outcomes using social or private finance is still highly immature, and there is only slow cross-border learning between project promoters taking place. Individual interventions often follow a bespoke governance and funding model reflecting the variety of legal, institutional and political frameworks.

The only notable exception to this could be larger interventions such as the provision of credit risk support on student financing to loan funds for adult learning or student support (skills acquisition, in general), where bespoke governance and funding arrangements would be taken forward by large individual investors given the significant scale of such funds. Such interventions might be particularly viable when focussing on a student population that is not being supported by existing commercial lending, or is too risky to be taken up by a national promotional institution without further guarantees. Examples could include products to complement the current Erasmus+ programme in support of sizeable segments of students who are not being covered by such programmes, e.g. supporting domestic students, apprenticeships, adult learners etc in countries which do not have accessible commercial lending and a high reliance on the parental guarantee or other types of guarantees. It should also be considered innovative deployment methods of EU support currently being piloted in the Erasmus+ facility, where e.g. the guarantees can be issued to universities/higher education centres which in turn would be able to offer the financing to the students for their studies thanks to the availability of such guarantee.

Furthermore, feedback from EIF suggests there is a certain level of interest shown from financial intermediaries and commissioners in the piloting of further PbR projects in addition to the Finnish Koto-SIB. Such further pilots would be key in further bringing scalable dimension to the support that EFSI can provide to the social impact system, including in the human capital sector.

3.4. Practices and use cases identified at country level

Key findings from case studies (Finland, Denmark, France and Italy)

- There appears to be an appetite for using innovative financing measures in the area of ALMPs in all four countries, albeit the market is at different stages of development in the different countries. France has a limited experience with PbR schemes whereas the usage of PbR is far developed in Denmark. Experiences from experimentation or pilots in the countries have been positive so far.
- Key in the interventions studied is the cooperation between a national coordinating institution, either a public employment service or ministry/municipality (or public innovation fund as in Finland), and at least one financial institution/fund using private money.
- Setting up the intervention appears to be costly and time-consuming, as there is no common structure to follow as well as the high level of initial risk. EFSI financing could be useful to make the establishment, development and structuring of future SIB-programmes less costly for operators by automating the financing, the structuring as well as the pay-awards for future SIBs.
- There seems to be a need for more demonstrated examples whereby institutional investors (e.g. CDC group) and social impact investors help projects go to the next stage via higher ticket sizes. Also, in countries like Finland, there are few impact investors.
- EFSI funding have been suggested to be used for scaling-up interventions, as a guarantee for shielding against initial set-up risk as well as simply contributing with funds in the absence of suitable investors (mainly in terms of size). It has also been suggested to be used in potential dedicated investment funds.

In the light of relatively scarce amount of EFSI-funded investments in skills development, this section aims to illustrate selected practices and use cases of innovative use of private finance in the area of skills development. The case descriptions cover in detail the investment context, various actors and their respective roles in service provision, the framework for project delivery as well as the aggregation potential and potential role of EFSI. The identified practices and use cases stem from four countries that were subject of in-depth country research (Finland, Denmark, France and Italy). The final selection of countries covered in this report aims to serve as a non-representative but purposive selection of best practices and use cases that might be transferred to other EU Member States.

This purposive selection of country case studies was made on the basis of the following:

- The extent to which previous mapping studies had already covered certain countries;
- Whether recent examples of EFSI support to skills development investments, in particular in intangible assets, and any recent initiatives introducing ALMP programmes, could be identified;
- Relative spending on AMLP measures as proportion of Gross Domestic Product, compared to other European countries;
- Existence of delivery infrastructure for impact investing, i.e. the existence or absence of a well-established promotional institution, coherent and mature third sector, social

enterprise sector, as well as the extent to which these interact with organisations delivering labour market initiatives.

In summary, the table below presents our rationale for selecting the four countries discussed in depth against these selection criteria.

Table 1.8: Rationale for selection of country case studies

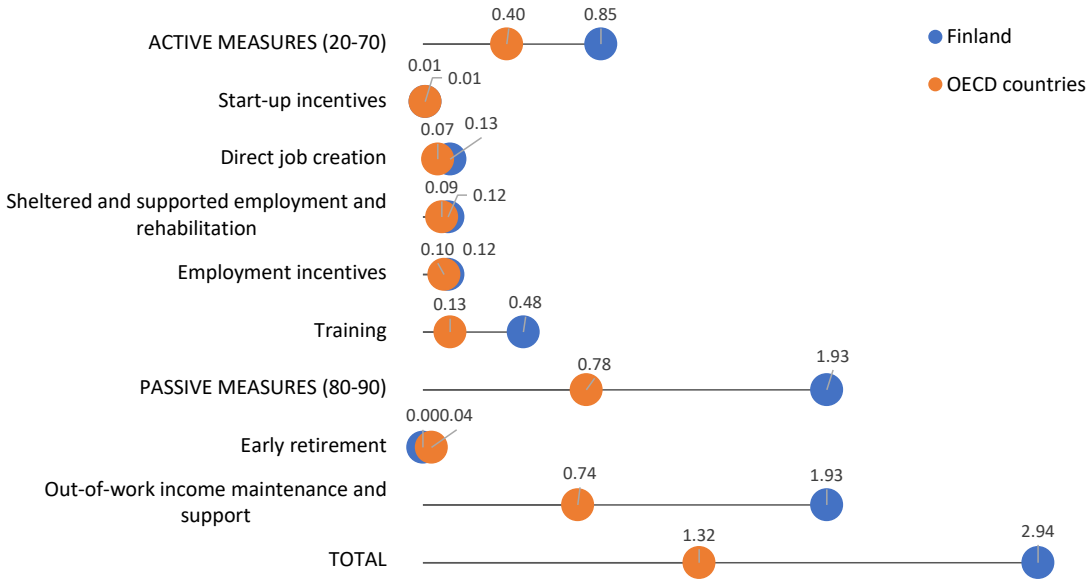
Country	Rationale
Denmark	Highest relative spending on ALMP as proportion of GDP across Europe. Well established social enterprise sector.
Finland	Recent example of an EFSI-supported social impact bond (Koto-SIB), established provision structure and higher than OECD average AMLP spending as proportion of GDP. Well established promotional institution (Vækstfonden) and existing impact investors (Den Sociale Kapitalfond).
France	Well established social enterprise market, and national promotional institution active in impact investment. Recent AMLP measures, including a national action plan against long-term unemployment. Also existing examples of using financial instruments in the social enterprise sector.
Italy	Established third sector, recent examples of results-based investments and financial intermediaries engaging in impact investment. Increased interest in AMLP recently, and a well-established promotional institution.

3.4.1 Finland

The Finnish government invests about 7 per cent of its total education and training expenditure to adult learning, a considerable amount in international comparison.

As a share of GDP, Finland spends more than twice the proportion than its peers on active labour market policies (0.85 per cent against 0.40 per cent) as illustrated in Figure 1.4:. This is mainly due to higher spending on training allowances and direct job creation, with other spending on ALMP being on par with other OECD countries. Passive labour market measures represent 1.9 per cent of GDP in Finland in 2015, against 0.78% on average in OECD countries.

Figure 1.4: Public expenditure by type of active measure policy, as a share of GDP



OECD (2018), "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en (accessed on 31 March 2018).

Stellar PISA rankings but with high unemployment and poor immigration

The country's stellar PISA rankings put the Finnish 15-year olds among the world-leaders in mathematics, science and reading. In 2015 Finland surpassed the OECD average on all components of the PISA measurement, besides impact of social background and the share of immigrant students.[35]

Nevertheless, Finland is also a country that struggles with structural problems such as high unemployment among native and immigrant Finns as well as poor integration of migrants. Compared to its other Scandinavian neighbours, Finland has the highest unemployment rates among both natives and foreign-born. In 2016, 8.7 per cent of the total native-born labour force[36] was unemployed[37] and the country has the third highest foreign-born unemployment among the OECD countries (only Greece and Spain have higher). In 2016, 17.6 percent of the total foreign-born labour force was unemployed, as compared to 15.9 per cent in neighbouring Sweden, 11.4 per cent in Denmark and 9.7 per cent in Norway.[38] Moreover, while the most recent numbers show a fall in the long-term unemployment (continuous unemployment for 1 and 2 years), the levels are still higher than pre-crisis

[35] PISA, 2015. Scores for Finland. Available at: https://www.compareyourcountry.org/pisa/country/FIN?lg=en

[36] The native-born unemployment rate is calculated as the share of unemployed native-born persons aged 15-64 in the native-born labour force (the sum of employed and unemployed native-born) of that same age that report being without work during the reference week, are available for work and have taken active steps to find work during the four weeks preceding the interview. The same approach is used for the calculation of the foreign-born unemployment.

[37] OECD, 2016. OECD Data Native-born unemployment. Available at: https://data.oecd.org/migration/native-born-unemployment.htm#indicator-chart

[38] OECD, 2016. OECD Data Foreign-born unemployment. Available at: https://data.oecd.org/migration/foreign-born-unemployment.htm

levels.[39] Employment services are traditionally provided via 15 local Employment and Economic Development Offices (TE Offices) with 120 branches.[40]

Besides the additional funding from the government, Finland has been exploring alternative models for solving some of the challenges in the employment and skills development area.

A variety of SIBs and PbR initiatives in Finland with a similar goal

Municipalities and the government have deliberately introduced efforts to aid the country's structural problems. Besides from some government reforms and financial support (described below) Finland has started efforts to employ social impact investing as solutions to the societal problems.

Table 1.9: Summary of current and planned SIBs in Finland

Name	Mechanism	Principal	Fund size	Time period/launch
Rapid employment and integration of immigrants (Koto-SIB)	Payment by Results based on employment. Bonus payments based on results	Ministry of Economic Affairs and Employment; Epiqus; EIF	€ 14,2 million	Started in beginning of 2017
Promoting employment	Focus on the long-term unemployed. Government outsource employment services and pay based on tax savings. Outcome will be employment.	Ministry of Economic Affairs and Employment	€ 10 million*	To be launched 2018
Promoting occupational well-being in the public sector (TyHy-SIB)	Service produced on basis of SIB funding. Public sector employer organisations act as a bonus payer. Provides municipal/state employers with a service package to promote occupational	Public sector employer organisations; (Fund manager yet to be decided).	c. € 0.6 million	Started 2015

[39] Ministry of Economic Affairs and Employment (MEAE), 2017. Employment bulletin, February 2018. Available at: http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/160702/TKAT_Feb_2018_en.pdf

[40] TE-palvelut, 2017. Home> How to use the services > Contact information. http://www.te-palvelut.fi/te/en/information/use_te_services/contact_information/index.html

Name	Mechanism	Principal	Fund size	Time period/launch
	well-being and so reduce sick leaves in their organisations. Outcome: reduction in sick leave + other (measurable) positive developments			
Promoting the well-being of children, families with children and youths	SIB targeted at achieving measurable improvement of welfare and having no more NEETs (NEET – Not in Employment, Education or Training). 50 innovative service providers listed in the SIB. SIB's return on invested capital: Initial target 2-5%, but may change.	FIM Asset Management Ltd in co-operation with Central Union for Child Welfare (LSKL) and Epiqus. Pilot cities: Vantaa, Oulu, Tampere, Hämeenlinna.	Target size: € 5-15 million	To be started
Supporting self-care for senior citizens	More independent years at home compared to current situation in certain age groups.	Municipalities/ regional authorities	Expected: € 10-15 million*	Scheduled launch early 2020 – currently in planning stage
Prevention of type 2 diabetes	Decreased prevalence of type-2 diabetes/overweight	Ministry of Social Affairs and Health and/or regional authorities	Expected: € 5-10 million*.	Scheduled launch early 2020 – currently basic modelling

Note: asterisk (*) indicates that the fund size is just a tentative estimation for the first stage.

Source: Sitra, 2018. Note on impact investing and interview.; Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Presentation by Mika Pyykkö 29 November 2016.; Sitra, 2018. Lasten ja nuorten SIB lähtökuopissa! Siis mikä? [Q&A on the SIB for Children and young people] https://www.sitra.fi/artikkelit/lapset-ja-nuoret-sib-kysymyksia-ja-vastauksia/; Sitra, 2018. Social Impact Bonds in Finland – a new and innovative funding strategy. ESN Conference 2017 / Workshop 11, Presentation.; Ministry of Economic Affairs and Employment. Interview on 17 April 2018.

A crucial actor in the development of SIBs in Finland is the Finnish Innovation Fund Sitra (hereby only "Sitra"). Sitra is an independent "future-oriented" foundation, engaging in the investigation,

exploration and development of operating models in close cooperation with responsible operators to support public administration. In the creation of the SIBs, Sitra acts as an advisor on how to prepare for these agreements to various parties such as the public sector, project administrators and service providers. Moreover, Sitra supports local authorities with financial and operational modelling of their well-being projects.[41]

Impact investing reached its breakthrough among Finnish investors in 2016 and since then several organisations have engaged in impact investing. Besides Sitra, some examples of the private investors are the We Foundation, the SOK Corporation, the Orthodox Church of Finland, Tradeka, the City of Espoo and some private individuals.

There are currently six social impact bonds schemes (from now on referred to as "SIB" or "SIBs") underway or set for launch in Finland. These are summarised in Table 1.9:

Moreover, around 30 future SIB projects are planned by Sitra for different parts of Finland. Those will be focused on everything from providing welfare for children, families with children and young people to providing senior citizens with the ability to live independently and to enhancing employment opportunities for the unemployed.[42]

SITRA has also piloted an eight-weeks training and mentoring programme aimed at companies and for-profit organisations preventing youth marginalisation and the promotion of immigrant integration (as well as loneliness among senior citizens). The Impact Accelerator concept helps improve the participants' competence on effectiveness and revenue generation, and help them grow and get better opportunities for seeking external funding.[43]

While no number on the financial gains from these efforts was provided by the research, it is estimated that the financial benefits from the SIBs will be substantial, "totalling as much as hundreds of millions of euros" over the next 5 to 15 years.[44]

Besides from the estimated financial impact there appears to be a behavioural change among service providers occurring as a result of the Koto-SIB. The incentive structure, based on payment by results where the government pays back 50 per cent of the tax savings to the service provider, has fostered cooperation among the service providers that are tasked with finding a job for the immigrants.[45]

Nevertheless, there has been no measures of the impacts so far, partly due to the short period of implementation of the SIBs. Moreover, due to the long-term nature of these activities, where the costs are created at one-time period and the societal gain (the value for the government) in terms of tax savings materialises at another time period, measuring effects becomes difficult in the short term.

Existing examples of Payment by Result mechanisms in Finland focusing on skills development

Two of the SIB-projects in Finland are in the area of employment and skills development. The first one focuses on supporting employment and integration of immigrants in Finland (the Koto-SIB) and was

[41] Sitra, 2017. SIB funds what is it about? Available at: https://www.sitra.fi/en/projects/sib-funds/#what-is-it-about
[42] Sitra, 2017. SIB funds what is it about? Available at: https://www.sitra.fi/en/projects/sib-funds/#what-is-it-about
[43] Sitra, 2017. SIB funds what is it about? Available at: https://www.sitra.fi/en/projects/sib-funds/#what-is-it-about
[44] Sitra, 2018. Note on Impact Investing [Provided as part of interview with Pyykkö, M.].
[45] Sitra, 2018. Note on Impact Investing [Provided as part of interview with Pyykkö, M.].

launched in June 2017 with support from the EIF46. The second SIB is currently under preparation and will focus on the long-term unemployed (the Employment-SIB). The latter will also build on the former as the same approach will be used as for the Koto-SIB but the focus will be expanded to all long-term unemployed.

In terms of fund size, The Koto-SIB is the largest SIB in Europe and the second largest in the world[47] mobilising a total of € 10 million from the EIF[48]. Aimed at facilitating integration of immigrants as well as ease the shortage of labour and lead to public savings by increased tax revenue, the Koto-SIB is targeting to bring 2,500-3000immigrants into gainful employment over the coming three years.

The Koto-SIB works as a match-making scheme, where the Ministry of Economic Affairs and Employment and the Employment Office, outsource the employment service to companies, who in turn are tasked with matching job seekers with available jobs. There is also a training component provided by the assigned companies, where the job seekers gain skills such as vocationally oriented language and other training needed to support finding employment. Participating sectors share the common challenge of finding workers, and range from the manufacturing industry, building, trade and services, as well as jobs in academic sectors. The Koto-SIB is managed by an impact investing fund manager, Epiqus Oy, who collects funds for the activity. The Employment and Economic Development Offices steer the customers to participate in the project.[49]

In the Koto-SIB the state only pays for the outcome, which is based on the tax revenues collected from the target group (those job-seekers that are part of the programme) as compared to a reference group. If the target group pays more taxes than the reference group then the government pays half of that surplus to the service provider and keeps the other half for itself. Moreover, the Koto-SIB is developed to incentivise a high value of the service delivery from recruiters: Companies that give the training get an extra bonus if the person they have trained receives employment, there are bonuses for companies that have found the open position if the person stays in the job for 13 months and if the person gets a salary over a certain level. The Koto-SIB is currently at the implementation phase and has been launched in the regions of Uusimaa and Southwest Finland and will be extended to other regions where there is a shortage of labour.[50]

The employment-SIB is the second SIB within the thematic area of this study. It will build upon the Koto-SIB, but focus on long-term unemployed regardless of their background. The Employment-SIB is slightly delayed but planned for launch in autumn 2018 when it will be rolled out only to certain areas of the country. The Ministry of Economic Affairs and Employment (referred to as "the Ministry") is currently negotiating with different partners and are making contacts with participating companies. As of late February 2018, the Ministry was close to signing a contract with a service provider.

[46] EIF, 2017. Investment Plan for Europe: First social impact bond scheme in Europe supports integration in Finland. Available at: http://www.eif.org/what_we_do/equity/news/2017/efsi_epiqus_payment_by_results.htm

[47] Sitra, 2018. Note on Impact Investing [Provided as part of interview with Pyykkö, M.].

[48] European Commission, 2017. Investment Plan for Europe: First social impact bond scheme in Europe supports integration in Finland. Press release 2 June 2017. Available at: https://ec.europa.eu/commission/commissioners/2014-2019/katainen/announcements/investment-plan-europe-first-social-impact-bond-scheme-europe-supports-integration-finland_en

[49] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[50] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

In this Employment-SIB the Ministry will also be the purchaser of the impact units delivered by the unemployment services which they outsource to private providers. These private providers will ensure there is a match between the long-term unemployed and the market's needs in terms of skills. Medium and small enterprises are expected to gain as well because they will face a smaller risk when hiring people and the programme will thus boost their SMEs to hire new people through this intervention.

There are currently also two pilot schemes testing the payment by result (PbR) mechanisms using public money only, as mentioned by the Ministry of Economic Affairs and Employment. One is focused on employment, where the Ministry of Economic Affairs and Employment has contracted out some employment services to private providers to help job seekers find a job. The private providers are then paid by the Government with public money conditional on that they succeed in finding a job for the job-seeker. The payment criteria are the achieved employment.

The second pilot using public money for PbRs targets young people and aims to get them into either employment or secondary level education. If the private provider can help those young people find training or enrol into secondary school, the government pays the providers using public funds. The government has allocated € 15 million for this PbRs pilot scheme.

Finally, the social enterprise Integrify[51] is an example of how start-ups can, in an agile way, pick up market failures and turn them into opportunities that benefit not only investors but also the society. Integrify is a programming school for educated immigrants in Finland that speak English. The programme is goal-oriented, offering intensive, short -term training for candidates with the aim to get them into programming jobs. The training is a six-month programming course followed by an internship of the same length of duration. Moreover so, Integrify matches their candidates with potential employers. The goal at the societal level is to solve the very expensive problems of low integration of immigrants into the labour market and to also relieve the vast shortage of coders currently existing in Finland[52]. Integrify have started their first round of classes (outside the pilot) in late 2017 and as of June 2016 they will have provided education within programming to 60 immigrants. Despite the very short term, the example of Integrify has proved very successful: Depending on who is investing, for every € invested in financing the project, the return would be € 8 in five years' time. Moreover, 4 out of 10 of the students involved in the current batch ending in May 2018 are already employed and the rest are going to job-interviews on a weekly basis.

Moreover, Integrify has established working arrangements with the city of Helsinki. The City was involved in the pilot-programme with five participants in 2016. It is estimated that the city will have saved around € 200,000 per graduate in the pilot programme over five years, once they are off benefits and start paying income tax[53]. Integrify is also currently involved in a PbR-scheme together with the city of Helsinki, who is purchasing the service from Integrify in the shape of a course starting in June 2018. The payment to Integrify will be based on the obtained results in terms of employed people after the course.

[51] http://www.integrify.fi/

[52] Sitra, 2017. Integrify turns immigrants into programmers – it takes six months of discipline and a high tolerance for sitting, article published November 15, 2017. Available at: https://www.sitra.fi/en/articles/integrify-turns-immigrants-programmers-takes-six-months-discipline-high-tolerance-sitting/ [Accessed on 18 April 2018].

[53] Integrify, 2018. For Public Entities - Integrify Benefits Society And The Economy. Available at: https://www.integrify.fi/public_entities [Accessed on 18 April 2018].

Changing Finnish government structure and an appetite for impact investing solutions

The two SIBs in the employment and skills development area have sprung up in response to the current societal problems in Finland. There are two main reasons for why the SIB-model have been the focus for Finland: Firstly, the Finnish Government has experienced a sustainable budget gap and most municipalities struggle financially. Secondly, effective and preventative measures are not pursued or implemented due to a lack of money for up-front investment.[54] Thus, the current structure to deliver effective services to help overcome unemployment and integration issues is not effective, and spurred the government to test alternative approaches.

An interviewee highlighted that the lack of resources as well as gaps in the current infrastructure to support a roll out to the entire Finnish market as major limitations for the Employment-SIB. Traditionally labour market training has been outsourced to private providers from which the employment office only bought some services. Now, the government is looking to outsource the entire employment service to private providers. The successful outlay of this and the Employment-SIB requires a novel infrastructure, in terms of designing evaluation, setting targets, contract negotiation, setting prices and evaluating SIB-results and outcomes. Such a structure is very different from the traditional Finnish employment service model where private service providers historically were more of a peripheral actor rather than a central one, as they would be under the Employment-SIB. Thus, Finland is actively working on private service providers a more central role of their operations.

Finland is currently building this infrastructure alongside a current reorganisation of the governmental system.[55] This restructuring change involves a higher degree of centralisation of the social, health and employment services as well as to increase the market based service provision for the employment services. By 2020 the aim is that Finland will rely on market based service provision for the employment sector, where the newly established regional counties will be responsible for the outsourcing of employment services.

This also includes national reforms in vocational education and training as well as adult learning. The most recent ones were introduced in 2017 where the Ministry of Education and Culture earmarked € 20 million for subsidising vocational education and training for immigrants under the Vocational skills for immigrants programme. The aim of the programme is to aid a swift labour market integration of asylum seekers and people with an immigration background as well as to strengthen their education and language skills. Based on the belief that education and work are the best ways to integrate immigrants, the programme has the goal to have 2,000 new students in 2017.[56] Moreover, discussions have sprung up regarding whether social contracting schemes can be used in developing vocational training in Finland. This is still in a very initial stage, but a discussion has been initiated earlier in the spring of 2018 between Sitra and the Confederation of Finnish Industries, representing several of Finland's most important trade unions.

[54] Sitra, 2018. Note on Impact Investing [Provided as part of interview with Pyykkö, M.].

[55] The restructuring also includes reducing the number of counties and establishing new ones. Currently Finland has 300 counties with a population of 5 million people.

[56] Eurydice, 2017. National Reforms in Vocational Education and Training and Adult Learning. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Finland:National_Reforms_in_Vocational_Education_and_Training_and_Adult_Learning

A positive potential of EFSI, challenges and lessons for the future

Interviewees are positive on the possibilities to aggregate the existing SIBs in employment and integration. As a matter of fact, the type of intervention deployed with the Koto-SIB will be extended nationally into the planned employment-SIB, where the beneficiary group has been expanded to all long-term unemployed. Moreover, EIF and Sitra hope to be able to scale both the Koto-SIB and later the Employment-SIB to other countries. Nevertheless, while funding models and their characteristics can usually stay the same, circumstances such as tax and finance regulations were highlighted as important to consider especially to when expanding to eastern European countries.

One interviewee mentioned that there are many opportunities to use private money to improve preventable problems in Finland but the issue is how to challenge the public sector and allocate the resources in the most effective way. Nevertheless, interviewees considered EFSI resources a viable support mechanism for piloting and scaling up impact investing solution if the individual project structure is attractive for private investors, and a project promoter (such as Sitra) or anchor investor (such as EIF) are able to do the "ground work" to build the investment case and make the projects bankable.

The EIF has been instrumental in the setup, structuring and financing of the KOTO SIB. Due to the piloting phase of development of the PbR market, EIF support is needed and requested within many EU member states starting to launch PbR contracts. As a result, EIF and EFSI support to Finland in the social impact investing sphere is crucial to enable and build a market infrastructure for this emerging area. Indeed, through EFSI, EIF is bridging a funding gap as there are few investors that would be suitable (size-wise) to invest or interested in the social and financial returns. There are large and inflexible pension funds that would not be interested in the relatively small investments needed and other investors tend to focus solely on profits or financial returns, while overlooking the social returns. Nevertheless, indicated by several interviewees, using EFSI beyond infrastructure investment is something that is highly anticipated in Finland, and the country is keen on sharing its experience especially with directing the public sector to make more impactful acquisitions with other countries. As one interviewee summarised it: "We are ready to sell our experiences to help other countries to develop something similar". The EIF is already marketing its expertise and experiences with PbRs toward EU member states, in order to support, through EFSI, the deployment of PbR pilots within the EU.

Therefore, along with the historical involvement of the EIF in the Koto-SIB, there is a case for EFSI funding in the field in Finland, but also in other EU member states. There are however factors to be taken into account when scaling and that other countries can learn from the Finnish cases.

The first lesson is the need to adjust the programmes to the specific market. While the Project manager for the Koto-SIB in Finland mentioned that all the existing SIBs in Finland can be used in any European market, the concept needs to be somewhat tailored to the specific market. For instance, Epiqus has built a similar SIB-model for Serbia, which they had to adjust to the specific Serbian market. While funding models and their characteristics can usually stay the same, circumstances such as tax and finance regulations were highlighted as important to consider especially to when expanding to especially Eastern European countries. Moreover, expanding to the Nordic markets would be the first step in a Finnish expansion, simply because they all have the same problems as in Finland. Also Integrify mentioned the need to adjust the offering to the specific market at hand.

Secondly, there is a need to establish who pays and who gains. Another potential challenge in scaling the employment-SIB internationally relates to the problems arising from having different actors being the payer and the gainer from the results. While investment can come from different countries,

there is a strong national emphasis in terms of activities and the results, posing the question of who will pay for the results in the end. A related challenge in expansion is what parts of the public sector at both the national and international level will benefit from the results and who will pay for them. The question of who gains and who pays needs to be sorted out before an aggregation can be viable.

Future usage of EFSI

Finnish actors are overall positive on the use of EFSI in the future and only few challenges have been mentioned. One interviewee stated that there are many opportunities to use private money to improve preventable problems in Finland but the issue is how to challenge the public sector and allocate the resources in the most effective way. Nevertheless, interviewees considered EFSI resources a viable support mechanism for piloting and scaling up impact investing solutions if the individual project structure is attractive for private investors and a project promoter (such as Sitra) is able to do the "ground work" to build the investment case and make the projects bankable.

Another interviewee mentioned that EIF could indeed also be involved in the future Employment-SIB. EIF's role could be to make an investment in the Employment-SIB once it starts, making a financial contribution to the project. More so, EIF and EFSI support would also be welcome in the social impact investing sphere of a small country like Finland, simply because few existing investors suitable (size-wise) to invest in social returns. There are large and inflexible pension funds that would not be interested in the relatively small investments needed and other investors tend to focus solely on profits or financial returns, while overlooking the social returns.

On the other end of the spectrum, start-ups working with solving Finland's problems at the grass-root level, might struggle with financing to establish themselves, survive or grow their operations. As indicated by Integrity, financing is their biggest bottleneck for international expansion and growth. As such, solutions like SIBs, payment by results and the like could be effective for funding their programmes, especially as the results from their operations can be seen in one or two years-time. In the light of very long and not very dynamic government cycles, taking help from EU (e.g. via EFSI) via social impact bonds, would be a more effective way to establish working arrangements with governments and to scale the programme faster.

Therefore, along with the historical involvement of the EIF in the Koto-SIB, there is a case for EFSI funding in the field of skills development in Finland. As such, EFSI can play different roles in Finland. One interviewee mentioned that EFSI can either be used for outcome funding, and so finance the payments made to service providers based on their results, or it can be directly used to support the operations of organisations that are delivering the services.

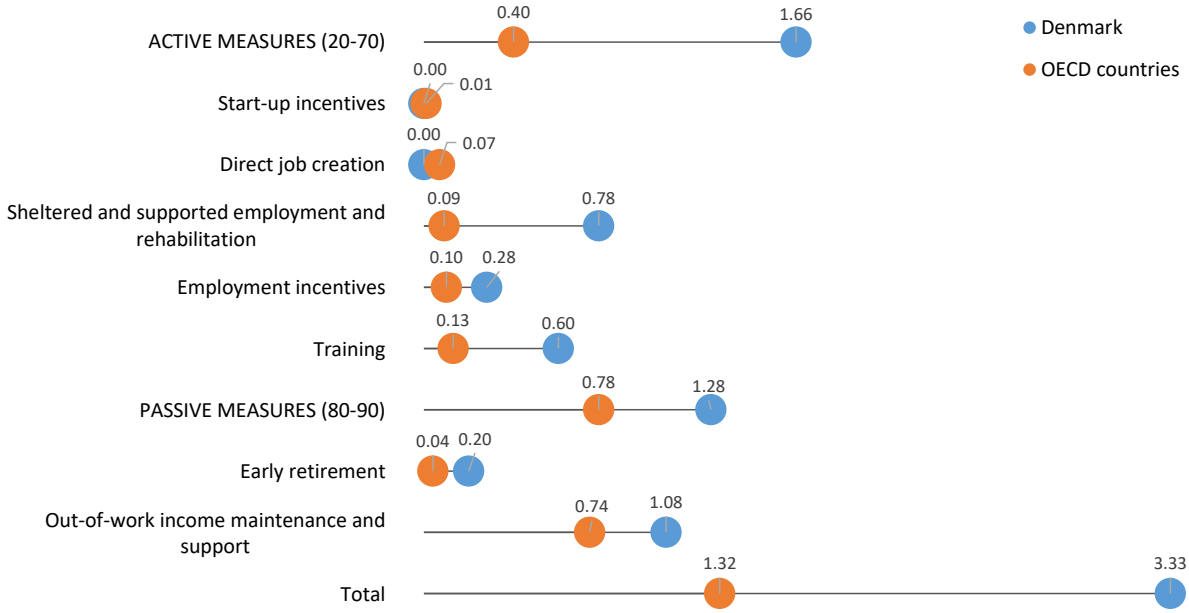
3.4.2. Denmark

As a share of GDP, Denmark spends more than four times more than the average OECD country on active labour market policies (1.7 per cent against 0.4 per cent) as illustrated in Figure 1.5:. This is mainly due to higher spending on sheltered support and rehabilitation, employment incentives and training allowances, whilst direct job creation is given less attention compared to other OECD countries. Danish job centres are responsible for executing ALMPs in the country. Passive labour market measures represent 1.3 per cent of GDP in Denmark in 2015, against 0.78% on average in OECD countries. This is lower than any of the other four countries reviewed in detail as part of the present study.

The public provision of employment services occurs via so called "job-centres", at the municipality level. Municipalities decide the ALMP activities for the local offices and has autonomy in investing in the measures the Municipality believe would yield the best results. The municipalities also cover some of the unemployment benefits. There are 94 municipal job centres in Denmark, with almost all the 98

municipalities in Denmark having one job centre. Should a municipality not have a job centre it usually collaborates with other municipalities. It is the primary responsibility of the job centres to get unemployed people into employment or to education and get young people into training.[57]

Figure 1.5: Public expenditure by type of active measure policy, as a share of GDP



Source: OECD (2018), "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en (accessed on 31 March 2018).

Denmark's challenges: sluggish growth, inequality and barriers to work

As of 2016, Denmark had high living standards as well as wellbeing, compared to international standards. Nevertheless, productivity and output growth are still fragile and GDP per capita is below pre-crisis levels. Moreover, despite having the lowest GINI-coefficient among the OECD countries, inequality is on the rise in Denmark. Especially prominent is the inequality between native and foreign-born Danes, both in terms of employment and income, but also inter-generational inequality. Compared to international standards, the income inequality between foreign-born and native-born is high in Denmark[58]: in 2016, 11.4 per cent of the total foreign-born labour force was unemployed in Denmark[59] as compared to 5.5 per cent of the total native-born labour force[60]. This is frequently linked to insufficient job qualifications.[61] In addition, as of 2017 there were around 800,000 people of working

[57] Danish Board of Labour and Recruitment, 2018. Ansvar for beskæftigelsesindsatsen (Responsibility for employment efforts). Available at: https://star.dk/om-styrelsen/ansvar-for-beskaeftigelsesindsatsen/ [Accessed 6 April 2018].

[58] OECD, 2016. OECD Economic Surveys – Denmark. May 2016 OVERVIEW. Available at: http://www.oecd.org/eco/surveys/Denmark-2016-OECD-economic-survey-overview.pdf [Accessed on 4 April 2018].

[59] OECD, 2016. OECD Data Foreign-born unemployment. Available at: https://data.oecd.org/migration/foreign-born-unemployment.htm

[60] OECD, 2016. OECD Data Native-born unemployment. Available at: https://data.oecd.org/migration/native-born-unemployment.htm#indicator-chart

[61] SGI, 2017. Denmark Report, Sustainable Governance Indicators 2017. Available at: http://www.sgi-network.org/docs/2017/country/SGI2017_Denmark.pdf [Accessed 4 April 2018].

age in Denmark receiving public support. Over the past 10 to 15 years, Denmark has had a very rich benefits system but political attention has now been focused to upskilling these marginalised people. Integration of marginalised groups, in particular immigrants, into the labour market needs to be improved and many social transfers have been reformed, with the aim to strengthen the incentives to work.[62]

Moreover, education has been a policy priority in Denmark, partly because of the relatively large educational expenditures and the relative poor educational performance. There is also a concern whether the educational system is sufficiently equipped to meet the needs of the private sector. Therefore, the vocational and university educations need to be improved in terms of quality as well as attractiveness. However, municipalities have experienced strains in terms of service provision where tight finances have made improvements in education difficult, despite the need being there to bring standards in line with expectations. Universities have also seen pressures to shorten the length of study and increase the participation in programmes related to business. At the same time, the government is implementing expenditure cuts on research and education, where further cuts are announced for 2017-2020 besides from the ones implemented in 2016.[63]

PbR and SIBs initiatives in Denmark

As the Danish social benefit system has been reformed and so has become less generous, it has made it challenging to be on social welfare in Denmark, especially for those lacking the qualifications needed to get a job. The Danish Social Capital Fund (Den Sociale Kapitalfond) see it as their role to create social enterprises that become growth companies and that can in turn create workplaces for vulnerable people.

As a matter of fact, Denmark has experimented with social impact solutions for the past few years. Five years ago Den Sociale Kapitalfond won a public tender with the Ministry of Employment to provide business development to social enterprises for them to create jobs and reduce their dependence of grants. Moreover, two social accelerators ran for three years in Denmark and became such a success that Den Sociale Kapitalfond decided to continue with the same model in the Vækst med social bundlinje project (see description below).

Two years ago, Den Sociale Kapitalfond started working with the EIF to create an impact investing fund aimed to provide equity to enterprises and SMEs focusing on increasing employment among the disadvantaged in Denmark. In this fund, which is the first social impact investing fund in Denmark, the EIF is a cornerstone investor[64], providing 45 per cent of the total € 33.5 million[65] capital amount and private investors providing the remaining 55 per cent. This fund is managed by Den Sociale Kapitalfond and was launched in October 2017.[66] Besides from this fund, Den Sociale Kapitalfond continuously

[62] SGI, 2017. Denmark Report, Sustainable Governance Indicators 2017. Available at: http://www.sgi-network.org/docs/2017/country/SGI2017_Denmark.pdf [Accessed 4 April 2018].

[63] SGI, 2017. Denmark Report, Sustainable Governance Indicators 2017. Available at: http://www.sgi-network.org/docs/2017/country/SGI2017_Denmark.pdf [Accessed 4 April 2018].

[64] EIF, 2017. EIF backs new equity fund focusing on social responsibility. Available at: http://www.eif.org/what_we_do/equity/news/2017/den_sociale_kapitalfond_invest.htm [Accessed on 6 April 2018].

[65] DKK 250 million

[66] EIF, 2017. EIF backs new equity fund focusing on social responsibility. Available at: http://www.eif.org/what_we_do/equity/news/2017/den_sociale_kapitalfond_invest.htm [Accessed on 6 April 2018].

explores new ways of funding social enterprises and financing different impact solutions through its (philanthropic) foundation arm.

As of today, Den Sociale Kapitalfond has a portfolio of 10 small companies[67] with a total of 280 employees and a turnover totalling € 20 million in those companies. As of today, the funding to these has consisted of loans, convertible loans and private equity.

PbR also exist in within the Danish employment service. The Danish job centres can for instance outsource parts of their employment activities to private enterprises such as unemployment insurance funds or private companies to take care of their employment services, conduct the interviews with unemployed or provide training for the unemployed. The local employment offices can set up contract as they please, including a PbR-mechanism with a minimum fee and a bonus if the employee gets back to a job in a certain amount of time.

Existing examples of Payment by Result mechanisms and SIBs in Denmark within skills development

Interviews have pointed to one main PbR project in Denmark, one "mini PbR-project" and one SIB that is in development, in which Den Sociale Kapitalfond is involved. The first project is the growth accelerator programme "Growth with Social Bottom line" or Vækst med social bundlinje.

This one-year growth accelerator project fosters inclusion of marginalised groups into the labour market through combining employment and commercial activities at the local level. The programme aims to create growth in SMEs through the provision of business-related advice and services. The underlying assumption is that if these SMEs can grow in a more sustainable manner they can also create more employment opportunities in the long-term and for marginalised groups. The programme will test whether the growth effort can be funded via a payment by results mechanism, using the savings on local governments budgets coming from the employment of marginalised groups.

The programme was established by Den Sociale Kapitalfond in cooperation with the funds TrygFonden, Bikubenfonden, Tuborgfondet, Markedsmodningsfonden as well as eight Danish municipalities (Herning, Ikast-Brande, Kolding, Frederiksberg, Gladsaxe, Rudersdal, Glostrup and Albertslund).[68] The municipalities provide 40 per cent of the financing, while the private funds stand for the remaining 60 per cent. The total cost per business supported is c. € 60,400[69]. The municipalities are the contracting party, with whom the Social Capital Fund decides a strategy and agrees on a plan for the delivery of the training. In order to apply, the SMEs need to be registered in the Albertslund, Glostrup or Kolding municipalities and must have at least 10 employees and a turnover of at least € 1.3 million[70.71] The companies that receive the training apply to be part of the accelerator programme after having participated in a 2-day boot camp.

[67] Small company is defined as having a revenue below € 5.4 million (DKK 40 million).

[68] Den Sociale Kapitalfond, 2018. Vækst med social bundlinje – Payment by Results. Available at: http://www.densocialekapitalfond.dk/programmer/accelerator/ [Accessed on 4 April 2018].

[69] DKK 450,000.

[70] DKK 10 million.

[71] Den Sociale Kapitalfond, 2018. Vækst med social bundlinje – Payment by Results. Available at: http://www.densocialekapitalfond.dk/programmer/accelerator/ [Accessed on 4 April 2018].

The selected companies get to participate in the accelerator programme free of charge. The savings for local authorities resulting from having more marginalised people in employment will be used to finance the activities of the programme.

The companies that have participated in this programme usually employ or in other ways support vulnerable people as a result of their participation in the accelerator programme. The accelerator programme provides them with training to become more efficient, do better business and achieve growth. In that way they can help vulnerable people to a greater extent by offering them employment. Den Sociale Kapitalfond makes sure to develop and implement a social model where they help the enterprises to hire vulnerable people.

The impact measure in this PbR scheme is the number of people that get employed by the social enterprises in the accelerator. The Social Capital Fund is paid outcome payments should the result of the accelerator programme yield a saving for the municipality (after the contribution to the accelerator programme has been covered). These municipal savings accrue from having enterprises in the municipality that can employ more vulnerable people so they get off the social benefit scheme. The Fund collects data on the savings of the municipalities every month, which serves as a basis for the bonus payments to the Fund. If the municipality does not save more than the project costs, the Fund is not paid the full amount.

The other projects identified in Denmark is the mini PbR-project Impact 60 and the pilot-SIB for people with autism together with Specialisterne ("the Specialists"). Impact 60 is situated in the municipality of Aalborg, where the focus is to create 60 jobs and grow the social enterprises in this municipality, within the catering and agriculture sector. With a total budget of € 1.5 million, the aim is a special purpose vehicle where Den Sociale Kapitalfond is looking to engage the EIF and EFSI.

Den Sociale Kapitalfond also provides financing to the enterprise Specialisterne, who works to enable jobs for people with autism within the IT sector. Specialisterne provides specialised IT business consulting services to clients, ranging from data entry to complex software testing, quality assurance and development.[72] Besides this, Specialisterne are involved in an initiative to educate people aged 16 to 25 with autism to develop their personal, social and academic competences required to acquire the best possible options for engaging in education or enter the labour market.[73] A smaller SIB-pilot is currently in the specification stages between Den Sociale Kapitalfond and the Municipality of Ballerup. This SIB-pilot is focused on the youth programme where Den Sociale Kapitalfond provides capirtal to Specialisterne, and every time a participant from the project gets employed or starts an education following the intervention of Specialisterne, the Municipality pays Specialisterne a fixed amount. The payment is based on the social return on investment (SROI) calculated using the SKF's method (as described below).

Many of the labour market interventions, including the one with Specialisterne, also involve providing education about the working life and how to adapt to a working environment.

[72] Specialisterne, 2018. When corporate conscience equals smart business. Available at: http://dk.specialisterne.com/en/ [Accessed on 4 April 2018].

[73] Specialisterne, 2018. An individually planned Youth Education Program focusing on employment and education. Available at: http://dk.specialisterne.com/en/education/ [Accessed on 4 April 2018].

Payment by Results showing positive but nascent results in Denmark

Measuring social value and returns of impact investing has not been straight-forward in Denmark. Companies, institutions, municipalities and foundations have long lacked a tool indicating the social impact from an investment. In addition, results across social interventions are not easily compared nor are qualified investment decisions easy to make, without a standard.[74]

In this context, den Sociale Kapitalfond has developed a tool to measure the social value of investments (the social return on investments). The tool was developed in cooperation with the Danish Enterprise Agency, (former) Ministry of Social Affairs, the Board of Labor and Recruitment, the National Board of Social Affairs, Copenhagen and Kolding municipalities as well as the funds Bikubenfonden and TrygFonden.[75] This tool is publicly available online[76] for anyone to use and den Sociale Kapitalfond reportedly uses it as a reference for their projects.

Having run for a year, the growth accelerator programme (Vækst med social bundlinje programme) have so far proven to be a success. The companies that have so far been involved have on average experienced up to 30 per cent growth in the turnover and 20 per cent growth in their EBITDA. On average the companies employ 2 or 3 people and manage up to 6 traineeships for vulnerable people to come and practice on the job at any given time. Nevertheless, no information was provided on whether the municipalities have achieved any savings or the size of such savings. Moreover, while the Vækst med social bundlinje programme has grown from involving 3 municipalities and 10 companies a year ago when it started to covering 8 municipalities and 26 companies today, the results from the accelerator are still vague. The main reason is the timing issue where the first employment impacts can be seen much later: after the first 6 months one can see that the companies start to hire people more extensively, but the employment effect maximises only after 18 months.

According to the Specialisterne Impact Analysis Report, the activities of Specialisterne have proven a success. During the five-year period from 2008-2012 the hiring and securing of jobs for people with autism through Specialisterne have generated a total social-economic value of € 6.6 million (DKK 49.4 million). This is mainly savings made to the Danish welfare system from having people in employment and tax- and pension income. For the same time period, the net value for the Danish state amounted to € 1.8 million (DKK 13.5 million). This implies that for every euro invested in a Specialisterne employee with autism generates € 2.20 in taxes and contributions to the Danish state, as compared to if the same resources were invested in people without jobs through e.g. unemployment benefits and other welfare payments.[77] The Specialisterne Youth Education Program has also proven to be a success: almost all of the students have either gotten a job or progressed to further education after finishing their Youth Education Program with Specialisterne.[78]

[74] Den Sociale Kapitalfond, 2018. Sæt tal på social værdi. Available at: http://www.densocialekapitalfond.dk/blog/2016/03/08/sroi-udvikling/ [Accessed on 4 April 2018].

[75] Den Sociale Kapitalfond, 2017. Guide til "Sæt tal på din sociale værdi"- version 0.1 [Guidance document to the SROI calculation tool]. Available at: http://www.densocialekapitalfond.dk/wp-content/uploads/2017/10/Guide-til-S%C3%A6t-tal-p%C3%A5-din-sociale-v%C3%A6rdi.pdf [Accessed on 4 April 2018].

[76] The SROI calculation tool can be found here: http://socialetal.dk/

[77] Specialisterne, 2018. Specialisterne Proves its Social-economic Value to Denmark. Available at: http://dk.specialisterne.com/en/2013/09/17/specialisterne-proves-its-social-economic-value-to-denmark/ [Accessed on 4 April 2018].

[78] Specialisterne, 2018. An individually planned Youth Education Program focusing on employment and education. Available at: http://dk.specialisterne.com/en/education/ [Accessed on 4 April 2018].

Future potential of EFSI and lessons for the future

The usage of PbR is far developed in Denmark, both on the public and the private side. The public employment offices use it to a large extent already when outsourcing services to private providers that might be better equipped to complete them. But to scale and to further develop the idea, some help from EFSI is welcomed.

Interviewees by large suggested that there is a case for using EFSI funding to support and scale up labour market interventions in Denmark. As mentioned, Den Sociale Kapitalfond has an ongoing dialogue with EIF regarding PbR-structures and they are looking to involve EIF and EFSI in the creation of a special purpose vehicle for the future Impact 60 PbR-project. EIF is also involved with two other PbR projects in Denmark where EFSI is expected to be deployed and is in contact with the Danish Ministry of Finance to provide support in the development of this nascent instrument in the country. Den Sociale Kapitalfond is also continuously on the look-out to find companies to fund or invest in that are employing innovative and effective ways to get vulnerable people into employment and are providing training in a way that is suitable for these vulnerable people. Finally, the future potential to use new social impact contracts or PbRs or other forms of impact investments in Denmark is seen as substantial.

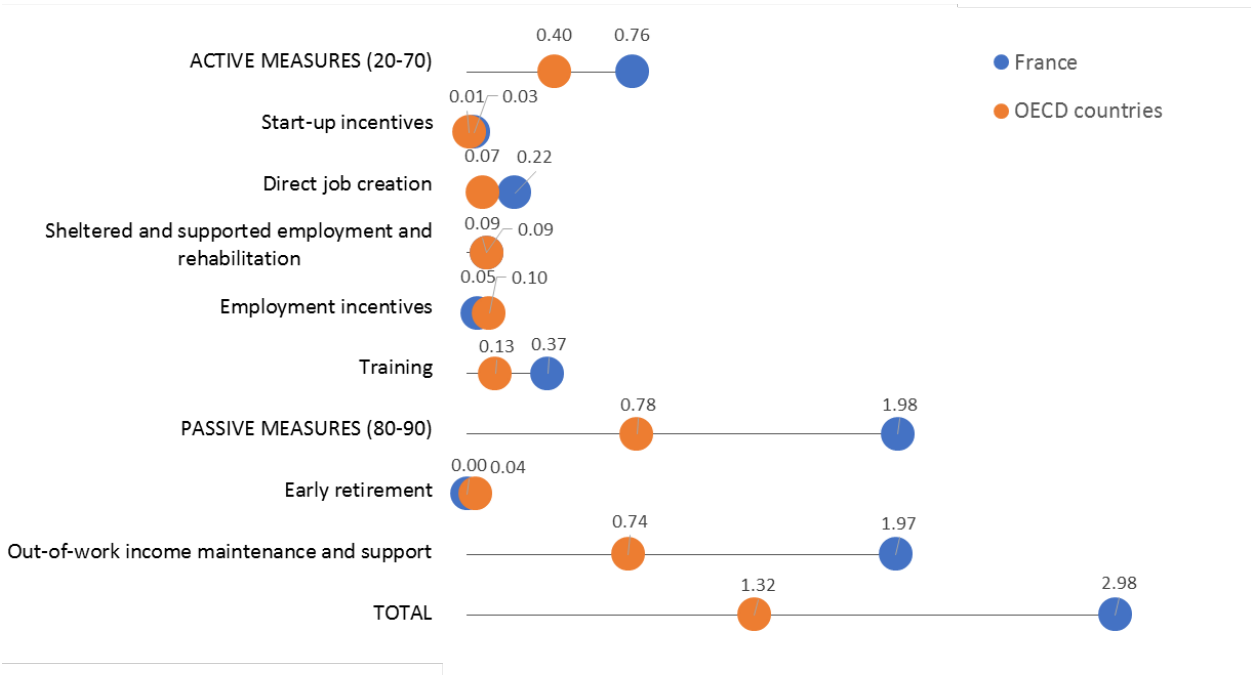
The role of funding from EIF is seen as important in the future work of the accelerator programme described above. In the accelerator programme, interviewee suggest that the EIF could help with both funding and credibility. EFSI funds can for example be used as a loan aimed for launching the accelerator or be used the early stages of the accelerator. This loan would then be repaid by the municipalities when results become evident. Funding from EIF is also seen as crucial in building credibility – if the SKF is to attract money from private pension funds it is seen as important that names like the EIF are visible and participate in the project.

The likely spatial scale for aggregation of the pilot SIB-model for autistic people (together with Specialisterne) is national. The "market size" is large as are the potential savings of the amounts paid in social welfare for the public sector. Potential EFSI involvement in projects like this one would be beneficial in two ways: as a guarantee helping to share the initial risk, as well as for further developments of the SIB-concept. At the initial stage of setting up the SIB, EFSI-money could be used as a guarantee to help the project manager share the risk related to the initial provision of liquidity as well as to get the project started. EFSI money could then be used e.g. in the same fashion as the EaSI-guarantee that covers 80 per cent of the complete financing if the SIB is not successful. Secondly, the SKF expressed a desire to raise funds for a "development" project. Such a development project would be aimed at simplifying the establishment of SIBs, by automating the financing, the structuring as well as the pay-awards for future SIBs. That would make the establishment, development and structuring of future SIB-programmes less costly for operators. As of now, setting up a SIB is very costly and time-consuming, as there is no commons structure to follow. EFSI funds can therefore be used to achieve scale.

3.4.3. France

As a share of GDP, France spends more than its peers on active labour market policies (0.8 per cent against 0.4 per cent) as illustrated in Figure 1.6:. This is mainly due to higher spending on training allowances and direct job creation, while other OECD countries typically spend more employment incentives.

Figure 1.6: Public expenditure by type of active measure policy, as a share of GDP



Source: OECD (2018), "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en (accessed on 31 March 2018).

Note: the subtotal for active measures excludes the category "PES and administration". For the financing of labour market policies, France has a mixed system based on contributions for passive policies and tax-financed for active policies[79].

Characteristics of France's ecosystem

The French model is however under pressure and some needs remain only partially addressed. One of the key messages is that while redistribution of income will remain essential, investment in human capital also needs to increase[80].

France's future investments programme (PIA) pursues exactly this aim, amongst others objectives all geared towards investing in the needs of the future and improving the competitiveness of the French economy in the long term. Out of the €47 billion for the first two phases of the programme launched in, €24 billion or 51 per cent has been earmarked for higher education, training and research (notably for cutting-edge equipment, programmes of excellence, innovative initiatives designed to promote

[79] http://www.educ-revues.fr/EFLASH/AffichageDocument.aspx?iddoc=32929

[80] Avenel C., Boisson-Cohen M., Dauphin S., Duvoux N., Fourel Ch., Jullien M., Palier B., "Investissement social: quelle stratégie pour la France ?", La documentation Française, 2017. Available at: http://investissementsocial.org/

multidisciplinary and partnerships between the worlds of research, education and business)[81]. A 29 per cent share of the third phase allocation or €2.9 billion will support the same objectives[82].

These public investments could be budget-neutral over the long term if they lead to a sustained increase in potential growth and generate savings through lowering future social transfers and increasing labour force participation, as hypothesised by a recent OECD study[83]

However, given France's high level of public debt (96.5 per cent of GDP in 2016[84]) and its commitments under the Stability and Growth Pact, other ways than simply trying to select projects with high socio-economic returns are explored. For instance, PIA is spent under different modalities including financial endowments (meaning that the principal is unavailable for use, it must be invested to produce income and only the generated income can be spent by the beneficiary), in an attempt to make PIA investments deficit-neutral. There is also increased recognition that these investments should not be financed by the public sector alone, but rather that the public sector should play a catalytic role and crowd-in private investment[85].

France also relies on impact investing to complement the traditional modes of financing the social sector. France's landscape[86] is marked by the important role of the national promotional group, CDC group (see Box 1:), and well-established networks of investors specialised in the financing of the Social and Solidarity economy (including France Active[87], set up in 1988 and AFIC Impact created in 2012[88]).

[81] http://www.gouvernement.fr/en/10-billion-additional-euros-to-invest-for-the-future

[82] http://www.gouvernement.fr/sites/default/files/contenu/piece-jointe/2016/06/pia3.pdf

[83] OECD (2016), "Using the Fiscal Levers to Escape the Low-Growth Trap", Chapter 2, OECD Economic Outlook, Issue 2.

[84] Eurostat (teina225)

[85] France Strategie (2017) 2017/2027 - improving investment to foster growth - critical actions. Available at: http://www.strategie.gouv.fr/english-articles/20172027-improving-investment-foster-growth-critical-actions

[86] Rapport du Comité Français sur l'investissement à impact social (2014) comment et pourquoi favoriser des investissements à impact social ?, available at : https://www.economie.gouv.fr/files/files/PDF/RapportSIIFce_vdef_28082014.pdf

[87] https://www.franceactive.org/

[88] http://www.citizencapital.fr/wp-content/uploads/2017/05/cp-confe-rence-afic-impact-22-mai-2017.pdf

Box 1: CDC group and its subsidiaries

Set up in 1816, the CDC group has a long history. Its mission is summarised as follows: "Caisse des Dépôts et Consignations and its subsidiaries constitute a public group serving the public interest and the country's economic development. The Group carries out missions of public interest in support of the public policies implemented by the State and local government bodies, and may also exercise competitive activities. […] Caisse des Dépôts et Consignations is a long-term investor and contributes to the development of enterprises in line with its own proprietorial interests."

CDC invests over the long term via loans, equity and guarantee mechanisms with no contributions from the State budget. In 2016, its own investments amounted to € 700 million. In addition, it implements mandates given by the State and local authorities, including part of the future investments programme. It also transforms regulated savings into long-term loans serving the public interest (worth € 17.3 billion in 2016). CDC has four thematic areas of focus:

- Territorial transition including financing of housing, infrastructure and mobility solutions;
- Ecological and energy transition including financing of energy-efficient buildings, energy production and distribution networks;
- Digital transition including financing of high-speed Internet access,
- Demographic and social transition including managing social services and pension schemes, financing of the "silver economy", providing accommodation to vulnerable groups

CDC is the largest financier of the social and solidarity economy and for example contributed 41% of the NovESS fund (an investment fund to support associations and businesses in the social and solidarity economy) which closed at € 59.5 million end 2016. Following experience gained as part of future investments programme, CDC also launched in 2017 its own resources activities in the field of training / lifelong learning.

Its subsidiary Bpifrance is in charge of the financing and development of companies. It notably aims at fostering innovation; facilitating the development and financing of small and medium-sized enterprises; encouraging French exports and French investments abroad.

Since 2008, Bpifrance also implements a national scheme deployed via financial intermediaries, with similar architecture to the Student Loan Guarantee Facility created under Erasmus+ . The support comes as a state-guaranteed loan (up to an annual maximum of €15,000). It is available for all EU/EEA students aged under 28 but is not portable.

Sources: Article L. 518-2 of the French Monetary and Financial Code (amended by the 2008 law on modernisation of the economy); CDC website and its 2016 annual report available at: http://www.caissedesdepots.fr

Another specificity in France is the schemes it has in place to collect savings from the general public for public interest purposes. This concerns both individual savings products – see reference to regulated savings in Box 1: – and employee savings plans - see Box 2: on 90/10 Solidarity Funds.

Box 2: 90/10 Solidarity funds

The name "90/10" makes reference to a mechanism whereby a fund commits to invest around 5 to 10% of its assets to eligible social enterprises while the remaining 90 to 95% are invested in "conventional" assets (following generic SRI principles). In place since the early 2000s, the 90/10 Funds have progressively become the main avenue for directing French savings to impact investing. By the end of 2015, 61% of the outstanding amounts available for solidarity retail funding were coming from these 90/10 Funds via over a million subscribers. Major milestone for this uptake is that since 2008, companies with more than 50 employees are under the legal obligation to offer their staff, in addition to regular saving schemes, an option to subscribe to this type of 90/10 Solidarity Funds. Making it mandatory to offer options to subscribe to 90/10 Solidarity Funds brings considerable benefits: individuals have an easier access to impact investing and social enterprises can tap into sizeable amounts of 'patient' capital.

Within France the 90/10 Solidarity Funds still have high replication potential – if the same concept was applied e.g. for life insurance contracts or pension plans. It also has replication potential in other European countries.

Source: EVPA (2017), Best-Policy Sharing Initiatives: The 90/10 Solidarity Funds. Available at: https://evpa.eu.com/uploads/documents/FR-Nugget-90-10-Funds.pdf

First PbR initiatives in France

A recent development in France is that it experimented with PbR schemes. This was one of the recent recommendations made by an expert group on impact investing[89]. A call for proposals[90] was opened from March 2016 to January 2017 to stimulate the launch of PbR project. Via this call for proposal, the government was committing to:

- make the result-based payment when the State would act as the commissioner;
- grant a label to projects where the State would not be the commissioner;
- connect stakeholders who are looking for partners to respond to the call for proposals.

Unlike in countries such as the UK, there was no pre-defined theme for the call. The themes which emerged were varied and related to education, professional insertion and other preventive policies in the social field (e.g. preventing entrance into foster care).

Overall, the latest statistics[91] indicate that during the call for projects, 62 operators have submitted their applications, and 13 of them have so far been labelled. However, only one PbR scheme has effectively been launched, that of Adie, which concerns a project to make microfinance offers more accessible to the rural areas. The remaining twelve schemes are at different stages of development, with some of

[89] Rapport du Comité Français sur l'investissement à impact social (2014) comment et pourquoi favoriser des investissements à impact social ?, available at : https://www.economie.gouv.fr/files/files/PDF/RapportSIIFce_vdef_28082014.pdf

[90] please see https://www.economie.gouv.fr/contrat-impact-social/lappel-a-projets

[91] please see http://www.mecenova.org/contrats-a-i mpact-social-quel-bilan-2-ans-apres-leur-arrivee-en-france/

them well advanced and related to the field of the present study (e.g. Wimoov's project fostering the mobility of job seekers, La Cravate Solidaire 's project helping to get ready for job interviews).

One major difficulty to effectively launch the labelled schemes is to find the commissioner who would make the result-based payment – as opposed to finding the investors or project promoters – and this will certainly prevent some projects from being launched. Other projects - which should eventually be launched- are experiencing delays due to, inter alia, the dense legal documentation PbR schemes require, the need to find financing tools/ modalities which work for all co-investors and the need to agree on objective outcome indicators against which payments can be made.

Furthermore, there are several underlying reasons for the so far limited use of PbR schemes in France. One concern, as reported by professionals in the social sector and in the press[92] is that the projects selected would not really be innovative and that the performance indicators, despite being agreed with Commissioners, investors and service providers would be defined in such a way that they would cancel the potential benefits from using PbR schemes or create perverse incentives. For instance, if the indicators are too easy to reach, then the project would be virtually risk-free and investors, despite taking the full equity risk would not effectively bear much risk. Under such a scenario, the intervention would come at a higher cost for the public sector who would still need to remunerate the investor and cover part of the transaction and structuring costs. There are also fears the focus on some performance indicators would distract the attention and means from other key areas of the intervention which have the less quantifiable results and would therefore have the side effect of reducing the overall social impact. Another apparent contradiction is that while PbR schemes entail the financing of experimental innovative schemes (which usually start small-scale), the significant transaction and structuring costs mean PbR schemes are only worth setting for interventions of significant size.

Despite the initial difficulties and doubts on the model, ambitions are to pursue the experimentation of PbR schemes as part of the wider French impact initiative focused on social innovation[93]. The French stakeholders are also actively and collectively working to address the the concerns mentioned above. The players active in the first PbR schemes in France[94] have notably established the "Impact Invest Lab" which produced an ethical chart[95] on the use of PbR schemes which inter alia specifies that PbR schemes are meant exclusively for risky, innovative experimentations which are currently not financed via traditional means. It will then draw on lessons from these experiences to assess the potential of these schemes in the national context.

Other types of initiatives in France

In parallel, France is also experimenting with a project which aims at reorienting passive spending (unemployment compensation) towards active measures. More specifically, an experimental project called "Territoires zéro chômeur de longue durée", supported by the French government, was launched in 10 territories in France[96]. In each of these 10 territories, a social enterprise has been created with the aim to hire the long term unemployed that wish so, on long term employment contracts. The

[92] Please see http://www.mecenova.org/contrats-a-impact-social-perspectives-evolution/

[93] https://www.ecologique-solidaire.gouv.fr/french-impact-innover-au-service-linteret-general

94 La Caisse des dépôts, le Centre Français des Fondations, le Crédit Coopératif, le Comptoir de l'Innovation, Finansol and le MOUVES

95 https://iilab.fr/charte-ethique/#

[96] https://www.tzcld.fr

social enterprise then identifies range of activities that the unemployed can do – activities that are in demand but not picked by the traditional economic sector since not enough profitable. The economic model is as follows: the social enterprise does bill its customers for the services provided but at a price which is socially acceptable and not necessarily financially viable. The activities are supposed to bring 30 per cent of the revenues. The 70 per cent missing is brought by the public sector which committed itself to finance part of the salary cost of all those which will be employed in light of the savings (including reduced targeted expenditure on employment/ reduced social expenditure, higher fiscal earnings and lower indirect costs) which are expected (estimated between €16,000 and 18,000 a year by person no longer unemployed). The experimentation started as a 5-year project in 2016. Since the first steps are seen as successful, the experimentation is expected to be scaled up to 50 territories as from next year, which would extend the experimentation phase to 2024.

Views on the role and potential of EFSI and lessons for the future

Overall, in relation to the financing of the education and training sector, ALMP and other areas of the social sector, stakeholders in France agree that the needs are high but that the lack of liquidity is not the major source of concern (thanks to the strong role of the national promotional institution and the 90/10 Solidarity Funds).

Specific challenges remain however. Support is needed in specific phases (early stage and rapid expansion stage) and to help intermediaries cover the risk investors take (projects typically are highly risky but have very modest return expectations). Overall there seems to be a need for more demonstrated examples whereby institutional investors (e.g. CDC group) and social impact investors help projects go to the next stage via higher ticket sizes (case of Simplon[97]). Currently, financial intermediaries active in the field of the social entrepreneurship and social impact investors can be served: (i) on the debt side via COSME and EaSI (two programmes whose budgets have been topped up by EFSI), (ii) on the equity side by EIF's Expansion and Growth Window, newly set up under the aegis of EFSI and (iii) via EaSI Capacity Building Investments Window. 'The range of available tools is widely seen as adequate; however, instruments are recent (calls to select intermediaries have been issued in June 2015 for EaSI and in October 2016 for the EFSI Equity Instrument) and further promoting them would be very helpful to reach out even more to relevant financial intermediaries and social impact investors.

There is also room for setting up more dedicated investment funds on the model of the NovESS fund, which specifically supports businesses in the social and solidary economy[98] or creating specific thematic windows within generalist investment funds, and the EIF could contribute with EFSI funds on the model of its Social Impact Accelerator which acts as a fund of funds.

The EIF could also play a role as an investor in the next phase of the PbR experimentation in France.

There could also be scope to exploit more synergies between EFSI instruments and the national loan scheme. The French scheme implemented by Bpifrance (see Box 1:) offers non-portable loans and, in

[97] https://simplon.co

[98] More information of the NovESS fund can be found here: https://www.caissedesdepots.fr/en/caisse-des-depots-launches-novess-le-fonds-ess

terms of volume, does not satisfy all demand (schemes sold out within a few weeks)[99]. To some extent, it is already complemented by one EU programme, the Student Loan Guarantee Facility (SLGF) which has been created under Erasmus+. One of the financial intermediaries, namely Banque Populaire /Caisse d'Epargne, participates both in the national scheme and the Student Loan Guarantee Facility to make student loans available to outgoing Master students as well (since November 2015 and April 2016 respectively). However, take up has been low for the Erasmus+ loans in France, for reasons which seem to sit outside a lack of demand (narrow scope, complex design - difficult to convey to commercial staff and integrate into IT system). For the national level, EFSI funding would have the advantage of being more visible and less narrow than the SLGF, enabling projects with wider scope to be carried out (e.g. addressed at mobile BA students or for topping up the national scheme when oversubscribed). The provisioning rate for EFSI to engage in such activities should however be in line with likely default rates, which should not be underestimated based on the French experience with its national scheme. In France, the limits on Maximum Portfolio Volume seem to have been revised downwards (lower actual leverage, fewer new loans granted) as from 2013 or 2014, five or six years of operation the scheme became operational, i.e. when the first wave of loans became due.

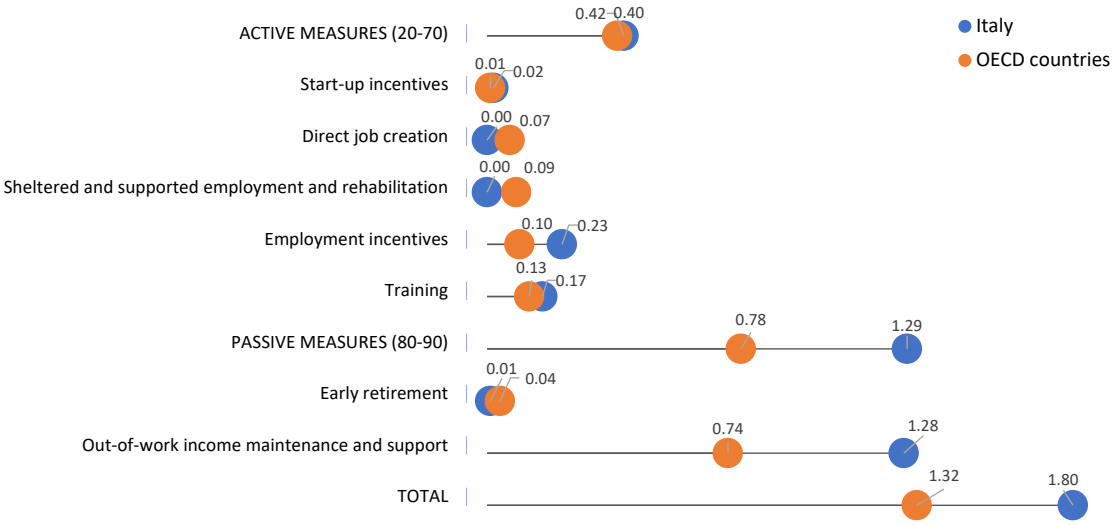
Another challenge is to make the project ideas investment ready. Costs are high for intermediaries to provide technical assistance and undertake the due diligence as again the expected returns are generally too low for the investors to cover this. In that respect, combining /combination EFSI with grant support is particularly helpful. It is already the case today that ESF funds are used to help some projects get more mature.

[99] See ICF (2017) Mid-term evaluation of Erasmus+, volume 2 on student loan guarantee facility. Available at: https://ec.europa.eu/assets/eac/erasmus-plus/eval/icf-volume2-student-loan.pdf

3.4.4. Italy

The share spent on active labour market policies is in line with the OECD average, highlights the greater weight associated with expenditure over passive labour market policies in Italy.

Figure 1.7: Public expenditure by type of active measure policy, as a share of GDP



Source: OECD (2018), "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en (accessed on 31 March 2018).

Passive labour market measures represent 1.3 per cent of GDP in Italy in 2015, against 0.8 per cent on average in OECD countries, almost on par with Denmark. As a share of GDP, Italy spend much less on active labour market policies than any of the other three countries reviewed in this study, about the same level as the average OECD country (0.42 per cent against 0.40 per cent) as illustrated in Figure 1.7:. However, from 2015 onwards, there seems to be a positive trend on increasing the share of expenditure towards active labour market policies by focusing on training and employment incentives.[100]

ALMPs in Italy aim at stimulating demand, by reducing hiring costs especially for jobs featuring large firm specific skills, tackling long term unemployment and reducing educational/ skill mismatch, by providing opportunities for (re)training[101].

Since 1997, competences of ALMPs have been spread across a number of governmental levels from the central government, to regions and then to provinces with a lack of a common framework and monitoring. The 2017 constitutional referendum included inter alia provisions to fully centralize competences back to the central government but failed to deliver so having been rejected by Italian electors.

Starting from 2015 the Jobs Act introduced a new model of personalized support for job seekers (Patto di servizio personalizzato) through which job seekers need to commit to tailored training and

[100] Eurostat lmp_expsumm

[101] Caliendo and Schmidl 2016

employment opportunities for receiving unemployment benefits. The scheme is built around the mechanism of conditionality and includes financial sanctions for both employment officers and job seekers who fail to apply or make use of them.

As part of the recent reforms, the Italian government set up in 2017 for the first time a national wide agency for active labour market polices (Agenzia Nazionale Politiche attive del Lavoro – ANPAL) which is meant to act as coordinator of labour market policies at national level and as an evaluator for employment agencies scattered along the country.

The Jobs acts also included substantial room for the active participation of the private sector in the provision of employment services leading Italy towards the introduction of a quasi-market solution. This is detailed through the provisions of vouchers (i.e. Assegno di ricollocazione[102]) whose amount varies according to the degree of employability of the beneficiary and their employment outcome. Jobseekers benefiting from unemployment allowance (NASPI) by at least 4 months are eligible to enter the scheme and are then profiled based on their degree of distance from the labour market. The voucher based system builds up from a similar scheme (i.e. Dote Unica Lavoro[103]) launched by the region of Lombardy and is currently under a pilot national project coordinated by ANPAL and financed by the European Social Fund (ESF). The pilot phase started in early 2017 and was meant to be concluded in March 2018 with plans to extend the project to a national level in case of positive results. ANPAL aims at issuing at least 10,000 vouchers during the pilot phase which can be used for both public and private employment related service providers and enable participants to benefit from a personalised intensive job search service. The scheme requires participants commit to participates to the sessions and meetings designed by the service provider and to accept suitable job offers by featuring reduction in the amount of unemployment allowance otherwise. The scheme is meant to work on the principle of payment for results where payment for the service, or at least part of it, is dependent on the outcome achieved. Vouchers are thus payed to the service providers and range from € 250 to € 5,000 depending on the profile of the jobseeker and the type of employment participants achieve. In case of extension to the national level there would also be substantial room of scaling up the initiative by widening the pool of eligible participants and extending resources.

The national pilot scheme builds up from Dote Unica Lavoro which has been running in Lombardy since December 2015, scheduled to last until December 2018, and involving 230 service providers as of March 2018[104]. In Dote Unica Lavoro participants are profiled in 1 of the 5 categories designed according to the intensity of help required to (re)enter the labour market. Within each category the service provider defines with the job seeker a personalized intervention plan (PIP) based on individual needs for training and job searching services. The duration of each "Dote" varies according to the profile of the individuals from 90 to 180 days and can be extended for a maximum of 3 "Doti". As regards the use of financial instruments, there are a number of examples in Italy that are worth noting. A remarkable example showing how innovative financial instruments can be used for social impact

[102] ANPAL Website http://www.anpal.gov.it/Cittadini/Servizi/Pagine/Assegno-di-ricollocazione.aspx last accessed 06/04/18

[103] Region Lombardy website http://www.regione.lombardia.it/wps/portal/istituzionale/HP/DettaglioServizio/servizi-e-informazioni/Cittadini/Lavoro-e-formazione-professionale/Dote-Unica-Lavoro/ser-dote-unica-lavoro-ifl/dote-unica-lavoro last accessed 06/04/18

[104] Monitoraggio sintentico 26th March 2018, Region Lombardy website http://www.fse.regione.lombardia.it/wps/portal/PROUE/FSE/Bandi/monitoraggi-settimanali last accessed 06/04/18

investing in the areas of labour market skills comes from a feasibility study for a project aimed at reintegrating inmates into the labour market. The project aims at lowering the re-offense rate which would in turn reduce the social and the economic costs of the prison system. The study features both a feasibility analyses and business case for a pilot project aimed at inmates in Turin and tries to partly mimic as much as possible, due to accounting and legal constraints of public administrations and the small scale of the project, the structure of a social impact bond.

The project framework features a set of dedicated training and counselling sessions and includes stakeholders ranging from associations, universities, public administrations, private firms and social entrepreneurs. The long-term outcome of the project lies in making inmates independent by providing them with the necessary interpersonal, emotional and professional skills that they would need to build up their future upon leaving prison. In the project framework, the proponents of the initiative envisaged the project to last 24 months with the first 12 months where participants would be able to benefit from the various activities and the following 12 months dedicated in follow up and evaluating the impact of the initiative.

In more details, each inmate would be supervised by a case manager who would be in charge of coordinating the various activities and service providers involved as well as of guiding inmates throughout the process. Each inmate would have access to a personalized number of hours for the various activities who should be agreed and selected in accordance with the case manager. This would be partly fixed and partly tailored around individual needs involving sessions such as psychological counselling for increasing awareness of self-condition, sport and culture activities for accruing social and relation skills, orienting and mentoring for guiding individuals around their skills and interests after life in prison, professional training for building up employability skills in accordance with the labour market and individual interests. Attention will be particularly paid to work experience outside the prison as a form of reintegration, allowing inmates to re-experiment with life outside prison and ease gradual reintegration into society.

While the exact details are still unavailable as the project proponents are currently holding talks with the Italian Ministry of Justice, the project would include, for a share of the total costs, payment for results which would be assessed by an independent evaluator. With regards to the income stream, project proponents are considering the possibility of introducing milestone payment and the provision a credit line to support for the various service providers. Core payees are the service providers which offer training and counselling session to prisoners. Depending on the nature of the provider, payee may be either a for profit or a not for profit organization. Additional payees would also include financial guarantee providers, advisory and coordination companies as well as evaluators. In addition, to further reduce the risk of financial losses for the service providers in case the initiative was not to meet its target, the current scheme also envisages some role for back up guarantors.

While the scale of the project is still very limited, aiming for a pilot phase for some 100 inmates in Turin, was the initiative to be successful in delivering a robust reduction in the re-offense rate there would be substantial potential for scaling up the initiative at regional and national level.

This could prove to be a pathbreaking initiative showing how social needs can be met by a partnership of private stakeholders and public administrations opening up the possibility of replication in other sectors as well.

The current framework of the projects above, such as Dote Lavoro Unica, Assegno di Ricollocazione and the feasibility study for reintegration of inmates hamper the usage and partnership with EU funds leaving little room for the use of funds different from grants.

However, having highlighted so it remains true that substantial room for EFSI funds could be achieved by evolving the project frameworks to PbR schemes with the savings generated from the initiatives, either in terms of less unemployment allowances paid or reduction of prison costs, as well as other indirect social and economic benefits, used to pay back for the provision of services. On these grounds, the projects outlined represent a first step towards the establishment of these financial instruments and development of the sector.

Besides the work of the various associations which are pioneering social investing featuring mechanisms linked to outcomes and results, some financial institutions are also starting to get involved.

In 2015 UBI Banca was the first Italian banking group experimenting with Social Project Finance. Following an initiative originating from the non-profit sector and involving the council administration of Turin, the bank provided funds for € 8 million for renovating a hospice. This is particularly relevant because it helped launching a new initiative "Progetto Alice" which might not have been able to secure access to funds being a start-up and shows how the private, the public and the non-profit sector can partner together complementing and extending welfare services across Turin.

The operation was designed for generating an income stream, from providing hospice services, which would be able to repay the loan. The bank agreed to grant a discount on the interest rate charged by 0.25 per cent upon meeting certain predefined social desired outcomes such as incrementing and maintaining the hospice capacity to 144 places and providing at least 400 hours of home assistance. Besides, Ubi Banca committed in devolving € 18,000 for meeting initial projects costs, helping to reduce sunk costs, and another € 10,000 each year provided that the social outcomes were successfully met. These additional resources are meant to design and innovate the range of services provided[105].

On a similar note Unicredit, one of the main leading financial institution of Italy, which has recently launched a series of actions stretching from microcredit and start up incubators to impact finance.

With regards to impact finance, an initiative promoted by Unicredit, starting from January 2018 but with a robust pipeline for future months, aims at both for profit and not for profit organisations and involve a discount on the interest rate charged conditional on the social impact generated by the financed initiatives.

The initiative of private market players has led to important contributions from the Government that has been working towards a dedicated fund for social investing. This has been introduced under the new Italian budget law[106] which has instituted a dedicated social innovation fund for 25 million euros to be used in the next three years (i.e. 2018-2020) for feasibility studies, their realization and building up capacity within public administrations. This might prove to be an important first step aimed at easing the hurdles that the various stakeholder perceived in the development of pure outcome based

[105] Ubi Banca https://www.ubibanca.com/1406087940064/CS%20Project%20Finance%20Sociale%20UBI%20Banca-TSC%20def.pdf?blobheadername1=Content-Disposition&blobheadervalue1=inline;%20filename=CS%20Project%20Finance%20Sociale%20UBI%20Banca-TSC%20def.pdf last accessed on 06/04/18

[106] Article 1 subparagraph 205 of 2017 Italian budget law, Gazzetta ufficiale della Repubblica Italiana http://www.gazzettaufficiale.it/eli/id/2017/12/29/17G00222/sg last accessed on 13/05/18

instruments and at overcoming budget constraints at local level with national funds that could provide upfront payment.

In summary, the current state of play in Italy highlights a progressive trend shifting from traditional policies towards active labour market measures also through a more centralised governance scheme. Under this new framework, the central government, through the National Agency of Active Labour Market Policies, would play a more predominant role in coordinating and evaluating labour market policies. More recently with reference to the use of innovative financial instruments the Italian government has also included a dedicated fund for experimenting with outcome based project financing. This is intertwined with the development of a grassroots social impact investing sector where associations and financial institutions started leading the way for the development and use of innovative financial instruments featuring payment by/ for results components and showing their potential applications and partnerships with public administrations.

4. LESSONS FOR FUTURE FUNDING MODELS

KEY FINDINGS

- Public administrations need to have an appetite and the relevant knowledge in accounting and legal rules to grasp opportunities in testing new and innovative financial instruments. This includes raising awareness among government officials who often lack understanding of social contracts and procuring by results (that the new financing models entail).
- New financial instruments would benefit from the development of common frameworks at the national level to evaluate potential returns, and introducing standards and guidelines for project promoters to structure interventions.

The country research undertaken has offered insights into the framework conditions, the main challenges and future funding models that might be considered when attempting to support investment in skills development.

A summary of the use cases, success factors and obstacles for each of the countries are presented in the summary table below.

Table 1.10: Overview of country research

Country	Identified use cases	Success factors	Obstacles
Denmark	Payment by results scheme to foster further employment of vulnerable people and growth. Payment by results scheme for the employment of autistic people.	Payment by Results scheme are integrated in the Danish employment services system. Previous interventions for SME growth and increased employment proved successful, and current programme is an extension of these. Other PbR-schemes are underway or in the planning stage. (in which area?)	The need to distinguish between who gains and who pays for the intervention. Usually these are not the same actors within the regional and central governments. Setting up intervention is very costly and time-consuming, as there is no common structure to follow. Importance to measure the results and to make sure they accrue from the intervention. Initial risk coverage is also important.
Finland	Of the 6 SIBs launched or planned in Finland, two are within the skills development area, aimed	Large appetite for SIBs in Finland.	Awareness among public sector officials about the meaning of "procuring

Country	Identified use cases	Success factors	Obstacles
	at increasing employment of immigrants and of long-term unemployed. A social enterprise employing immigrants and simultaneously decreasing the skills gap in the IT-sector.	Municipalities and governments are keen on trying alternative solutions to societal problems through employment and integration. Support from EIF has signaling effect for other Finnish SIBs. Finland has a focus on "keeping it simple" when developing the SIBs.	based on results" instead of procurement as usual. Still a limited number of impact investors in Finland. The risk inherent from the long-term nature of the projects.
France	Project aiming at reorienting passive spending (unemployment compensation) towards active measures.	There has been initial experimentation of PbR initiatives in France and experiments to date have proven successful. There are ambitions to pursue the experimentation of PbR schemes as part of the French Impact Initiative.	Support is needed in specific phases such as early stage and rapid expansion stage. As projects typically are highly risky but have very modest return expectations, support is also needed to help intermediaries to cover the risk investors take.
Italy	PbR-project for the development of Active Labour Market Policies (ALMPs) such as professional training and targeted job search sessions dedicated to all unemployed residents at specific regional level. PbR-project delivering professional training and counselling sessions dedicated to prisoners.	Initial success have allowed for scaling up the initiatives in the future. A trend for shifting from traditional policies towards active labour market policies also through a more centralised governance scheme, i.e. a new social innovation fund has been included in the Government budget.	The development of impact based instruments is still at an early stage. Small scale of investments. A stronger initiative is needed from the private and third sector to scale up the use of innovative financial instruments.

Source: ICF, 2018.

The country research undertaken, together with evidence from 10 further project examples in Germany, Sweden, Portugal and the United Kingdom reviewed as part of a previous ICF study on funding education and skills investments under EFSI[107], suggests that public administrations need to have an appetite and the relevant knowledge in accounting and legal rules to grasp opportunities in testing new and innovative financial instruments. Each novel type of intervention discussed above requires considerable due diligence to reduce risks and estimate potential returns.

To accelerate and expand the pool of skills development investment projects that could potentially be supported under EFSI also requires raising awareness among government officials who often lack understanding of social contracts and procuring by results. Procuring by results involves the need to describe the desired impact rather than the activities to be performed and give open space to unknown outcomes. This stands in sharp contrast to traditional procurement where officials can name very clearly what they want and how much that can cost, choosing the cheapest option, and pay up front for delivery. To expand impact investing in skills development requires that governments use a more specific tendering procedure to describe the preventative measures. The role and mindset of government commissioners will differ depending on such appetite and knowledge, and in some countries (such as Italy) this might necessitate stronger initiative from the private and third sector to scale up the use of innovative financial instruments.

Second, novel financial instruments would benefit from the development of common frameworks at the national level to evaluate potential returns, and introducing standards and guidelines for project promoters to structure interventions. Such common frameworks exist for instance in Denmark, and could be developed in other Member States, taken into account the specific national landscape of actors and potential outcomes / revenue sources. They could also serve as basis to certify that new project proposals meet quality standards, if they are designed along such a common framework. For successful implementation, the project proposals would benefit from such frameworks by focussing on clear target and clarity on how the return is being calculated and how the service provided. For the future, impacts need to be better and more continuously measured to provide a broader evidence base that such novel investment types are 'bankable' and commercially attractive.

Third, clearly intervention types, the maturity of national financial market and an established third sector are all key for new investment vehicles to scale up. Regarding project structure, it is important that the structure is as simple as possible (plain vanilla[108]) for the investors. As it looks now, many investments in the skills development capital sector are tailor made for certain investors and service providers, which makes them rather complicated. Investors need to better understand the key parameters of the investment targets and speak in the same terms as the social enterprises and NGOs they invest in, and vice versa social enterprises need to have a better understanding of the key elements of project design which are of importance to investors.

To engage the wide range of private investors necessitates the development of tools that manage risk and that are robust so that impact investing projects become accessible for professional, large

[107] ICF (2017), Study on the feasibility of an education and training investment platform (DG EAC). The published final report and all annexes providing a detailed overview of the evidence collected is available at: https://publications.europa.eu/en/publication-detail/-/publication/f0b17797-b21c-11e7-837e-01aa75ed71a1/language-en/format-PDF

[108] Plan vanilla refers to the simplest, most standard version of any tradable asset or financial instrument.

investors, by using more robust risk management and better processes. Currently, investors engaged in the skills development sector are often philanthropic or smaller funds specialised in impact investment. There is also an increased interest among different types of investors (private investors in their corporate programme as well as foundations and family offices) in interventions with moderate returns. In countries with established financial markets, the future might see interest in blended impact investment portfolios that are more suitable for institutional investors like pension funds. At the same time, smaller and philanthropic funds will continue to focus on addressing local needs might also be more common in the future.

Therefore, in countries where financial markets are not mature enough, and the social enterprise sector is fragmented, novel financial instruments are unlikely to take off without substantial technical assistance and efforts in structuring and developing capacity to develop projects and design interventions. Clearly a major prerequisite for the uptake of financial instruments in the human capital sector would be further development at the supply side, that is to say further technical assistance to identify and develop project ideas at the national and local level, in particular in countries without established national promotional institutions. The EIAH in theory would be well placed to deliver this, and it has experienced a shift of its mandate towards building national and local level capacity under EFSI 2.0. There are also some examples of cross-border learning between countries, which should be further supported by initiatives such as the EIAH. For instance, Den Sociale Kapitalfond from Denmark has exported their social start-up accelerator to Norway and are discussing to replicate the model in Sweden and the Baltic countries.

4.1. Obstacles to the development of PbR schemes

Based on findings and evidence collected through country research the main obstacles to the development of PbR schemes refer to:

- Accounting and bureaucratic principles which curtail the ability of public administrations to be involved in projects which feature mechanisms of PbR. This is particularly relevant in Italy where public authorities would struggle to trace the provenience of cash flows and thus highlights the actual savings generated from the initiatives.
- The complexity of some PbR schemes such as Social Impact Bonds can hamper the successful implementation of some of the projects. This is particularly relevant for countries where such schemes are still yet to be introduced and require education and understanding of all the stakeholders involved or where the procedures involved in designing and handling these schemes would be too complicated for large scale interventions (e.g. Dote Unica Lavoro in Italy), and countries where no common framework for implementation exists.
- The large costs associated with the setup of some of the most complex financial instruments such as Social Impact Bonds might substantially reduce their usage especially for small initiatives which could not reap the benefits of economies of scales. There is an inherent contradiction here as pilot innovative initiatives generally start small-scale.
- The lack of a commonly outlined and predefined set of evaluation framework and criteria hinders the effective design of these schemes leaving the burden of designing and managing the evaluation phase upon the proponents.
- There are also fears of side-effects which could derive from the need to focus on quantifiable indicators, which could neglect some key aspects inherent to social work. In that context, service providers would have incentives to neglect the part of their work which would not contribute to the fulfilment of the indicators (but might have high social impact). Alternatively or in addition, service providers could have incentives to "cherry-pick" participants which have

higher chances to perform according to the set indicators, thereby further excluding those harder to reach.

4.2. Further implementation of enabling factors

Similarly, the interviews and the material analysed show that a further implementation of the enabling factors below could help take-up of novel funding models:

- A change of legislation might be required for some countries, such as Italy, reducing the amount of bureaucracy and simplifying accounting principles to enable public officials to commit and experiment with schemes proposed throughout the report and their potential complementarity with EU funds.
- Support from the central government is in addition required for the successful delivery of some of the schemes which involve regional or local layers of intermediate public authorities.
- It might be particularly relevant to highlight how some countries have taken steps to move towards the direction of PbR schemes, and enable cross-country learning and knowledge exchange. This applied to the case of Italy with the government setting apart for the very first time a dedicated fund to finance feasibility studies and experiments with outcome based social impact investing, as well as to France where a first call for proposals has been issued.
- More evidence is required to demonstrate PbR schemes can meet expectations, i.e. be an efficient service delivery mode leading to cost savings for the commissioner / public sector, effectively promoting innovation and social impact. The sustainability of successful PbR schemes also needs to be assessed.

4.3. Other avenues for financing interventions in the skills development sector

Given all of the above, it should also be highlighted again that PbR schemes are not the only avenue given their limitations discussed above. They need to be further experimented and evaluated before their potential for the social sector can really be assessed. Other avenues can be explored in parallel, notably experiments aimed at reorienting passive spending towards active measures, and support to guarantee or loan schemes aimed at students and adult learners.

Beyond the specific actions already undertaken as part of EFSI SMEW which would need to be further continued and developed, some actions at the regulatory level could be envisaged e.g. to replicate the 90/10 Solidarity Funds experience in France.

There are also opportunities to blend funding from EFSI with other EU programmes to support skills development investments, however this might have some further implications for project eligibility criteria and requirements.

Under the SMEW, EFSI resources were used to frontloaded and then top up COSME and EaSI programme. This was seen as an efficient and effective solution since these programmes were successful and not able to meet all demand.

Further considerations could be made by national actors and managing authorities on the potential of combination EFSI funding with resources from the European Structural Investment Funds (ESIF).

Effectively, resources under shared management of one NPB or managing authority could contribute to EFSI through a possibility for Member States to voluntarily contribute with ESIF funding to a "MS Layer" within each policy window of EFSI. Any such contribution would represent additional EFSI

resources, creating specific MS-focused guarantees with an increased impact covering country specific market failures/gaps. Effectively, a layer for a MS could be created, preferably in cooperation with their NPB(s), within each policy window.

Such combination would have to undergo ex-ante assessments in terms of its impact on simplification and flexibility of fund management, as well as its effectiveness compared to solely EFSI contributions. Furthermore, complementarity between the instruments provided under such blended EFSI/ESIF funds and other programmes managed by Member States with EU funds support would have to be carefully reviewed.

Combination of funding for 'joint' EU level financial instrument is already permitted under ESIF funds legal basis (Article 38 and 39 of the Common Provision Regulation (CPR)[109]), and this provision has been used to top up various COSME and EaSI initiatives. The new CPR foresees three new types of combination:

- ESIF contribution invested into an established "EFSI investment platform"
- ESIF and EFSI collectively create a financial instrument/investment platform
- EFSI co-invests into an established ESIF financial instrument

There are already pilot examples of combination ESIF with EFSI funding, such as the Comunidad de Madrid (CdM) € 25 million funding for an EaSI financial instrument. Examples such as this, despite being still in the piloting phase, already provide a number of prerequisites for the successful combination of EFSI with other funds, which are presented below.

- **Ensure interest and support from the managing authority.** The operational programme (OP) needs to foresee the contribution, which in turn requires that the final recipients' eligibility criteria is in line with the OP. In the case of CdM, the OP included the option specifically.[110]
- **The eligibility criteria need to be clearly defined and aligned with the EaSI definitions** of stakeholders in the microfinance and social entrepreneurship window.
- **It is crucial to choose the right instrument.** This instrument needs to be perfectly aligned with the any framework conditions of the 'matched' fund.
- **Ex-ante assessment and market test during the design phase are important.** Ex-ante assessments are important tools for analysis of market failures, sub-optimal investment situations as well as investment needs.
- **Understanding the financial intermediaries' key role in providing the instrument and delivering the impact in the region.** This requires selecting experienced intermediaries with the right technical expertise to carry out due diligence and fund management activities.

[109] REGULATION (EU) No 1303/2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

[110] De la Mata, G., 2018. ESF contribution to the EaSI financial instrument under Art.38.1(a) CPR, p.10 [ppt presentation]. Available at: https://www.fi-compass.eu/sites/default/files/publications/20180131-rome_de_la_Mata_EIF.pdf [Accessed on: 23 March 2018].

- **Reporting, monitoring and treasury are important.** Monitoring tasks (reporting and audit) as well as treasury play crucial roles for these type of combined funds.

5. CONCLUSIONS AND ACTION PLAN

This section presents our study conclusions, and highlights ten key actions that could be taken to help take-up of EFSI funds in skills development investments.

5.1 Study conclusions

Overall, there is clear scope for relevant projects to make greater use of EFSI to support skills development investments and strengthen a healthy supply of potential investment projects building on both the equity and loan finance instruments under the SMEW and the political willingness to further promote social investment especially where future public expenditure savings can be identified and monetised (see examples in Section 0 above). However it also has to be acknowledges 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.

Greater use of EFSI for skills development and ALMPs strongly hinges on the learning ability of national actors such as National Promotional Institutions and potential government commissioners, as well as the exchange of best practices across actors involved and geographies that could potentially benefit from investments related to skills development.

The research undertaken for this study has underlined that there are some persistent challenges to the use of EFSI for purposes of supporting skills development. Where the integration of the private sector in social interventions can enable flexibility, efficiency and, ultimately, the delivery of better services and outcomes, then persistence is warranted. Primarily, the remaining challenges derive from the need to scale up social impact investment with sufficiently secure returns that it would attract co-investment from EFSI (with or without use of other programmes).

Continuing challenges include:

- Intangible assets – Skills development projects represent investment in intangible assets, increasing the risk to investors compared to more conventional investments in tangible assets;
- Size of interventions - Skills development projects tend to be small scale making it difficult to generate returns sufficient to attract investment. The number of individual beneficiaries are commonly very small, however recent examples of larger target groups might play a 'first mover' role to design larger interventions. With its increased focus on small projects and stronger emphasis on investment platforms and support from the EIAH, EFSI 2.0 funding may be capable of greater utilisation to support skills development than EFSI 1.0. Furthermore, EFSI 2.0 has also increased the focus on investments in social enterprises. A key change in this direction is the addition of social services to the list of eligible sectors for EFSI financing[111].
- Long lead times - Payments for results in the skills development sector rely on government commissioners and investors accepting that fiscal and economic benefits have potentially long lead-times, requiring 'patience' and planning security at both ends;

[111] European Commission (2017), Extension of the European Fund for Strategic Investments (EFSI) - Frequently Asked Questions, http://europa.eu/rapid/press-release_MEMO-17-3224_en.htm

- Ad hoc approaches - Projects are often designed on a 'one-off' approach, which means either the investment has been successful and funders receive their premium or reward, or it has been unsuccessful and the funders have lost the funds provided. This absence of common frameworks increases overhead and upfront investment, and prevents the creation of a precedent for risk sharing. It also increases transaction costs as contracts address individual nature of each intervention;
- High risks - The success premia are limited and the risk of failure commonly substantial. From an analytical point of view, this is an "unhealthy" shift of risk from the state to the funder, whereas the major return will accrue to the state;
- Difficulties in monetising benefits - There is nascent interest in PbR from institutional and commercial investors[112], with the most common investors being "social investors". These are foundations or other entities that can afford some loss of investment capital (whereas they may gain reputation from the social impact achieved). This implies that current project examples are often offering only modest economic, but larger (unmonetised) social returns, with social returns generally harder to estimate and monetise. Furthermore, the longer-term fiscal returns are often substantially higher than the short-term effects indicate (e.g. medium-skilled people have a much lower risk of unemployment, a higher income, a higher employment rate, retire on average latter etc.), and, thus, the premium paid to service providers, which is based on short-term results covers only a very small share of the total return etc.
- There are also persisting issues in building a sufficient project pipeline of viable projects in the social sector at the demand side across Member State level.[113] [114]
    - The identification of viable project ideas, which maximise where possible the mobilisation of private (and/or social) sector capital and are commercially attractive enough to be proposed for EFSI support, requires a combination of patience and skill on the side of project promoters, potential investors and technical assistance providers such as National Promotional Institutions;
    - Technical capacity to support project development and the willingness and interest of government stakeholders to act as commissioner for impact investment interventions, varies strongly across Member States. Unfortunately, many Member States which exhibit persisting challenges in the labour market as well as in skills development do either not have the required infrastructure for technical assistance to support project development in place, or lack the engagement and interest of government stakeholders in the principal concept of impact investing and active labour market interventions

[112] Such as BNP Paribas in France and Unicredit in Italy. It should also be noted that the Koto SIB discussed above is in line with private equity market standards.

[113] ICF, 2017. Study on the feasibility of an education and training investment platform (DG EAC).

[114] Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe. Discussion paper 074, January 2018.

- Political will and incentive to support novel financial instruments and intervention types in the education and skills sector varies across Member States.

Given these challenges, the pursuit of the use of social investment and the development of Social Impact Funds (with or without EFSI) to deliver investments in skills development is a long-term process, recognising: (i) the limited experience with PbR projects and the limited number of loan and loan guarantee interventions; (ii) the current low levels of awareness of the relevant stakeholder community; and (iii) the need to develop an 'invest to save' culture based on a broader assessment of the role and importance of human capital to the economic and social future of Europe.

There are three broad types of interventions that the study team has identified as potential prospects for EFSI support:

- Payment by results for educational and training outcomes, paid for by Government as commissioners, justified on the basis of making an optimal use of existing public resources in pursuing governments objectives and also regarding the fiscal benefits that are considered to accrue;
- Loan funds to students and adult learners to increase participation and skill level and/or provision of credit risk cover to financing of students, including apprenticeships, adult learners etc., as well as loan funds to cover skills acquisition in general;
- More conventional public-private partnerships (PPP) to leverage investment into the supply and refurbishment of education buildings

Whilst loan funds, loan guarantees and PPPs to invest in physical assets are relatively well established and have been supported by the EIB group under EFSI and beyond in the past years, the support of social investment or impact investment to deliver skills development results remains a nascent field.

A more immediate use of EFSI in funding skills development can be found in the use of loan facilities or loan guarantees, in particular for the delivery of lending to students and adult learners.

Beyond the sole use of EFSI, there might be benefit in exploring further the blended use of various EU programmes. For instance, ESF and EaSI resources could be combined with the use of EFSI instruments to provide support along various stages of maturity and financial bankability of interventions. ESF could be used to set up larger outcome funds, which would help provide security and diversification in outcome payments.

The aggregation of multiple interventions in the area of skills development through an investment platform has so far not taken place. Such an investment platform would need to be set-up by an organisation (platform sponsor) able to be the driving force in the creation of the platform. The platform sponsor would need to establish:

- the investment needs,
- the sectorial and geographical focus,
- the business case and investment proposition,
- the sources of funding,
- the risk-sharing agreements, and
- decision making rules.

In the case of platforms based on payments by results, the most likely candidates to serve as platform sponsors could emerge in the next 3-5 years and might be: (i) NPBs, where there is a willingness to consider investment in intangible assets; (ii) government agencies seeking to expand and formalise the use of local level interventions in response to identified national education and training needs; and (iii) ESIF Managing Authorities (especially ESF) with a particularly strong interest in the use of financial instruments.

With all these three parties, research suggests that the concept of using investment platforms remains difficult. This is most likely reflecting: (i) a lack of awareness of the opportunity (both in terms of the actual role of EFSI and the scope to generate financial return); (ii) some concerns over the principle of using third party investors in an area that is still largely dominated by public funding; (iii) concern over the up-front costs of establishing a platform and of generating the necessary pipeline and (iv) the need for further experimentation with social outcome contracts within areas where PbR demonstrate tangible savings for the commissioners and provide appropriate social and financial returns.

However, there are some encouraging signs that the groundwork have been laid for an expansion of activity in this area, building on identified best practice projects to provide sufficient confidence to government commissioners, project promoters and investors to invest in the necessary project development. Institutional and private investors can bring additional added value to social programs thanks to new delivery methods and result-oriented approaches. These are some of the reasons why the funding models discussed in this study are becoming more and more popular with public authorities.

5.2. Choosing EFSI or other programmes – the potential benefits of InvestEU

The proposed introduction of InvestEU in 2021-27[115] as the successor to EFSI with its approach based on a single umbrella for different financial instruments should make it simpler for social investors. InvestEU is also proposing to integrate and strength Technical Assistance services under the Investment Advisory Hub, again supporting decision-making and investment planning by public authorities looking to utilise these resources. As well as making it easier to use EU financial instruments, there is also 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.

5.3. A wider discussion on how EU can support investment in social infrastructure

Conclusions of the present study well with main insights of the high-Level Task Force (HLTF) for Investing in Social Infrastructure in Europe (2018), which reviewed the potential of EU support for investment in social infrastructure more broadly.

[115] http://europa.eu/rapid/press-release_IP-18-4008_en.htm

The box below summarises the key recommendations from the HLTF, before section 0 presents an action plan to stimulate further uptake of EFSI for skills development.

The High-level task force on Investing in Social Infrastructure (2018) list the following priorities for social infrastructure investment:

- In the next Multiannual Financial Framework (MFF), establish a specific policy window for social investments including social infrastructure;
- During the annual European Semester, consider assessing EU countries' investment in social infrastructure and make country-specific recommendations for investment in social infrastructure ;
- Focus cohesion policy more tightly on social investment and infrastructure and facilitate further blending of financial resources;
- Pilot the launch of some thematic and/or geographic investment platforms to bundle projects and boost initiatives for social sector investments;
- Strengthen the strategic role of the European Investment Advisory Hub's (EIAH) technical assistance through setting up a strong network with NPBIs and other national or regional agencies;
- Boost the use of strategic public procurement schemes and achieve cost synergies through efficient cooperation with possible central purchasing bodies (CPBs);
- Build the capacity of service provider organisations and local authorities;
- Develop standard settings for impact investing.

Enabling conditions for social investment:

- Make sure that fiscal consolidation do not weight too much on sub-national governments' resources for social investment in infrastructure;
- Craft the prior and subsequent conditions adopted for the use of the cohesion funds and the blending of financial resources beyond 2020, to avoid making regions pay excessively for the fiscal consolidation of the Member States at central level;
- Promote the development of new financial instruments dedicated to social infrastructure (such as social bonds);
- Promote the development of technical assistance (TA) at local, national and EU level;
- Promote favourable taxation and incentive schemes supporting social investment;
- Promote labelling and certification that would enable the take-up of social investments;

Source: Fransen, L., del Bufalo, G., Reviglo, E., 2018. Boosting Investment in Social Infrastructure in Europe. Discussion paper 074, January 2018.

5.4. Action plan to help take up of EFSI funds in support of skills development investments

From the research conducted in this study, it seems that countries with established NPBs and project development capacity would be able to bring forward social investment programmes in skills development and ALMP on their own. In other regions however, social investments in skills development and ALMP is unlikely to grow substantially without actors such as the EIB, the EIF, national promotional institutions and governments taking action. We have summarised below the ten key actions that are needed to help the uptake of EFSI funds in support of 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, or bridge time periods needed to reap returns on more long-term interventions. Some of these early returns could be used to increase investment levels in other, more long-term oriented investments, such as, for example, early childhood or primary school education.

   The desire to engage in such "development" activities was explicitly supported by the Danish Social Capital Fund, which develops PbR-schemes and potential SIBs aimed at integrating vulnerable people to the labour market. , By automating the financing, the structuring as well as the pay-awards for future SIBs, the establishment, development and structuring of future SIB-programmes would be less costly for operators.

3. **Simplify the sharing of good practices:** The EIAH, under its mandate for providing a platform for peer-to-peer exchange, 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, similar to its role in growing venture capital investments in Europe.

5. **Flexible contractual arrangements to allow governments to engage and experiment:** Government commissioners should aim for flexible contractual arrangements which allow experimentation. 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 in the sector.

   Country case studies suggest that flexible contracts are already in use but could be replicated further. In the Finnish Koto-SIB the contracted service providers are paid a bonus depending on how successful they are in terms of the job-seekers' job-retention as well as salary level. Denmark's PbRs scheme VSB uses bonus payments as well. In Italy the forthcoming PbR-scheme with Italian inmates leaves services providers exposed to only 5 per cent of their investment. Service providers need to repay 70 per cent of the initial investment if the target on the reoffence rate reduction is not met.

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 to more commercially oriented investors.

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.

   To use EFSI as a guarantee, in the same manner as the EaSI guarantee, was suggested in countries like Denmark, by actors taking the risk in PbR and SIB-projects. For example, in the forthcoming Specialisterne PbR-scheme, SKF is the sole risk-taker in the initial stage, paying the service provider for the interventions. Use of ESF funds to provide budgetary guarantee for first loss might also be considered.

8. **For the next programming period**, the Commission's proposal[116] **suggests a move towards a single fund (InvestEU) that would provide support via a wide variety of financial products** – instead of the current various financial instruments. The Paper also highlights the need "to do more with less" which could lead to a higher use of budgetary guarantees (which are not fully provisioned unlike financial instruments). There will however be a need to preserve, under the roof of the future possible single fund, products which are close to 100 per cent provisioned and can take the first loss piece, in order to make sure coverage of the social sector does not decrease.

9. **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 (for instance Public and Private Employment Services), national, regional and municipal budgetary authorities which hold power and oversight of fiscal revenue and expenses/costs of social policies, as well as potential investors from both established financial markets (banks, investment and pension funds and insurance companies) and philanthropic or 'social' investors.

10. **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 in support of ESF objectives including skills development and ALMPs.

[116] https://ec.europa.eu/commission/publications/investeu-programme_en

Annex 1 Detailed case studies from country research

This annex presents a selection of exemplary 'use cases' across the four countries investigated in detail (France, Finland, Denmark and Italy) where the funding models discussed above have been used or could be used to finance and scale up investments in skills development.

France

The French education system is mainly financed through public spending, be it primary, secondary education and post-secondary non-tertiary education (91 per cent) or tertiary education (79 per cent)[117]. While overall spending is in line with other countries' aggregates (5.3 per cent of GDP in 2014)[118], the expenditure structure in France is said to be elitist since, in comparison with other countries, elementary schools, and to a lower extent, universities are underfunded while the upper-secondary schools and the post-secondary programmes that prepare students for the "grande école" system receive a disproportionate amount of funding. And investment needs are high: it is estimated that up to 1.4 percentage points of GDP in additional spending would be necessary to catch up with the best performers in education[119].

Beyond the high investment needs and very limited role the private sector plays in financing education, A characteristics of France is that it has a strong welfare state and a long tradition of insuring its people against social risk. Should they fall, individuals are typically compensated via monetary allowances. This, combined with high unemployment rates (10.1 per cent in 2016[120]), explains that passive labour market measures represent 1.98 per cent of GDP in France in 2015, against 0.8 per cent on average in OECD countries.

France Project Example 1: "Territoires Zéro Chômeur de Longue Durée" (TZCLD)

France is experimenting with a project that aims at reorienting passive spending (unemployment compensation) towards active measures. More specifically, an experimental project called "Territoires zéro chômeur de longue durée" (hereafter TZCLD), supported by the French government, was launched in 10 territories in France. It will be described in detail below, following a short introduction on the problem it seeks to address and current initiatives in the sector.

[117] OECD (2018), "Education at a glance: Educational finance indicators", OECD Education Statistics (database), http://dx.doi.org/10.1787/c4e1b551-en (accessed on 31 March 2018).

[118] OECD (2018), Op. Cit.

[119] Agacinski D., Harfi M. and Ly S. (2017), "Quelles priorités éducatives ?", Enjeux 2017-2027, France Stratégie.

[120] Eurostat (une_rt_a)

Target Sector: The French labour market

A1.1.1.1 The structure of the French labour market and social exclusion

Unemployment rate is high in France: 9.4 per cent in 2017, against 7.6 per cent for the EU as a whole[121]. Similarly, long-term unemployment rate is high, reaching 4.2 per cent in 2017, against 3.4 per cent for the EU as whole.[122]

In France, unemployed persons (without work but available for work and seeking work) who receive insufficient income replacement (as well as the working poor) receive the Active Solidarity Income (Revenu de Solidarité Active - RSA), worth € 545 a month (2018 value of the floor RSA for a single person with no dependents)[123]. Despite this mechanism being in place, it is estimated that about 14 per cent of the population live below the poverty line, among which more than 50 per cent are people of working age, unemployed, or working poor[124].

In parallel, the shadow economy, fed to a large extent by undeclared work, would represent around 10.8 per cent of the French GDP[125].

A1.1.1.2 Revenue (Additional Services) type of project

TZCLD is a project that aims at reorienting passive spending (unemployment compensation) towards active measures. The public sector committed itself to finance part of the salary cost (70 per cent) of all those which will be employed in light of the savings (including reduced targeted expenditure on employment/ reduced social expenditure, higher fiscal earnings and lower indirect costs) which are expected (estimated between € 16,000 and 18,000 a year per person no longer unemployed).

TZCLD is also a revenue-generating project. The part of the project cost that is not covered by the public sector (30 per cent) will be covered by the sale of goods and services.

Investment context

A1.1.1.3 Any government / Market failure leading to under-investment / public expenditure?

The French government already provides (since the 1960's as part of experimentations) public funding, under the form inter alia of tax exemption, financing of the salaries of employees, and typical investment financing, to enterprises of reintegration by economic activity (entreprise de l'insertion par l'activité économique). Enterprises of reintegration by economic activity are a form of Work Integration Social Enterprises (WISE), a term frequently used in other countries. For 2018, the budget set aside to support the sector is € 840 million, which should allow the financing of 71,000 ETPs[126].

[121] Eurostat (une_rt_a)

[122] Eurostat [une_ltu_a]

[123] https://www.lafinancepourtous.com/IMG/pdf/chiffres_cles/IEFP_MinimaSociaux.pdf

[124] Observatoire des inégalités. 2014. Observatoire des inégalités website. Available at: www.inegalites.fr.

[125] https://www.latribune.fr/actualites/economie/france/20140624trib000836701/le-travail-au-noir-representerait-pres-de-108-du-pib-en-france.html

[126] https://www.lesechos.fr/economie-france/social/030923094022-linsertion-par-lactivite-economique-continue-de-progresser-2133192.php

However, the number of long-term unemployed is much higher in France (1.3 million in 2017[127]) and not everyone that wish to be hired could be so by the enterprises of reintegration by economic activity: there is typically a selection process to define the people hired among those entitled to the job.

There is a case for providing all those who are long term unemployed that so wish a chance to get an open-ended work contract and that is the aim of the TZCLD experimentation, authorised and set up by the Government via a specific law[128]. In each of the 10 selected territories, a WISE has been created with the aim to hire the long term unemployed that wish so, on open-ended employment contracts[129].

The social enterprise then identifies a range of activities that the unemployed can do – activities that are in demand but not selected by the traditional economic sector since they are perceived as insufficiently profitable. Providing service with high social impact at a modest price, as in this programme, is the other main source of its added value.

A1.1.1.4 Economic and social returns

A macro-economic study was undertaken in 2015 by ATD Quart Monde[130] before the launch the experimentation to demonstrate that it would be neutral from the public sector's point of view to finance 70 per cent of the salary cost of all those which will be employed in light of the savings made (estimated to lie between € 16,000 and 18,000 a year by person no longer unemployed). Overall the study concluded that the costs associated with long-term unemployment were around € 36 billion. These were spread as follows:

- Direct costs: 19 per cent targeted expenditure related to unemployment benefits, 26 per cent related to social benefits
- 20 per cent indirect costs linked to the social consequences of long-term unemployment (health, housing, child care related costs)
- 35 per cent opportunity costs (lower fiscal earnings).

A1.1.1.5 Scale of investment / expenditure required

a. At project level – resources required for a typical project

The experimentation started as a 5-year project in 2016[131] in 10 selected territories. Territories are small-scale ones, covering a population of 5,000 to 10,000 people in a rural or urban area[132]. As of end March 2018, 483 persons were employed by TCZLD WISEs[133]. The objective is to reach 2,000 persons at the

[127] Eurostat [une_ltu_a]

[128] LOI n° 2016-231 du 29 février 2016 d'expérimentation territoriale visant à résorber le chômage de longue durée. Available at : https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000032134592&dateTexte=&categorieLien=id

[129] The only conditions are to be unemployed for at least one year and be officially residing on the territory for at least 6 months. There is no link with administrative definitions of unemployment.

[130] The study was updated with 2016 / 2017 data. See: https://www.tzcld.fr/wp-content/uploads/2017/07/Etude-macro-MAJ-20170613.docx.pdf

131 Effective start in 2017 as 2016 was dedicated to setting up the scheme and the selection of the 10 territories

[132] https://www.tzcld.fr/wp-content/uploads/2017/07/ManuelExperimentaton.pdf

[133] https://www.tzcld.fr/wp-content/uploads/2018/04/ETCLD_embauches_activites_31mars_2018.pdf

end of the experimentation. Despite the salary costs being partly covered by the public sector (70 per cent), there are financing needs to be covered to launch and develop the activities (e.g. cost of premises, equipment, transport), and cover for the time during which the client base is being built up, especially since profitability can be expected to be very low for some activities with very high social added value.

The TZCLD fund estimates that the equity needs to lie around € 5,000 per person employed over the lifetime of the experimentation, i.e. € 10 million for an experimentation in 10 territories employing 2,000 persons. For the first stage of the experimentation these equity needs were not covered centrally, and each WISE had to find ways to capitalise itself (e.g. source subsidies from local governments). The TCZLD WISEs were financed by a mix of self-financing - equity (40 per cent), quasi-equity (40 per cent) and loans (20 per cent), for an approximate amount of € 760,000 over three years.

b. At portfolio level (national or regional, may also be cross-border opportunity?)

The project was in a first step implemented in 10 selected territories but there are expectations that the experimentation will be extended and scaled up to 20-60 territories. At the latest twelve months before the end of the experiment, an independent evaluation will be performed to assess the rationale for a second phase to be adopted by law as the first experimentation.

If its success is demonstrated, over the longer term the experimentation could be rolled out over the entire French territory, and even in other EU countries. The experimentation is already raising interest beyond France and the project has been presented in Belgium, Luxemburg and Austria at the request of Ministries of Labour, Public Employment Services, local authorities and think tanks.

Private / Social Sector Finance Provider

Providers of finance vary. Key providers include:

- For quasi-equity: CDC group (providing equity loan with interests to be paid depending on the level of activity), France Active (providing equity loans), local authorities (providing Investment subsidies)
- For debt, traditional banks (providing regular loans)
- Investors, among which the public CDC group plays a key role by financing 8 out of the 10 WISEs, need to be able to accept a relatively high level of risk for a low expected rate of return.

Income Generation

A1.1.1.6 Payees

The 70 per cent of the salary costs will be covered by the government (central and local) for the lifetime of the experimentation. The support could also be renewed if the experimentation can demonstrate its success. Several success indicators have been defined in the law launching the experimentation[134], including:

[134] LOI n° 2016-231 du 29 février 2016 d'expérimentation territoriale visant à résorber le chômage de longue durée. Available at : https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000032134592&dateTexte=&categorieLien=id

- The reduction of long-term unemployment in the territory (number of persons permanently unemployed registered or not at the PES, number of unemployed met / recruited);
- The creation of additional jobs (taking into account potential competition issues / jobs reductions elsewhere)
- The impact on public finances (level of targeted expenditures on unemployment and social benefits, new earnings)
- The impact on the economy (increase of the purchasing power of those employed, measure of the direct impact of the TCZLD WISEs on the local economy);
- "Sustainability of experimentation": viability of the business model of each WISE, capacity to cover the revenues to cover for the part (30 per cent) not supported by the public sector.

A1.1.1.7 Income collection

The payees collect income in terms of savings of unemployment benefits as well as other social benefits to the unemployed. There is also an increased tax collection accruing from each employed person and savings on indirect cost.

For now, the main payee is the central government. More local levels are also involved which is in line with the fact that savings happen at all levels including more local ones. For instance, the "Floor RSA", one of the main social benefits linked to unemployment, is financed by local governments (Départements).

A1.1.1.8 Time period

The experimentation started as a 5-year project in 2016 in 10 selected territories. Since the first steps have been successful, there is the expectation that the experimentation will be extended and scaled up nationally, to 20-60 territories.

The aim of TCZLD is however to create jobs which are stable for the long-term unemployed. The persons are recruited on open-ended contracts, which means the project is not supposed to end at the end of the experimentation phase. The expectation is that the model will have by then demonstrated its success so that the government as well as the other public entities making savings thanks to the project will renew their support and continue to support part of the salary costs.

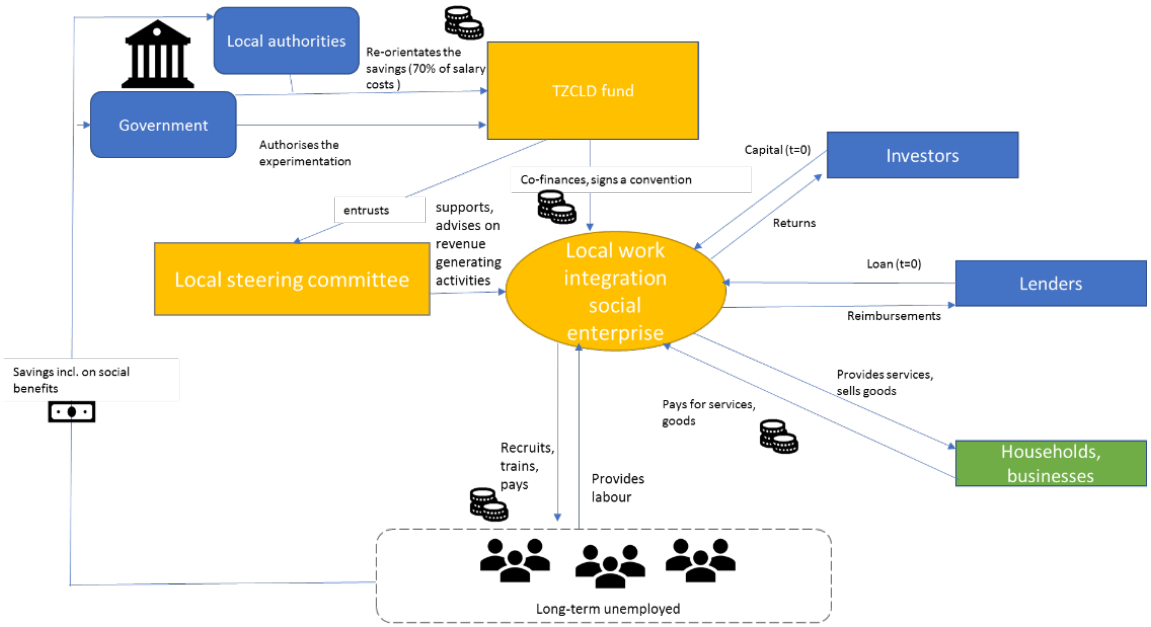
Service Provider

The experimentation is implemented via the TZCLD WISEs (one per territory) which are tasked with the role to identify potential workers, map their skills and assess the types of activities they could be providing and which would correspond to unmet needs in the territories. This could be activities in the following sectors: salvaging and recycling waste, maintaining public or green areas, providing social services to the elderly, manual labour (building, carpentry etc.). The activities themselves have a high social and/or environmental added value. Typically, each WISE is involved in a wider range of activities so that the activities which are the most profitable can cross-subsidise the ones at the other end of the spectrum. The local steering committees make sure that there is no competition with pre-existing activities.

Project Delivery Framework

The functioning of the TCZLD experimentation is depicted in Figure A1.1 below.

Figure A1.1 Project delivery framework for the TCZLD experimentation



Source: ICF, based on TZCLD documentation available at: https://www.tzcld.fr/wp-content/uploads/2017/07/ManuelExperimentaton.pdf

A1.1.1.9 Project manager/coordinator

At the national level, the project is coordinated by the "Fonds d'expérimentation territoriale contre le chômage de longue durée" ("TZCLD fund"), which is organised as an association, administered by a Board of Directors and representing all parties involved in the experimentation including the state, trade unions of employees and employers, associations of local authorities, parliamentarians, local steering committees and other public bodies involved in the scheme. Its key missions include:

- to propose the list of selected territories
- to supervise the local steering committees created on each territory
- to finance part of the salary costs of the persons hired
- to organise the contractual agreements between all parties involved in the experimentation at the local level
- to assess the experiment.

At the local level, the experimentation is coordinated by the local steering committees, composed of local actors directly involved in the process (local elected officials, entrepreneurs, social partners, associations etc). Its main role is to ensure there is no competition between the offer of the TZCLD WISEs and the existing enterprises and manage any potential conflict related to competition with existing jobs.

A1.1.1.10 Financing Model

The ongoing financing costs, linked to salaries of those hired, are covered by the government, up to a level of 70 per cent.

The remaining costs however, i.e. the remaining share of the salary cost as well as the upfront investment costs need to be covered by the WISEs themselves. Eventually, it is expected that the revenue generating activities will make the model sustainable but in the meantime, the financing needs need to be covered. Ideally this would have been done centrally under the form of equity provided by the government which launched the experimentation (to make sure each WISE is equally well capitalised and can indeed hire all those not in employment that wish so)[135]. In practice, this was covered locally via a mix of equity, quasi-equity and debt products.

A1.1.1.11 Assumptions / Risks

The main risk is to be able to fill the gap (the 30 per cent not covered by public support) from market resources to finance the operations of the WISEs, without excluding any unemployed i.e. while being able to effectively provide a job to all those not in employment.

Another risk would emerge should the public sector not continue to support and finance the experimentation beyond the initial five years.

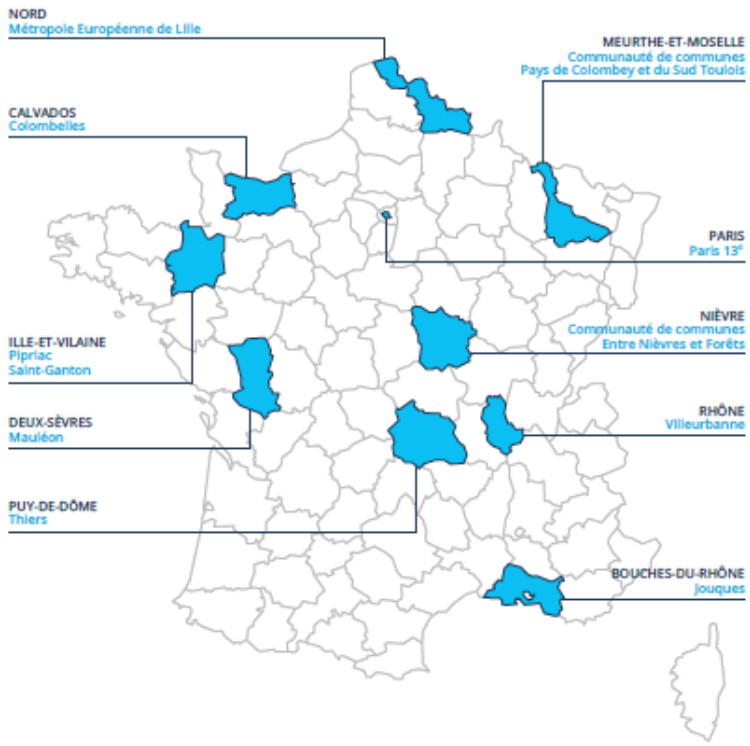
Aggregation Potential

A1.1.1.12 Likely spatial scale

The current spatial scale is 10 territories spread across France (please see Figure A1.2 below) but the experimentation has potential to be expanded geographically.

135

Figure A1.2 Territories covered by the TCZLD experimentation



Source: TZCLD documentation available at: https://www.tzcld.fr/wp-content/uploads/2017/07/ManuelExperimentaton.pdf

46 territories have already formally expressed their interest in participating in a second phase of the experimentation by joining the association "TZCLD fund".

The potential exists beyond the experimentation scale, all over France and in other EU countries that encounter the same problems as in France linked to long-term unemployment and social exclusion.

A1.1.1.13 Description of possible platform sponsors

No possible platform sponsors have been discussed. However, today, the experimentation is centrally coordinated by the association TZCLD fund, which receives the funding meant to finance a portion of the salary cost of those hired.

A1.1.1.14 Summary of the investment opportunity

The French Government committed itself to the experimentation for an initial period of 5 years but there are strong expectations that the experiment will be extended beyond 2021 and scaled up. In this case, financing needs will be substantial. TZCLD WISEs would benefit from guaranteed loans. Already now, some of the social investors which participated to the financing of the initiative do participate in EU programmes (e.g. France Active participates into EaSI[136] and COSME[137]). The EIF could also be involved as an investor – under a similar model to that of a SIB scheme.

[136] http://www.eif.org/what_we_do/microfinance/easi/easi-signatures.pdf

[137] http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/cosme_lgf_signatures.pdf

Finland

The education sector in Finland is based on the notion of equity, with the objective to provide all citizens with equal opportunities to obtain education.[138] It consists of seven major stages: early childhood education; pre-primary education (up to 6 year olds); a 9-year long basic education (7 to 16 year olds at comprehensive schools); matriculation examination (3 years at general upper secondary school) and vocational qualifications/apprenticeship training (3 years at vocational institutions); bachelor degree (3 years at either university or university of applied sciences); master's degrees (2 years at either university or university of applied sciences after 3 years of work experience); and doctorate degrees/licentiate degrees (universities).[139]

Adult learning in Finland comprises of vocational training and general education as well as formal, non-formal and informal learning. An adult learner can be a student who is 25 years or older at all levels from primary to tertiary education.[140] The ministry responsible for adult learning in Finland is the Ministry of Education and Culture, whose activities are meant to be enhanced by the labour administration for labour market training. The Finnish educational sector operates via a decentralised system, where the Government provides funds to counties that later distribute them to municipalities. Moreover, schools enjoy rather high autonomy, often having the responsibility of budget management, acquisitions and recruitment.[141] The same applies for universities and universities of applied sciences that organise their own administration, decide on student admission and design the contents of degree programmes.

Education and training in Finland is mainly publicly funded and free of charge at all levels, with the exceptions of tuition fees for non-EU and non-EEA students in higher education as well as further and specialist vocational qualifications.[142] The Finnish Ministry of Education allocates over 7 per cent of its total expenditures to adult learning. Of this, the largest share is allocated to vocational adult education and training and apprenticeship training (around 40 per cent), one fourth goes to adult education provided by higher education institutions, a fifth to liberal adult education, and about 5 per cent to developing adult education and continuous education for teaching staff.[143]

Finland Project Example 1: "Kotouttamisen SIB" (Integration SIB)

A Social Impact Bond scheme for increased integration of immigrants was launched in Finland during the first half of 2017. This scheme, referred to as the "Koto-SIB" after it's Finnish name "Kotouttamisen SIB" ("Integration SIB"), claims it is the first SIB-scheme in Europe aimed at supporting integration. It will be described in detail below, following a short background section of the current state of play of the sector in the country.

[138] Finnish National Agency for Education, 2017. Education system. Available at: http://www.oph.fi/english/education_system

[139] Finnish National Agency for Education, 2017. Education system. Available at: http://www.oph.fi/english/education_system

[140] Eurodyce, 2015. Adult Education and Training. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Finland:Adult_Education_and_Training

[141] Finnish National Agency for Education, 2017. Education system. Available at: http://www.oph.fi/english/education_system

[142] Finnish National Agency for Education, 2017. Education system. Available at: http://www.oph.fi/english/education_system

[143] Eurydice, 2015. Adult Education and Training. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Finland:Adult_Education_and_Training

The Finnish labour market and integration

A1.1.1.15 The structure of the Finnish labour market

The labour market in Finland is challenging for immigrants. On average, 2.5 more immigrants are unemployed in the long term as compared to the Finnish-born population. Immigrants are also taking longer time to find employment in an environment with long mandatory integration training (up to 1 year)[144], jobs located at high cost-of-living urban centres and a fragmented service provision. Moreover, the illiteracy rates can be up to 10-15 per cent among immigrants.[145]

Companies in the Koto-SIB are active within sectors where labour shortage is high, such as the manufacturing industry, construction, property, trade, services, care, and restaurants and catering, but also jobs in academic sectors may be found via the Koto-SIB[146] [147].

A1.1.1.16 Revenue (Additional Services) type of project

The SIB-scheme is a Payment-by-Results scheme, meaning that the service provider is only paid in full should they reach the pre-set results in terms of the societal outcome set by the contract. While the Finnish Ministry of Economic Affairs and Employment is the commissioner, Epiqus Oy is commissioned to handle the implementation on the behalf of the Finnish Government as well as to raise the fund, in which the EIF has invested. Epiqus' service providers (various types of enterprises) engage in providing the employment services or the required training to the target group. The service providers are in turn paid for their efforts based on their accomplished results. Therefore, the Koto-SIB is a service focused-scheme, one where the main good traded is the employment services delivered by the contractors to the beneficiaries (immigrants).

Investment context

In the light of fast immigration, poor and slow integration of this target group as well as a need to educate and train this new workforce, creates the investment case for the Koto-SIB. The Koto-SIB scheme is aimed at supporting the integration of immigrants to the labour market through the provision of training and job-matching assistance. The objective of the Koto-SIB is to "speed up employment of immigrants, pilot new models of education and employment and combine education and work in a flexible way"[148].

The Koto-SIB involves three main funding parties among altogether eight investors: the EIF and the Finnish Innovation Fund Sitra, Epiqus Oy as the Project/Fund Manager and the Finnish Ministry of Economic Affairs and Employment as the commissioner. The relationship between the actors is depicted in Figure A1.3 further below.

[144] Integration training in Finland consists of language studies, civic knowledge and working life capabilities.

[145] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

[146] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[147] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

[148] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model, p.22. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

A1.1.1.17 Government / Market failure leading to under-investment / public expenditure

Interviews have suggested that there is no particular investment gap in the Finnish education sector as much of it is paid by the government and municipalities. Instead, the issue lies in that the current structure is not effective for promoting employment among immigrants. Immigrants have a disadvantage in the job search as they are put in the employment register, after completion of language and Finnish culture training, together with native Finns who already know the language well. This uneven competition makes it more difficult for immigrant to get a job.

Besides from this, service provision of employment services is fragmented with 120 branches of the in total 15 local Employment and Economic Development Offices (TE Offices).[149]

A1.1.1.18 Economic and social returns from investment in education and training

Interviews suggest that the inflow of working-age immigrants can have a significant positive impact on the economic support ratio and labour market flexibility, as well as produce multiplier effects to the Finnish economy.[150] Increased tax income as well as savings on labour market support and integration education for adult immigrants are important (anticipated) results from the quick employment of immigrants.[151]

This should be considered against potential costs to the Finnish state of different societal problems. A socially marginalised youth for example costs around € 20,000 per year.[152]

A1.1.1.19 Scale of investment / expenditure required

a. At project level – resources required for a typical project

In mid-2016 the aim of the Koto-SIB was to employ 2,000 immigrants over the next three years until the end of 2019. This goal increased to 2,500 and 3,700 migrants after EIF announced its € 10 million contribution to the SIB in June 2017.[153] In total € 14.2 million has been collected to the Koto-SIB fund, as of March 2018.[154]

b. At portfolio level (national or regional, may also be cross-border opportunity?)

To help the social inclusion of immigrants, EIF has with support from EFSI invested a total of € 10 million into the scheme. However, as of now, the Koto-SIB is still "an experiment" and is initially carried out in

[149] http://www.te-palvelut.fi/te/en/information/use_te_services/contact_information/index.html

[150] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

[151] Finnish Ministry of Economic Affairs and Employment, 2016. New trial aims to employ thousands of immigrants. Press release, 29 June 2016. Available at: http://tem.fi/artikkeli/-/asset_publisher/uuden-kokeilun-tavoitteena-tyollistaa-tuhansia-maahanmuuttajia?_101_INSTANCE_KbgSvtizPgsM_languageId=en_US [Accessed on 5 April 2018].

[152] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

[153] European Investment Fund, 2017. Investment Plan for Europe: First social impact bond scheme in Europe supports integration in Finland. Press release 2 June 2017. Available at: http://www.eif.org/what_we_do/equity/news/2017/efsi_epiqus_payment_by_results.htm [Accessed 5 April 2018].

[154] Finnish Ministry of Economic Affairs and Employment, 2018. International interest in the experiment to help immigrants find jobs. News item, 19 March 2018. Available at: http://tem.fi/en/article/-/asset_publisher/maahanmuuttajien-tyollistymista-nopeuttava-kokeilu-kiinnostaa-kansainvalisesti [Accessed 5 April 2018].

only two regions of Finland: Uusimaa and Southwest Finland. It will be extended to other regions that are experiencing a shortage of labour if and when considered necessary[155].

Private / Social Sector Finance Provider

The private fund Epiqus is involved as the fund manager, tasked with collecting funds from private investors to the Koto-SIB fund. Epiqus was selected through a process of competitive bidding. Investors in the Koto-SIB can either be private persons or institutions[156]. Cornerstone investors to the Koto-SIB are the EIF via EFSI, Sitra, and the Finnish retail company network SOK. The first closing investor in the Koto-SIB is the Finnish consumer cooperative Tradeka.[157] They have so far raised € 14.2 million. The investors fund the activities and also carry the financial risks.

Income Generation

A1.1.1.20 Payees

The purchaser of the employment services is the Ministry of Economic Affairs and Employment (MEAE).[158] The MEAE only pays Epiqus if the private service providers have created an impact on employment, according to the PbR-mechanism. This payment is based on the savings that MEAE makes from employing the immigrants as well as from an increased tax-base.

The fund manager in turn pays the private service providers for their services based on their achievements in employing people, with extra bonuses if they reach results (as described below).

Moreover, in some cases companies facing a staff shortage and who cannot find people to work for them pay for the employment service companies. As such the service providers receive a success fee based on the reach of employees.

A1.1.1.21 Income collection

The state collects income in terms of savings of unemployment benefits as well as other social benefits to the unemployed. There is also an increased tax collection accruing from each employed person.

The outcome determining the Ministry's payment, is based on the tax revenues collected from the target group (those job-seekers that are part of the programme) as compared to a reference group. If the target group pays more taxes than the reference group then the government pays half of that surplus to the service provider and keeps the other half for itself. Moreover, the Koto-SIB is developed to incentivise a high value of the service delivery from recruiters: Companies that give the *training* get an extra bonus if the person they have trained receives employment, there are bonuses for companies that have found the open position if the person stays in the job for 13 months and if the person gets a salary over a certain level.

[155] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[156] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

[157] Epiqus. Available at: http://www.epiqus.com/funds.html

[158] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

A1.1.1.22 Time period

The Koto-SIB was unofficially started already in Autumn 2016 and is aimed to continue for three years until end of 2019, while the follow up period will last to the end of 2022. The Koto-SIB is for the moment still a pilot scheme.[159] The objective is for immigrants to enter the labour market on average four months after they have started the training[160].

Service Provider

The employment and education service providers are companies identified and contracted by Epiqus. They provide immigrants with work-life oriented training to help them in their future employment[161]. They also connect immigrants to potential employers[162] and match them with open jobs. After employment, the training will continue on-the-job, including language, culture and professional skills studies[163]. There are currently eight companies providing the services to immigrants and the allocation of these can be adjusted depending on their performance.

Furthermore, the project is implemented in cooperation with selected TE-offices, i.e. the Finnish employment offices (officially named Employment and Economic Development Offices or "TE-offices"). These steer the unemployed immigrants (the customers) to participate in the experiment.[164] Moreover, Sitra is acting as a consultant in the first SIB-pilots, including this for the Koto-SIB[165].

Project Delivery Framework

The delivery of the Koto-SIB in Finland is depicted in Figure A1.3 below.

[159] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[160] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

[161] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

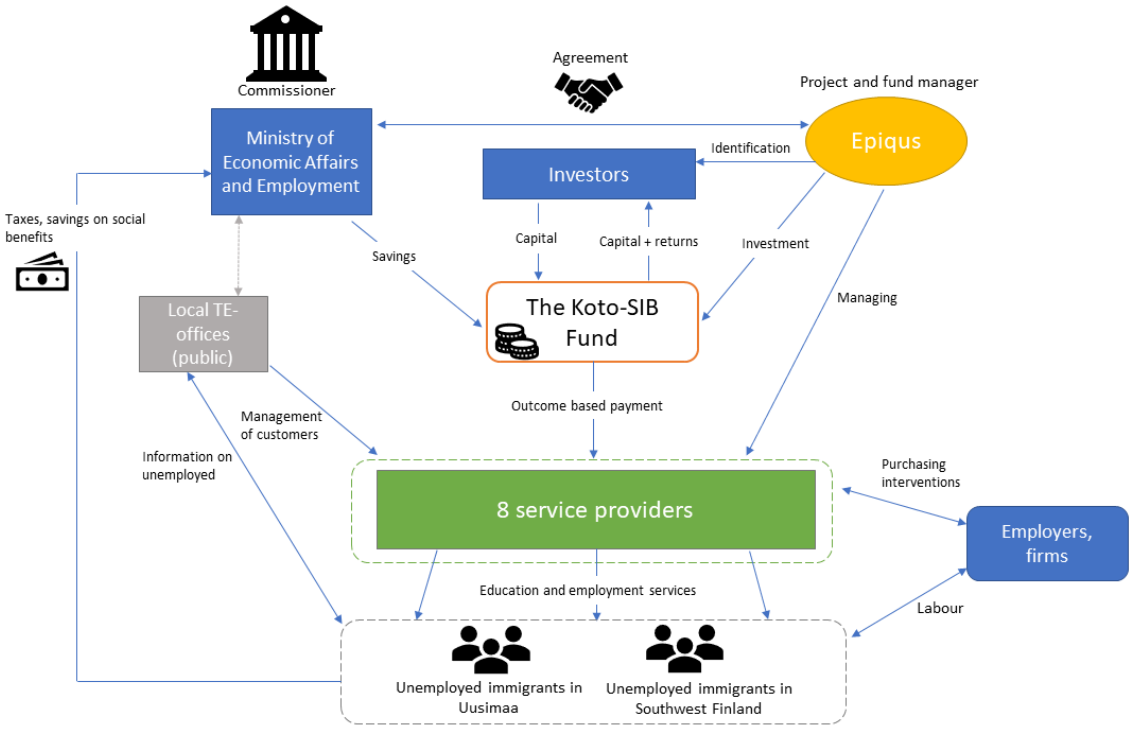
[162] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[163] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

[164] MEAE, 2017. Integration SIB project. Available at: http://tem.fi/en/integration-sib-project

[165] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

Figure A1.3 Project delivery framework for the Koto-SIB, as of February 2018



Source: ICF, Ministry of Economic Affairs and Employment

Note: Epiqus is the Project/Fund Manager with only a very minor investment into the fund.

A1.1.1.23 Project manager/coordinator

As the first Nordic impact investment management company as well as the second fund manager in Europe to be specialised in social enterprises, the fund manager Epiqus was appointed as the project coordinator and fund manager for the Koto-SIB. This was decided in a process of competitive bidding. The role of Epiqus in the Koto-SIB is the following[166]:

- Planning and managing the project
- Building up the Fund (the financial instrument)
- Fundraising and managing the Fund
- Organise education and employment activities of immigrants in cooperation with various service providers, according to the impact goals of the project
- Follow-up, interim reporting and final reporting

[166] Sitra, 2016. Sitra and Impact Investing in Finland– especially use of SIB model. Available at: http://www.voksenaasen.no/wp-content/uploads/2016/10/Sitra_impact_investing-Mika-Pyykk%C3%B6.pdf [Accessed 5 April 2018].

Epiqus' tasks also span the development of the necessary cooperation network, selecting the providers of training for the immigrants and establishing contact with potential employers.[167]

A1.1.1.24 Financing Model

The financing for the Koto-SIB is provided by private investors as part of the SIB-fund set up by Epiqus. The Ministry will pay part of its savings into a fund from which the investors will be paid back their capital, alongside a profit. The SIB-model sets specific, formal targets for impact and economic results and the realisation of these targets are also regularly monitored[168].

A1.1.1.25 Assumptions / Risks

No risks have been mentioned.

Aggregation Potential

A1.1.1.26 Likely spatial scale

The Koto-SIB has potential to be expanded both thematically and geographically. It is already in the process to be expanded into the planned employment-SIB, where the target group are all long-term unemployed in Finland, regardless of background.

For the geographic aggregation, exporting the Finnish SIB-model to the Nordic markets would be the first step. Nevertheless, other non-Nordic countries can be considered too. Nevertheless, while funding models and their characteristics can usually stay the same, circumstances such as tax and finance regulations were highlighted as important to consider especially when expanding to eastern European countries.

A1.1.1.27 Description of possible platform sponsors

The EIF has already invested in the Koto-SIB. In addition, there is an increased interest among different types of investors (private investors in Epiqus' corporate programme as well as foundations and family offices) in a moderate return. Currently, the fund manager approaches professional investors, but for the future the funds might be such that they are more suitable for institutional investors, like pension funds, to invest in. At the same time, smaller funds for addressing local needs might also be more common in the future.

A1.1.1.28 Summary of the investment opportunity

The Koto-SIB is Europe's first SIB on integration and also the world's second largest SIB in terms of fund size. Moreover, Finland is far sprung in the development of the social impact area, especially in SIBs. Nevertheless, there are still few impact investors in Finland. As such, the opportunity for investment in Finland is large, with a Government that is ready to experiment with new ways of service delivery and with an increasing knowledge of SIBs from existing interventions.

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[167] Finnish Ministry of Economic Affairs and Employment, 2016. New trial aims to employ thousands of immigrants. Press release, 29 June 2016. Available at: http://tem.fi/artikkeli/-/asset_publisher/uuden-kokeilun-tavoitteena-tyollistaa-tuhansia-maahanmuuttajia?_101_INSTANCE_KbgSvtizPgsM_languageId=en_US [Accessed on 5 April 2018].

[168] Sitra, 2016. New trial aims to employ thousands of immigrants, 29 June 2016. Available at: https://www.sitra.fi/en/news/new-trial-aims-employ-thousands-immigrants/ [Accessed 23 April 2018].

Finland Project example 2: Social Impact Bond scheme for long-term unemployed (Employment-SIB)

A social impact bond for the long-term unemployed is currently under development in Finland. Due to the still nascent stage, some information has not yet been determined and is not presented in this project example.

Target Sector

A1.1.1.29 The structure of the Finnish employment market and its various actors

The target group for the employment-SIB are people that have been continuously unemployed for at least 12 months. Long term unemployment poses challenges on both individual and societal level. It causes individuals severe mental and as well as material stress, while it is a signal for labour markets not operating efficiently and results in additional costs as well as loss in income to the public purse.

The problem of long-term unemployment is of increasing concern in Finland. Since 2013, the country has seen a steady increase in the long-term unemployment rate. While 21 per cent of the unemployed in Finland in 2013 have been continuously unemployed for 12 months or longer, this share increased to 23 per cent in 2014 and 25 per cent in 2015. In 2016, a striking 27 per cent of all unemployed people in Finland had been so for a year or more[169]. While there has been a recent decrease, the long-term unemployment is still higher than pre-crisis levels[170].

A1.1.1.30 Revenue (Additional Services / Lending facility)

The Employment-SIB is a revenue generating programme. It is a Social Impact Bond-scheme. Services are paid for in full if results are delivered. The results are if the long-term unemployed receiving training by the private service provider are employed. Within that, the longer they are employed and the higher salaries they obtain, the more will the service providers be paid.

Investment context

A1.1.1.31 Current levels of national investment in employment

Finland spends increasing amounts of its GDP on unemployment support. In 2015, 1.7 per cent of Finland's GDP financed the full employment benefits, compared to 1.6 per cent in 2014 and 1.5 in 2013[171]. The unemployment support in Finland is targeted at people between 17 and 64 years of age. In 2013, around 84 per cent of the unemployed in Finland received unemployment benefits and the Finnish unemployed receive benefits for a longer period than the OECD average.[172]

[169] OECD, 2017. Data on Long-term unemployment rate, Labour Market Statistics: Unemployment by duration: incidence. Available at: https://data.oecd.org/unemp/long-term-unemployment-rate.htm [Accessed 19 April].

[170] Ministry of Economic Affairs and Employment (MEAE), 2017. Employment bulletin, February 2018. Available at: http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/160702/TKAT_Feb_2018_en.pdf

[171] OECD, 2018. Public expenditure and participant stocks on LMP. Available at; http://stats.oecd.org//Index.aspx?QueryId=8540 [Accessed on 23 April 2018].

[172] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

In 2014, Finland was among the top OECD countries in terms of spending on ALMPs, even when accounting for the level of unemployment. Finland spent around 1 per cent of its GDP on ALMPs in 2014, third after Sweden and Denmark[173], and in 2015 Finland spent more than twice the proportion than its OECD peers on ALMPs (0.85 per cent against 0.40 per cent).[174]

During the past few years preceding 2016, around half of this spending consisted of training. As such, Finland spends the highest share of ALMP-spending on training than any other OECD country. In 2015, the labour market training expenditure, providing free of charge training for workers and unemployed people, was € 208 million. The aim is to improve vocational skills to facilitate a return to work, stay in the job, and promote entrepreneurship. These services are procured by the employment offices from public and private providers.[175]

In both 2014 and 2015 around 0.15 per cent GDP was spend on public expenditure on public employment administration. Of this, 0.06 per cent is for placement and related services[176].

A1.1.1.32 Government / Market failure leading to under-investment / public expenditure?

In the past few years the Finnish public employment service has had resources reduced, at the same time as long-term unemployment has been on the rise. The case load per case worker within the employment services has doubled during the past decade, from 80 unemployed people per case worker in 2005 to 160 in 2015.

General evidence suggests that the ones that might be in most need for labour market support, i.e. the older and low-skilled unemployed, are the ones that benefit the least from such support. They are least likely to be involved in an ALMP programme. They also run the highest risk of becoming long-term unemployed. An OECD report suggests that the contributing factors to this finding is the structure of passive and active support provided in Finland[177]. There overall effectiveness of the existing training opportunities for the unemployed in Finland is limited. While the existing training possibilities are comprehensive and flexible, its provision can be uneven in terms of quantity of training and who receives it.[178]

[173] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

[174] OECD, 2018. "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en. [Accessed 31 March 2018].

[175] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

[176] OECD, 2018. Public expenditure and participant stocks on LMP. Available at; http://stats.oecd.org//Index.aspx?QueryId=8540 [Accessed on 23 April 2018].

[177] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

[178] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

A1.1.1.33 Economic and social returns from investment in education and training

An important policy goal in Finland is to reduce the adverse impact of job displacement on the income of workers. Part of this effort is to provide effective re-employment support for displaced workers.[179]

Data on ALMP participants are collected three and six months after participation in a programme. Results suggest that ALMPs make a difference for the participants, but no causal impact of an intervention is available. In 2013, the share of participants in employment after three months was between 34 per cent and 63 per cent depending on the measure, in the three most successful programmes. For the least successful programme, the employment share was 12 per cent[180]. In 2010 there were a total of 161,439 people involved in ALMP in Finland. Three months after their participation, 24 per cent were in employment[181].

As regards to the effectiveness of different types of ALMPs, the results for Finland are in line with research from other countries. Evidence from other countries show that effectiveness of ALMPs depend on the type of programme, where e.g. human capital style training and private sector employment subsidies have medium to long term effects while public sector employment programmes have small or even negative programme impact, regardless of the time period.[182]

Scale of investment / expenditure required

A1.1.1.34 At project level – resources required for a typical project

Currently, the work on the project level requires a lot of resources. The role of the Ministry of Economic Affairs and Employment as a commissioner is crucial in trying to bring together the relevant parties. The inter-linkages between the actors involved are displayed in Figure A1.4 below. The contract with the project manager is still under development and requires lots of resources to ensure that the right incentives are created and that the private providers will be delivering a good job. Indeed, the project manager will be required to select the private service providers at the local level who would provide the actual services. In turn, the private service providers are dependent on the identification of beneficiaries from the local public employment offices (the TE-offices). As such, the TE-offices are public entities that have the unemployment data to identify the people that will be the target of the services.

At the Ministry, they are two people that are currently working on this SIB. The Ministry mentioned that the cost for services per one unemployed person is around € 4,000, due to the required personalised services, which can be very expensive.

[179] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

[180] OECD, 2016. Back to Work: Finland - Improving the Re-employment Prospects of Displaced Workers, Chapter 3: Mainstream income support and employment services and their effectiveness for displaced workers in Finland, pp.87. Available at: https://www.oecd-ilibrary.org/employment/back-to-work-finland/mainstream-income-support-and-employment-services-and-their-effectiveness-for-displaced-workers-in-finland_9789264264717-7-en [Accessed 23 April 2018].

[181] Ministry of Employment and the Economy, 2010. The Finnish Case: measures to tackle long term unemployment, presentation by Kimmo Ruth.

[182] Information compiled from OECD, 2016. Back to Work: Finland, p.122.

A1.1.1.35 At portfolio level (national or regional, may also be cross-border opportunity?)

At the national level, the Ministry aims to have the Employment-SIB rolled out in three of the 15 local TE-offices in the country. These TE-offices will need to be in highly populated areas and where economic activity is the highest and so also the chance to find employment.

In total, the Employment-SIB aims to get at least 2,000-3,000 people into employment. Due to the high costs involved in making the scheme work, having fewer participants than that will not be cost efficient. Therefore, if 2,000 to 3,000 long-term unemployed can be induced into the programme, a very preliminary estimate of the capital requirements and the potential size of the fund is € 10 million.

Private / Social Sector Finance Provider

The providers of finance in the employment-SIB will be private investors and the project manager as part of the newly created SIB fund. Nevertheless, the negotiations are still going on with the project manager and their involvement in the employment-SIB.

Income Generation

A1.1.1.36 Payees

The outcome payer is the Finnish Ministry of Economic Affairs and Employment. If the programme is successful, outcome payments go into the fund that was set up by the project manager. The fund later pays the private service providers as well as repays the investors. As such, there are two levels of agreements. The first level is between the Ministry and the project manager, and the second level agreement is between the project manager and the private service providers. The second level agreement has to be such that the private providers only make a profit if they deliver results.

Payment by the Ministry to the private service providers occurs one year after the results have been achieved. The 2020 round of payments will cover results created in 2018 and 2019. The idea is that the Ministry will start paying for the results annually from 2020, and 2024 would be the final year such payments will be made under this SIB.

A1.1.1.37 Income collection

If the programme is successful, the Ministry will save the unemployment benefits and have increased tax benefits from the expanded tax-base. At the same time, the private service providers will get paid in full if they deliver the set results. Investors and the project manager collect returns after the results have been achieved.

A1.1.1.38 Time period

The Ministry is aiming to start the first services under the employment-SIB during the last month of this year (2018). The end-date is not yet set, but the employment-SIB will at least run up to 2022 and might be extended to 2023.

Service Providers

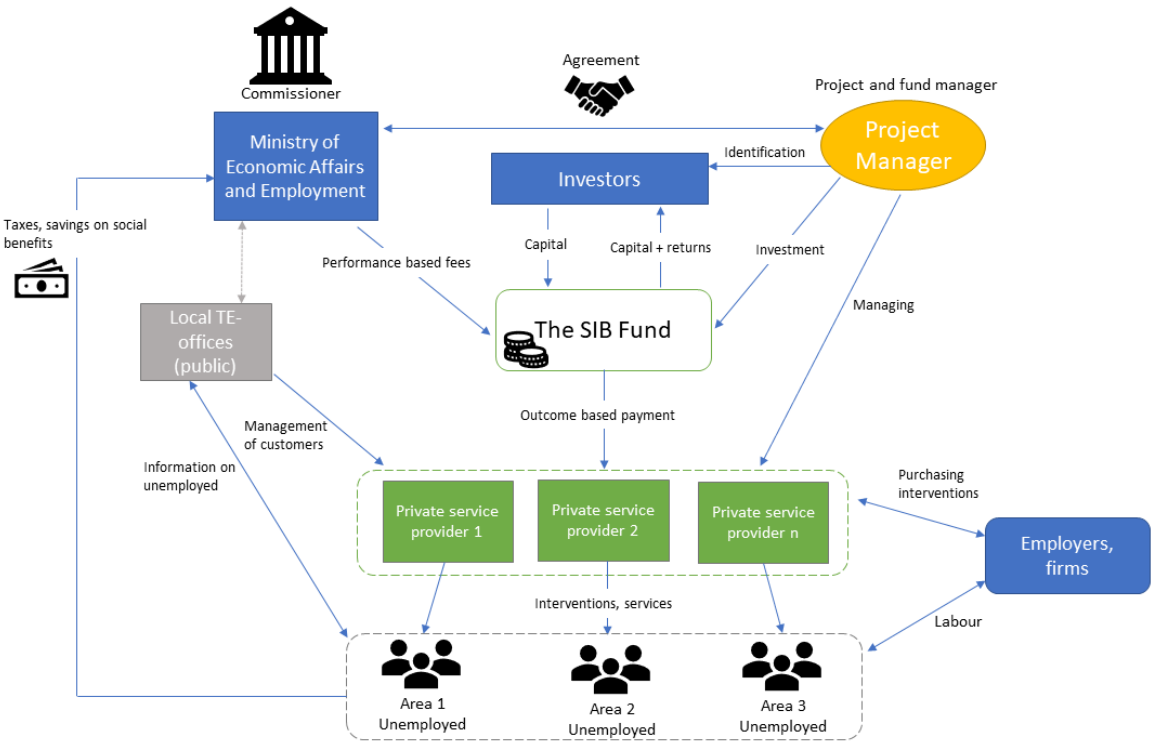
The private service providers are responsible for providing the services to the unemployed. These will be numerous (albeit no number was provided) and will be in contact with both the local public employment offices (TE-offices) and with the unemployed people. The private service providers are responsible for deliver training, mentoring and employment services to the beneficiaries, such as mapping available jobs at the local level. Moreover, they need to have good connections with local companies that would be willing to take on the unemployed under their remit. Companies in the economy then employ people from the private service providers, and the employed end up with better

skills and prerequisites to land a job. The service providers are dependent on producing results, otherwise their model will not be profitable.

Project Delivery Framework

The delivery of the project and the actors involved in doing so are depicted in Figure A1.4 below.

Figure A1.4 Planned structure of the forthcoming Employment-SIB



Source: Adapted from provided presentation from the Finnish Ministry of Economic Affairs and Employment, "Employment SIB Outcome payer´s viewpoint", 10 April 2018.

A1.1.1.39 Project manager

The project manager in the employment-SIB remains to be appointed through a process of competitive bidding. The project manager will operate independently from the Ministry.

The project manager is described by the Ministry as crucial in project delivery with the responsibility to set up the fund and raise funds from investors. The second task of the project manager would be to select the private service providers and replace them if needed. Finally, the project manager pays the private service providers based on the achieved results. As such, all the money goes through the project manager 's fund.

A1.1.1.40 Financing Model

Once appointed, the project manager will try to involve private (and other) investors to finance this project. While no names were provided, these companies are most likely to be large corporations working in the retail and construction sectors.

EFSI financing would be welcome in the Employment-SIB as there are few institutional investors in Finland and even fewer that would be ready to join a project where the financial return is secondary.

A1.1.1.41 Assumptions / Risks

The main risk and challenge is to ensure the quality of the private service providers. There needs to be tight agreements in place between the project manager and the private service providers to create the right incentives and ensure the results are in line with requirements.

Another risk as well as challenge is the time-period for the project. Under the five years that the SIB will be in place, there might be various economic downturns and upturns as well as other events during this fairly long time period, which might be confounding or enabling factors on the SIB's success.

Finally, a further risk is that not enough unemployed people join this project. The number of involved unemployed people is an important factor in order to justify the large cost of the programme (as discussed above). Sufficient efforts therefore need to be made by service providers to "channel" potential beneficiaries into the target group.

Aggregation Potential

A1.1.1.42 Likely spatial scale

One limitation for implementing the idea of the employment-SIB internationally is to establish who will be willing to pay for the results. While investment can come from different countries, there is a strong national emphasis in terms of activities and the results making it a question of who will in the end pay for the results.

The second challenge in expansion is who will benefit from the results. What parts of the public sector at both the national and international level will benefit from the results and who will pay for them. The question of who gains and who pays needs to be sorted out before an aggregation can be viable.

A1.1.1.43 Possible platform sponsors

No potential platform sponsors were mentioned.

A1.1.1.44 Summary of the investment opportunity

More than every fourth unemployed person in Finland, regardless of background, has been unemployed for the past year or more. With such a high long-term unemployment, the need for innovative interventions within the labour market is pressing. As such, the interest in Finland for SIBs is very large and there is lots of experimenting on-going as how to involve private providers as part of the solution. This creates prerequisites for the creation of financial returns. Moreover, while public investment is indeed large, the country does not have a strong philanthropic history. This gives place for private investment within the social impact area. Nevertheless, as a small economy, the existing institutional investors are few and primarily focused on returns only. This brings the possibility to bring EFSI financing to the stage, as a source of finance that is both additional and impactful for the future development of the employment-SIB.

Finland Project example 3: Integrify

Integrify[183] is a programming school for immigrants in Finland that speak English. The programme is goal-oriented, offering intensive, short -term training for candidates with the aim to get them into programming jobs. The goal at the societal level is to solve the very expensive problems of low integration of immigrants and shortage of coders currently existing in Finland[184].

Target Sector

A1.1.1.45 The structure of the immigration and technological sector and its various actors

In 2017, there were 5,059 new asylum-seekers in Finland[185]. This is a drop compared to 2016 when there were a total of 5,651 asylum-seekers and in 2015 with 32,476 people seeking asylum in Finland[186]. Still, this is a large number given the population of Finland is around 5.5 million.

There are two issues that the Integrify project aims to solve. Firstly, integration of immigrants is very slow in Finland. It can take up to 5 years for an immigrant to find a low-skilled job, irrespective of their background. As a matter of fact, when meeting many immigrants while working in another project, one of the co-founders of Integrify noticed that many of the immigrants are indeed well-educated and have a good level of English skills. As such, the poor integration results in a loss of human capital across the country, as well as poses burden on the state to pay unemployment benefits. Secondly, and at the other end of the spectrum, there is a profound deficit of skilled coders and software developers in Finland. In mid-2016, around 7,000 programmers were wanted in Finland[187], and as of November 2017, there were in total 9000 open vacancies within the field. Currently, there are estimates of around 15,000 missing coders and developers in Finland only, which is a large number for a small country. Worldwide, there will be an estimated 1 million unfilled coding jobs by 2020.

To enter the Finnish labour market often requires learning Finnish. With coding, on the other end, this language barrier is mitigated as it is the coding skills and knowledge that counts. Coding can also rather easily be learned and there is no need for formal degrees or diplomas to succeed.

These two problems combined, with the potential to tap into the skilled, but underutilised human capital base that has migrated to Finland, revealed itself as an opportunity for the founders of Integrify. Integrify was one out of 15 selected participants in the latest round of the Ratkaisu 100 challenge competition organised by Sitra[188].

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[183] www.integrify.fi

[184] Sitra, 2017. Integrify turns immigrants into programmers – it takes six months of discipline and a high tolerance for sitting, article published November 15, 2017. Available at: https://www.sitra.fi/en/articles/integrify-turns-immigrants-programmers-takes-six-months-discipline-high-tolerance-sitting/ [Accessed on 18 April 2018].

[185] Finnish immigration Service, 2018. Statistics for 2017: Clearly less asylum seekers than the year before – over 2,100 asylum seekers submitted their first application, 30 January 2018. Available at: http://migri.fi/en/artikkeli/-/asset_publisher/vuoden-2017-tilastot-turvapaikanhakijoita-selvasti-edellisvuosia-vahemman-ensimmaisen-hakemuksen-jatti-reilut-2-100-hakijaa?p_p_auth=3K9Hgs6K [Accessed on 18 April, 2018].

[186] Statistics Finland, 2017. Table: Asylum-seekers and refugees. Available at: https://www.stat.fi/tup/suoluk/suoluk_vaesto_en.html [Accessed 18 April 2018].

[187] Fortune, 2016. Finland Is Struggling to Fill 7,000 Programmer Jobs, 14 June 2016. Available at: http://fortune.com/2016/06/14/finland-has-7000-programmer-jobs-to-fill/ [Accessed on 18 April 2018].

[188] Sitra's Ratkaisu 100 is a challenge prize competition aimed at solving one of Finland's key future challenges. It awards the winner € 1 million to bring their idea to life. More information here: https://www.sitra.fi/en/topics/ratkaisu100/#latest

A1.1.1.46 Revenue (Additional Services / Lending facility)

The Integrity project is a revenue-generating project. It builds on service provision and the direct building of skills and human capital.

Investment context

A1.1.1.47 Current levels of national investment in integration and skill development

The Finnish Ministry of Economic Affairs and Employment have developed a strategy for integration in Finland. The strategy aims at using immigrants' cultural strengths to enhance Finnish innovation capacity; enhancing integration through cross-sectoral measures; increasing cooperation between the state and municipalities in the reception of beneficiaries of international protection; and promote a humane national discussion culture on immigration policy intolerant of racism[189].

As of 2016 around 13,000-14,000 students were involved in labour force training and 6,000 involved in independent study annually. Nevertheless, labour market integration training or independent studies has not met demand as the number of immigrants has grown. This presents the need to introduce new models for the contents and implementation of such training. Moreover, the waiting time for integration training has lengthened, adding to the length of the integration process. This is especially the case in the Helsinki Metropolitan Area and other growth centres[190].

A1.1.1.48 Any government / Market failure leading to under-investment / public expenditure?

As previously discussed, the Finnish labour market is underutilising the skills and knowledge of immigrants. Moreover, to enter the Finnish market often requires good Finnish language skills. Nevertheless, integration of immigrants to the labour market is prioritised by the government.

Moreover, the lack of sufficient coders can also pose a threat to growth of the Finnish economy given the crucial role of technology companies and SMEs in an era of rapid digitalisation.

A1.1.1.49 Economic and social returns from investment in immigration, skills development and coders

The shortage of educated coders in Finland have been estimated to cost Finland € 3 to 4 billion every year, with aggravating prospects for the future[191].

Depending on who is investing, the Integrify project is estimated to lead to a multiplier factor of 8 in five years. That means, for every Euro invested in financing the project, the return would be € 8 in five

[189] Ministry of Economic Affairs and Employment (MEAE), 2016. Government Integration Programme for 2016-2019 and Government Resolution on a Government Integration Programme.

[190] Ministry of Economic Affairs and Employment (MEAE), 2016. Government Integration Programme for 2016-2019 and Government Resolution on a Government Integration Programme, p.36. Available at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/79156/TEMjul_47_2016_verkko.pdf?sequence=1 [Accessed on 18 April, 2018].

[191] Sitra, 2017. Integrify turns immigrants into programmers – it takes six months of discipline and a high tolerance for sitting, article published November 15, 2017. Available at: https://www.sitra.fi/en/articles/integrify-turns-immigrants-programmers-takes-six-months-discipline-high-tolerance-sitting/ [Accessed on 18 April 2018].

years' time. Moreover, 40 per cent of the students involved in the current batch ending in May 2018 are already employed and the rest are going to job-interviews on a weekly basis.

A1.1.1.50 Scale of investment / expenditure required

Integrify provides a six to twelve months full-time software development course, running for eight hours per day, Monday to Friday. The first six months usually consist of classroom teaching and the following six months consist of an internship[192].

After finalising the course, participants will have skills to be employed at a junior level as coders or software developers. The programming course is taught in English.

At an initial stage, Integrify launched a pilot programme to test their concept in 2016. Five highly motivated asylum seekers from reception centres were identified and taken on-board on an intensive six-month programming course. The selection of candidates was via a web-application developed by Integrify, as well as through interviews. As part of the pilot, a home was also leased for the asylum seekers.

a. At project level – resources required for a typical project

The project is still in the course of development, especially in terms of the number of students in each batch, their initial experience as well as the length of each course.

The first batch of students (after the initial pilot) started in December 2017 and consists of 15 participants. Of these, ten have some previous experience in software development and five have no any experience at all. Students are as such divided in two groups with separate curriculums. There are two teachers in each group. This course will end in May 2018.

According to different calculations made by Intregify, the value of one programme is approximately € 150,000. With € 250,000 a programme can run for six months and educate 40 people[193].

b. At portfolio level (national or regional, may also be cross-border opportunity?)

The intention of Integrify is to cover "dozens" of programmes[194], for which the investment needed would be at least € 1.8 million[195]. Another course has indeed just been launched in mid-April 2018, where 25 students are involved. Moreover, a new programme will be starting in June, where the city of Helsinki is the client. This specific case is utilising a payment-by-results mechanism where the city of Helsinki will only pay for Integrify's services if a certain per cent of the participants are employed after the course. For this programme, the number of students is not yet determined.

[192] Integrify, 2018. FAQ. Available at: https://www.integrify.fi/faq [Accessed on 18 April 2018].

[193] Sitra, 2017. Integrify turns immigrants into programmers – it takes six months of discipline and a high tolerance for sitting, article published November 15, 2017. Available at: https://www.sitra.fi/en/articles/integrify-turns-immigrants-programmers-takes-six-months-discipline-high-tolerance-sitting/ [Accessed on 18 April 2018].

[194] Sitra, 2017. Integrify turns immigrants into programmers – it takes six months of discipline and a high tolerance for sitting, article published November 15, 2017. Available at: https://www.sitra.fi/en/articles/integrify-turns-immigrants-programmers-takes-six-months-discipline-high-tolerance-sitting/ [Accessed on 18 April 2018].

[195] Calculated as 12*EUR 150,000=EUR 1.8 million.

As of now, Integrify have received over 500 applications for their program, while they will have been able to provide it to a total of 60 people in June[196].

At an initial stage, the goal for Integrify is to scale within Finland. Annually, Integrify estimate that they can teach between 100 to 1000 students via their model. It has however always been the ambition of the co-founders to expand also outside of Finland. Within Europe over all, they aim at training 10,000 people in digital skills by 2030[197].

Private / Social Sector Finance Provider

Integrify was able to get started thanks to funding from four foundations as part of their involvement in the nationwide competition Next Century Builders. In the competition, Integrify was one of the winners awarded € 150,000[198].

Moreover, the city of Helsinki was part of the launching of the pilot programme in 2016, where all the graduates were successfully placed in work[199]. Increasingly so, also the employment office has heard about Integrify and has started to direct job-seekers to apply to Integrify.

Income Generation

A1.1.1.51 Payees

The program is free of charge for all accepted participants. To fund their participation Integrify operates a fee-based model where the payees are other stakeholders. Integrify's customers so far has been municipalities and private companies. They are still in discussion with the government as a potential customer. Municipalities have so far been the city of Helsinki.

Private companies are involved as partners. These are leading software consultancies that work with Integrify in terms of staffing and access to a skilled capital base. They take on students as part of internships programmes lasting for six months[200]. They pay to have access to the tech talent that Integrify trains.

A1.1.1.52 Income collection

The city of Helsinki is purchasing the service from Integrify in the shape of a course starting in June 2018. The payment will be based on the obtained results. The private companies directly recruit the students that Integrify has trained or hire the students as consultants. They pay direct recruiting fees, or they are recruiting students as part of a staffing model.

[196] Integrify, 2018. FAQ. Available at: https://www.integrify.fi/faq [Accessed on 18 April 2018].

[197] Integrify, 2018. For Public Entities - Integrify Benefits Society And The Economy. Available at: https://www.integrify.fi/public_entities [Accessed on 18 April 2018].

[198] Integrify, 2017. Integrify awarded €150,000 from the Next Century Builders!, 2 October 2017. Available at: https://www.integrify.fi/news and https://medium.com/integrify/integrify-awarded-150-000e-from-the-next-century-builders-competition-fe54636813ed [Accessed on 18 April 2018].

[199] Integrify, 2018. For Public Entities - Integrify Benefits Society And The Economy. Available at: https://www.integrify.fi/public_entities [Accessed on 18 April 2018].

[200] Integrify, 2018. FAQ. Available at: https://www.integrify.fi/faq [Accessed on 18 April 2018].

The city of Helsinki will be estimated to have saved around € 200,000 per graduate in the pilot programme over five years, once they are off benefits and start paying income tax[201].

A1.1.1.53 Time period

The first pilot was launched in 2016. The first batch of students following the pilot started in December 2017, and this programme will end in May 2018. So far, they are on track to educate 100 people by the end of this year.

Results are expected to be fully visible with a five-year period, but already after one or two years there are visible effects in terms of the savings from unemployment benefits and increase in tax income.

Service Provider

Integrify is the service provider. In the pilot programme the Integrify CEO was in charge of the overall program while development lessons were given by a Senior Developer from the company Nord Software. The Integrify programming school is based on the Nord Software trainee program[202].

They provide the training through teachers they provide themselves, and Integrify also helps candidates to do the job-interviews. As part of this, Integrify works with getting as many partner companies on board, and to introduce their candidates to them.

Project Delivery Framework

A1.1.1.54 Actors involved in the project delivery

There are three main actors involved in project delivery: the foundations; the municipality and/or the private partner companies (clients); and the students (beneficiaries).

European involvement could come in at the customer level as well. Problems that Integrify is tackling also exist at EU-level, involvement by EFSI or EIF/EIB could be justified here. The EIF could for instance provide instruments that enable the scaling up of Integrify activities or piloting similar approaches in other countries with a large number of recent immigrants. In a best scenario, Integrify will be working with all three stakeholders: the EIF, national public sector and private companies.

A1.1.1.55 Project manager

No project manager exists in this project.

A1.1.1.56 Financing Model

Four foundations were part of providing capital to Integrify. Moreover, capital for expanding their operations was awarded as part of the nationwide competition Next Century Builders. In the competition, Integrify was one of the winners awarded € 150,000[203].

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[201] Integrify, 2018. For Public Entities - Integrify Benefits Society And The Economy. Available at: https://www.integrify.fi/public_entities [Accessed on 18 April 2018].

[202] Integrify, 2018. FAQ. Available at: https://www.integrify.fi/faq [Accessed on 18 April 2018].

[203] Integrify, 2017. Integrify awarded €150,000 from the Next Century Builders!, 2 October 2017. Available at: https://www.integrify.fi/news and https://medium.com/integrify/integrify-awarded-150-000e-from-the-next-century-builders-competition-fe54636813ed [Accessed on 18 April 2018].

The rest of the financing comes from fees, which the private companies pay to Integrify as part of accessing their pool of skilled programmers, either on a full-time basis or as consultants.

A1.1.1.57 Assumptions / Risks

The biggest challenge of Integrify is financing. Firstly, the challenge is to find the "right gate-keepers" for the large government contracts. As the positive effects on tax-income and unemployment benefits savings are easy to see in just one to two years' time, Integrify believes that solutions like SIBs, payment by results and the like could be effective for funding their programmes. As the government cycles tend to be very long and not very dynamic, taking help from EU (e.g. via EFSI) via social impact bonds, would be a more effective way to get into these contracts faster and to scale the programme faster. Funding is also needed to open in new markets.

Aggregation Potential

A1.1.1.58 Likely spatial scale

The city of Helsinki has indicated that they are keen on scaling this programme quite significantly in terms of participants if it proves successful.

Moreover, it has always been Integrify's intention to expand beyond Finland, especially to Europe. All across Europe there is a supply side of potential participants in their programmes: an estimated 7 million immigrants struggle in Europe currently. Even if Integrify would only serve only 10 per cent of these, they would reach 700,000 immigrants. Any country in Europe is of interest, but most likely targets would be Germany and Sweden. Having had a large influx of immigrants in recent years, these countries offer large potential markets. Other countries of interest are Norway and France.

A1.1.1.59 Possible platform sponsors

No platform sponsors were discussed.

A1.1.1.60 Summary of the investment opportunity

Finland is experiencing structural problems with its labour market: There is high unemployment among immigrants at the same time as thousands of jobs within the IT-sector remain unfilled. This sub-optimal allocation of available resources is expected to grow worse and so gives rise to severe economic, social as well as personal costs if it is left unaddressed.

With a clear connection between social and private returns, companies like Integrify can help municipalities that struggle with the integration of immigrants in Finland. Private investment can further assist such companies in their efforts and so also, ultimately, in the impact that is created through their operations.

Denmark

The Danish education system is built on the cornerstones of education for all, compulsory education, lifelong learning and self-governance. It consists of two parallel educational systems: one ordinary education system and one for adult and continuing education. The ordinary system comprises of the integrated primary and lower secondary education (Folkeskolen), general upper secondary and vocational upper secondary education as well as higher education. Adult and continuing education enables adults from the age of 18 to engage in continuous education and acquire new skills204 via three main strands: provision to raise achievement in basic skills; provision to achieve a recognised qualification during adulthood; and the provision of liberal (popular) adult education.

Three ministries are responsible for the adult education and leaning in Denmark. The Ministry for Children, Education and Gender Equality oversees formal adult education and continuing training, youth education and vocational training. The Ministry of Higher Education and Science is responsible for formal higher education for adults, while the Ministry of Culture is responsible for the non-formal adult education and training.[205] Municipalities adopt the financial framework, set local goals, supervise schools, and follow up on results.[206] Moreover, the state and municipalities finance the Danish education system, based on a taximeter system. The recorded student activity measured on the passing of examinations lies as a basis for the grants paid. While the state or municipalities own some institutions, other institutions are self-governing. The self-governing institutions receive their income from state grants or participant fees, fees paid for unemployed people in activation programmes or other income-generating activities.[207] A taximeter system also applies for adult vocational training programmes, which are partly publicly financed. Adult education centres, labour market training courses and folk high schools are state funded self-governing institutions. Depending on the courses, fees exist in some adult education programmes (around € 67 or € 100 per week).[208]

In adult education, the provision to raise achievement in basic skills consists of preparatory adult education and general adult education. The former aims to improve basic literacy and numeracy qualifications for adults without sufficient qualifications to follow education and training or working life, while the latter offers adults the chance to improve or supplement knowledge and skills within general subjects as well as to acquire general prerequisites for continued education, general knowledge and skills relevant to the working life. For general adult education there is a participation fee depending on the subject, ranging from € 15 to € 120[209] per subject course. The provision to achieve a recognised qualification during adulthood consists of basic adult education, adult vocational training,

[204] European Commission, 2016. Denmark – Overview. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Overview [Accessed on 6 April 2018].

[205] Eurydice, 2015. Distribution of Responsibilities. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Distribution_of_Responsibilities [Accessed on 3 April 2018].

[206] Eurydice, 2012. Administration and Governance at Local and/or Institutional Level. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Administration_and_Governance_at_Local_and/or_Institutional_Level [Accessed on 6 April 2018].

[207] Eurydice, 2014. Funding in Education. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Funding_in_Education [Accessed 6 April 2018].

[208] Eurydice, 2011. Adult Education and Trainign Funding. https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Adult_Education_and_Training_Funding

[209] In Danish Krona DKK 110-DKK 900. The exchange rate used here and throughout the report is € 1 = DKK 7,44912 DKK (as of 4 April 2018).

higher preparatory single subject courses (HF enkeltfag), advanced adult education, diploma and master programmes. Basic adult education is a framework for courses up to the level of vocational education, where selected courses from the vocational training programme supplements credit for former experience and qualifications. The adult vocational training provides skills and competences that are in high demand in the labour market. The HF enkeltfag consists of single subject courses leading to the final examinations at general upper secondary level. Advanced Adult education prepares students for assuming occupational functions at specialist or middle management level and gives access to relevant diploma programmes. Of the different educational strands at this level, only the HF enkeltfag is fee-based. Finally, the provision of liberal (popular) adult education is a form of non-formal adult education aimed at personal development. This is mainly provided by the Folk High Schools (Folkehøjskoler), evening schools, Day Folk High Schools and University Extension Courses.[210]

Denmark Project example 1: Payment by Results – Vækst med Social Bundlinje (Growth with Social Bottom line)

Target Sector: The Danish labour market

A1.1.1.61 The structure of the Danish labour market (employment of vulnerable people)

The Danish labour market model, also called the *flexicurity* model, builds on three pillars of a) a flexible labour market that relies on a relatively low level of employment protection, b) income security based on generous unemployment benefits and c) strong activation benefits, encouraging jobseekers to look for jobs and enhance their employability. While the model offers flexibility in adjusting the workforce based on cyclical demand fluctuations and providing a solid safety net against income loss, the consequences of this model is a high job-turnover.[211]

While the flexicurity model was effective in increasing employment following the economic crisis in 2008/2009, there is little evidence of this effect being structural. Moreover, as of 2017 there were around 800,000 people of working age in Denmark receiving public support. Integration of marginalised groups, in particular immigrants, to the labour market needs to be improved and many social transfers have been reformed, with the aim to strengthen the incentives to work[212].

A1.1.1.62 Revenue (Additional Services / Lending facility)

The PbR-project Vækst med Social Bundlinje (Growth with Social Bottom line) as described here is trading services. Knowledge is provided by the Social Capital Fund (den Sociale Kapitalfond, SKF) to enterprises, who gain skills to grow and later hopefully employ more vulnerable people.

[210] Eurydice, 2015. Adult Education and Training - Main types of Provision. Available at: https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Denmark:Main_Types_of_Provision [Accessed on 3 April 2018].

[211] OECD, 2016. Back to work: Denmark - Improving the Re-employment Prospects of Displaced Workers. Available at: https://read.oecd-ilibrary.org/employment/back-to-work-denmark_9789264267503-en#page54 [Accessed 23 April 2018].

[212] SGI, 2017. Denmark Report, Sustainable Governance Indicators 2017. Available at: http://www.sgi-network.org/docs/2017/country/SGI2017_Denmark.pdf [Accessed 4 April 2018].

Investment context

A1.1.1.63 Current levels of national investment in labour market initiatives

Denmark is among the OECD countries that spend the highest share of their GDP on Active Labour Market Programmes (ALMP). In 2014, Denmark spent around 1.7 per cent of its GDP om ALMPs, as compared to 1 per cent in Sweden and Finland.[213] In 2015, as a share of GDP, Denmark spent more than four times on active labour market policies compared to the average OECD country (1.7 per cent against 0.4 per cent).[214]

Efforts to tackle unemployment among vulnerable groups have been implemented also from the private sector side. The SKF has established two accelerator programmes previous to the VSB-programme. The Social Growth Programme was created in 2013, and had the goal of strengthening the sustainability of exiting social enterprises. During a period of 6 months, social enterprises were offered individual support, training in marketing, strategy and operations, as well as knowledge sharing events; as well as access to a wider network. Enterprises were also eligible to apply for a donation of DKK 100,000 for further development. The second accelerator, Social Start-up, was a 12-months programme aimed at developing new social enterprises. The programme, which ran for 3 years, consisted of individual business development support for 6 months, provided by leading experts in different areas; after which participants were either offered mentoring support or help in setting up advisory boards to support them along the way. Alongside this, businesses were eligible to apply for start-up capital, development funds and loans included.[215]

Following a successful implementation of the two previous accelerator programmes, the Vækst med Social Bundlinje (VSB) is a new version of the two predecessor programmes. The VSB-programme is also a result of demand from Danish municipalities who approached the SKF with the desire to have social accelerator programmes that integrate marginalised people to the labour market launched on a local basis.[216]

A1.1.1.64 Any government / Market failure leading to under-investment / public expenditure?

More than 460,000 people have left the labour market over the past years in Denmark. Moreover, the Danish Government have made several efforts to incentivise Danish companies to hire from the group of vulnerable and marginalised people. Despite these efforts, only a third of SMEs have actually done so.[217]

[213] OECD. 2018. Public expenditure and participant stocks on LMP. Available at: http://stats.oecd.org//Index.aspx?QueryId=8540 [Accessed on 23 April].

[214] OECD, 2018. "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en [Accessed on 31 March 2018].

[215] Note on the Social Capital Fund, provided as part of interview with B. Frost Mathiesen, Program Director, spring 2018.

[216] Note on the Social Capital Fund, provided as part of interview with B. Frost Mathiesen, Program Director, spring 2018.

[217] Note on the Social Capital Fund, provided as part of interview with B. Frost Mathiesen, Program Director at Den Sociale Kapitalfond, spring 2018.

A1.1.1.65 Economic and social returns from investment in employment enhancing activities

As the VSB-accelerator project is still a pilot, the first results will only be available 18 months after start (October 2018). Nevertheless, in the previous two accelerator programmes, the SKF have supported 46 enterprises until 2015. By doing so, SKF contributed to creating 281 training placements, 69 social enterprises and 158 cases of progress and education of unemployed people. Moreover, SKF created 54 standard jobs and made six direct investments into these businesses.

Since 2016, a total of 918 people have been employed or entered into training or education in these 46 ventures. Of these people, 68 per cent were previously excluded from the labour market. The enterprises also did well financially: their turnover grew by on average 30 per cent and summed up to a total of € 912,860[218] (after taxes).[219]

A1.1.1.66 Scale of investment / expenditure required

a. At project level – resources required for a typical project

The cost for the participation per SME in the accelerator programme for 3 years is € 60,410[220].

The first 12 months is the main period of these 3 years. The first half-year consists of an intense business development phase including setting the strategy and planning with the municipality. Resources and support are provided and tailored to meet each enterprise's individual needs. This is then followed by a six-month follow-up programme. The rest of the time includes collecting the results and presenting them to display the benefits of this approach.

Resources in terms of knowledge are required for the concrete business development skills that are obtained from highly experienced business developers. These business developers work with the management, owners and sometimes the boards of the SMEs in the accelerator. The business developers have worked with the SKF for several years and while their salaries are completely paid by SKF and those are "not high", no information was provided on the exact size of the salary costs of these business developers. Each business developer coaches 3 to 5 SMEs.

b. At portfolio level (national or regional, may also be cross-border opportunity?)

An accelerator programme is set up in each municipality involved in the pilot. The total cost of the accelerator programme has been estimated based on SKF's previous accelerator programmes. Currently, there are 8 municipalities and 26 SMEs involved in the pilot programme. This means that the total financing amount needed for delivering the accelerator programme to all the 26 SMEs for 3 years is around € 1.57 million[221].

[218] DKK 6.8 million.

[219] Note on the Social Capital Fund, provided as part of interview with B. Frost Mathiesen, Program Director at Den Sociale Kapitalfond, spring 2018.

[220] DKK 450,000.

[221] Calculated as € 60,410 per SME x 26 SMEs = € 1,570,655 for a project lasting for 3 years.

Private / Social Sector Finance Provider

The finance provider in the accelerator pilot programme are the participating municipalities (they provide 40 per cent of the funding), whose funding has been matched by private investor funding (private non-profit funds) (60 per cent).

Municipalities disburse financing in two instalments, due to that the programme is so far only a pilot. The first disbursement occurs at the beginning of the project, the second one six months after the programme has started. The final financial assessment is made three years after programme-start. Nevertheless, the full payment is only made if the municipality has saved money.

Income Generation

A1.1.1.67 Payees

The payees are the municipalities. They will pay for the service provided only if they see savings from having had more people employed via the enterprises taking part in the accelerator programme. In that way, savings from unemployment benefits are channelled to pay for the integration of vulnerable people.

A basic fee is paid by the municipality, where half of the cost are paid at the start of the project and the rest is paid three months into the programme. Based on results at programme completion, service provider may be paid a bonus or the SKF will repay part of investments to the municipality.

External funding (e.g. through EFSI instruments) can potentially come in at project launch and to execute the project. Then, when the results become clear, the municipality can be part of the repayment to an EFSI supported instrument by using its savings from having more people employed. External funding can prevent municipalities from paying before the results can be calculated. External funding can also contribute to the security / guarantee of both the service provider and the municipality.

A1.1.1.68 Income collection

The income for the municipalities are the savings made from having more people in employment. This is usually a two-fold effect: savings from reduced unemployment benefits on one end, and increased income due to an increased pool of tax-payers.

The SKF collects the employment data monthly. The municipalities report to the SKF how much savings they have collected due to more people having become employed. Also, SKF randomly double-checks the employment numbers with the SMEs. Should there be a discrepancy between the data provided by the municipality and the numbers from the SMEs, then the SKF correct it with the municipality. There has not been any such discrepancy so far.

A1.1.1.69 Time period

The pilot project is scheduled to end in March 2021, when the final results will be available. The main activities will however end in Dec 2018.

Service Provider

The service provider of the accelerator programme is the SKF, who employs and picks the business developers, who in turn provide the training to the SMEs. The business developers coach 3-5 SMEs each. They are required to be highly skilled, experienced (their average age is above 50 years) and must have been managers of SMEs themselves. The business developers are paid by SKF to deliver the training to the SMEs.

Another service provided by the SKF are the camps and workshops occurring once a month where all the companies meet each other. There the SKF asks external specialists to come and give a lecture (e.g. on social selling where an expert came and gave information for 3 hours). These events last for two full days, after which the SKF goes back to the companies and discusses ways or strategies on how the topics discussed can be applied/implemented in their companies. At the minimum, the business developer meets the companies four times every month. SKF gathers all the companies at least five times during the first six months. The purpose with these gatherings also to form a network where companies can gather and exchange views on e.g. how they can deal with social impact in their business and what kind of business models they can work with.

The business developers work with SKF because of the combination of social responsibility and working with companies.

Project Delivery Framework

A1.1.1.70 Project manager

The project manager for the Accelerator programme is the Social Capital Fund (SKF, Den Sociale Kapitalfond). With the aim to test new solutions to tackle social exclusion of vulnerable segments of the Danish population, SKF was founded in 2011. The SKF work to prove that it is possible to bring more vulnerable people closer to the job market, whilst yielding positive financial returns. This is possible through supporting enterprises in strengthening their businesses, expanding demand for labour and creating job opportunities for those who struggle to find their way into the labour market.

The VSB-accelerator programme is based on the previous accelerator programmes of SKF.

A1.1.1.71 Financing Model

The financing model is that municipalities provide parts of the funding. This funding is then matched by private investors. These private funds are the private philanthropic funds TrygFonden[222], Bikubenfonden[223], Tuborgfondet[224], and Markedsmodningsfonden[225].

A1.1.1.72 Assumptions / Risks

The main risks with the project delivery of the VSB-project relates to the "wrong pocket problem" as well as the measurement of the impacts.

Firstly, the "wrong pocket problem" is a problem occurring when the payee is one stakeholder and the one reaping the benefit is another. In Denmark, in the case of the VSB-accelerator, this is a problem across ministries (intra-level) as well as between municipalities and the government (inter-level). At the moment, only the municipalities invest in the VSB-accelerator, while the Danish Government enjoy the bulk of the savings (between 40-60 per cent) from less unemployment. Therefore, the problematic revolves around whether the municipalities should invest themselves or if they should co-invest with the Government. The same problematic exists at the intra-level within municipalities: financing the

[222] https://www.trygfonden.dk/
[223] http://www.bikubenfonden.dk/
[224] http://www.tuborgfondet.dk/
[225] https://markedsmodningsfonden.dk/

activities of providing service to enterprises might belong to one municipality-department, whereas the savings belong to the municipal department dealing with vulnerable people. This would reduce the willingness of the former to pay for the activities, as the benefits accrue to another department. Related to this, the operational staff in the municipal job centre can consider the initiative as a competitive effort, or as a criticism of the work they are doing today.

The other risk relates to the importance of tracing the impact and attributing it to the intervention. The impact on employment from the VSB-accelerator activities might be masked due to e.g. general economic growth, highlighting the critical role of independent validation of the results.

Aggregation Potential

A1.1.1.73 Likely spatial scale

The potential for aggregation is seen as large by the SKF. SKF believe that the VSB-accelerator can be employed internationally by companies like themselves. The most likely first step for an internationalisation would probably be the Nordic countries, especially Norway and Sweden.

The SKF is currently running an accelerator programme with the Norwegian investment company FERD[226], where they are using the same concept but adjusting it to the Norwegian market.

A1.1.1.74 Description of possible platform sponsors

Potential EFSI support is seen as important in the future work of the SKF and the accelerator programme.

Loan provision could be used for launching further iterations of the accelerator or scaling it up. This loan would then be repaid by the municipalities when results become evident. Funding through an EIF supported instrument is also seen as crucial in building credibility.

A1.1.1.75 Summary of the investment opportunity

The VSB-accelerator educates SMEs to effectively employ more vulnerable people. Denmark indeed needs to better integrate vulnerable people into the labour market. The Social Capital fund has previously funded and operated successful accelerators, for which the infrastructure now exists and a sustainable financing model has been developed. As the accelerator aims to provide growth for companies and as such encourage employment of vulnerable people, the investment opportunity should present both a social and a private return.

[226] https://www.ferd.no/en/about_ferd/

Denmark Project example 2: Specialisterne Denmark

This example presents a pilot SIB aimed at getting people from the Danish municipality Ballerup diagnosed with autism into employment or education. The project is currently in the process of being developed by Ballerup, Specialisterne and Den Sociale Kapitalfond (SKF).

Target Sector

A1.1.1.76 The structure of the sector

The disability occurrence in Denmark was among the highest of all OECD countries in the late 2000s. Among the population aged 20-64, around 21 per cent of the Danish population had a self-assessed disability[227], slightly below Estonia and Hungary (with 23 and 24 per cent of the working-age population respectively). At the same time, people with disabilities encounter a large labour market disadvantage.[228] In the late 2000s the employment rate among people with disabilities was just over 40 per cent as compared to 75 per cent for people without a disability. Thus, a person with a disability is twice as likely to be unemployed.[229]

Furthermore, economic cycles impact the employment prospects for people with disabilities. In economic downturns, the employment opportunities drop significantly for people with disabilities, and they do not recover as quickly in more prosperous times.[230]

An estimated one to two per cent of the Danish population[231] have Autism or Asperger's. This is roughly between 57,480 and 114,970 people. In Denmark, people with Autism or Asperger's are diagnosed via the healthcare system.

A1.1.1.77 Revenue (Additional Services / Lending facility)

The Specialisterne project as described here operates under a SIB mechanism. Specialisterne provides training and guidance to a select number of people diagnosed within the Autism spectrum, and is paid by the municipality when participants obtain employment or enrol in education, while Den Sociale Kapitalfond finances the intervention up front.

Investment context

A1.1.1.78 Current levels of national investment in employing people with disabilities

Denmark is among the top spenders on disability and sickness programmes within the OECD. In 2007, Denmark spent 3.1 per cent of GDP on disability and sickness programmes, an increasing since year

[227] Self-assessed disability is in Denmark defined as persons with a long standing health problem or disability. The numbers are from the Labour Force Survey 2005.

[228] OECD, 2010. Sickness, Disability and Work: Breaking the Barriers A Synthesis of Findings across OECD Countries, Chapter 1. Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en#page39 [Accessed 23 April 2018].

[229] OECD, 2010. Sickness, Disability and Work: Breaking the Barriers A Synthesis of Findings across OECD Countries, Chapter 2. Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en#page51 [Accessed 23 April 2018].

[230] OECD, 2010. Sickness, Disability and Work: Breaking the Barriers A Synthesis of Findings across OECD Countries, Chapter 1. Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en#page39 [Accessed 23 April 2018].

[231] The population in Denmark was 5,748,769 people in January 2017 (source: Eurostat, demo_pjan).

2000.[232] Until now, the municipalities have typically financed interventions targeting people within the Autism spectrum by paying a fixed amount up front to a service provider for a given intervention. This model has proven partly ineffective, due to e.g. difficulties of taking individual characteristics into account.

In the project currently under development with Specialisterne and Den Sociale Kapitalfond (SKF), the municipality allows the service providers to adjust the intervention more freely to individual needs and barriers. As such, it is recognized that the resources required to get a person closer to employment can vary significantly depending on the individual.

Specialisterne works towards getting 1000 people diagnosed within the Autism spectrum into employment by 2025.

A1.1.1.79 Government / Market failure leading to under-investment / public expenditure

Despite the existence of various subsidized employment schemes targeting people with disabilities, unemployed among people diagnosed within the Autism spectrum is still high. As of January 2017, only ten per cent of autistic people in Denmark had a job[233].

A1.1.1.80 Economic and social returns from investment in inclusion of disabled

Including more people with disabilities into the labour market will become increasingly important in the future. Denmark, like many other western countries, will face an ageing population. To secure future labour supply, a better integration of disabled people into the labour market could become part of the solution. In a future scenario where the participation rate among people with disabilities could be raised to the Danish average, the labour force by 2050 would be increased by almost 200,000 people compared to the baseline scenario (2,325,000 people in the labour force is baseline for 2050)[234]. That is a very large gain in labour force participation (and thereby also a large potential in terms of public savings and increased tax revenue).

During the five-year period from 2008-2012 Specialisterne has generated a total social-economic value of € 6.6 million (DKK 49.4 million) by hiring and securing jobs for people with autism. This is mainly from savings from public transfers, but also increased taxes and lower pension payments.

In addition, an unemployed person risks staying unemployed for a long time. The cost to the Danish associated with one life-long unemployed person is an estimated € 2.7 million[235]. Thus, there is a large potential social return in relation to investing in getting people with autism closer to the job market using e.g. the PbR-scheme developed with Specialisterne.

[232] OECD, 2010. Sickness, Disability and Work: Breaking the Barriers A Synthesis of Findings across OECD Countries, Chapter 2. Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en#page60 [Accessed 23 April 2018].

[233] Thamestrup, H., 2017. Autism in Denmark: still much to do. Article by Thamestrup, Heidi, President, Autism Denmark, on 12 January 2017. Available at: http://network.autism.org.uk/knowledge/insight-opinion/autism-denmark-still-much-do [Accessed on 20 April 2018].

[234] OECD, 2010. Sickness, Disability and Work: Breaking the Barriers A Synthesis of Findings across OECD Countries, Chapter 1. Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en#page27 [Accessed 23 April 2018].

[235] DKK 20 million

A1.1.1.81 Scale of investment / expenditure required

a. At project level – resources required for a typical project

No numbers were provided on the scale of investment. The pilot programme aims to engage 10 people with autism living within the Municipality of Ballerup. The pilot will run for 4 to 6 years. .

b. At portfolio level (national or regional, may also be cross-border opportunity?)

The pilot is at the municipal level, and is so far only engaging one municipality (Ballerup). SKF is also in discussions to expand this approach to another municipality (with a different service provider).

Private / Social Sector Finance Provider

In this project, SKF is providing capital to Specialisterne. SKF is a private fund using private and philanthropic capital to solve societal issues. When SKF provides capital to a given project, the project needs to generate a return back to the fund.

In the pilot, SKF will be financing the interventions made by Specialisterne, in lieu of the payment from the Municipality given the results of the project.

Income Generation

A1.1.1.82 Payees

The final payee in the project is the Municipality of Bellerup. The Municipality will pay Specialisterne only if the results achieved are meeting the pre-set targets. The payment contract is made by Specialisterne and the Municipality. Every time a participant from the project gets employed or starts an education following the intervention of Specialisterne, the Municipality pays Specialisterne a fixed amount. The employment status of the participants is tracked every 6 months for a 3-year period, yielding in total 6 payments from the municipality to Specialisterne.

Based on the payments from the municipality, Specialisterne then pays SKF back using an agreed distribution structure.

A1.1.1.83 Income collection

The payee (Municipality of Ballerup) collects income from savings accruing from having up to 10 people with autism employed instead of them receiving public transfers. Thus, the cumulative savings are used to pay the service providers (Specialisterne) for the results of the intervention, who then pays SKF.

The mechanism is structured such that if Specialisterne meet their employment target, all actors will benefit from the project. If Specialisterne do not meet their target, SKF will not recoup all their costs, but the Municipality still benefits from the intervention, as it only pays if the results, and thereby the accrued savings, are obtained.

A1.1.1.84 Time period

The pilot programme is expected to last between 4 and 6 years. To get one person with autism into employment via Specialisterne can take up to 1.5 years, although this varies depending on the person.

Service Provider

The service provider is the social enterprise Specialisterne. They offer a range of services to people with autism. In this project, the Municipality of Ballerup will direct 10 persons to Specialisterne. They have all been part of a screening process beforehand to ensure that they fit into the intervention. Specialisterne will also conduct a screening of persons' abilities. Their screening maps the best fit for the candidate in relation to employment and education, and indicates the types of tasks the person would be ideal to conduct.

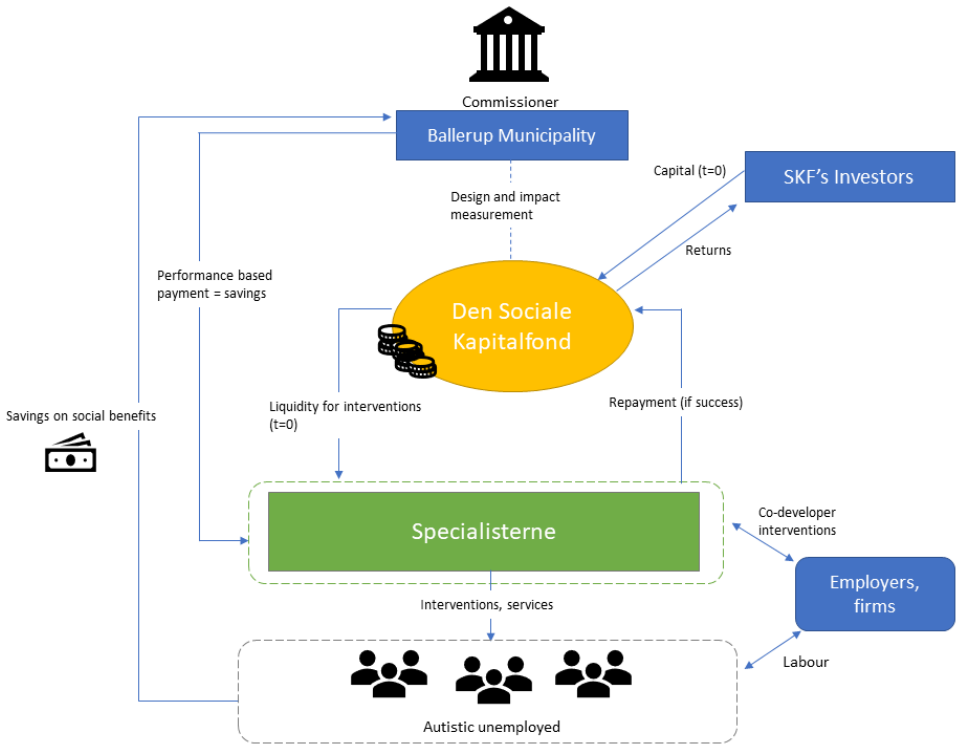
Specialisterne also trains the candidates in different skills related to taking part in a workplace, problem management and more specific skills such as data analysis. After this, Specialisterne can assess where the candidates are best suited to work, and they assist them in finding employment – either in Specialisterne or in other companies.

People with autism have previously been recruited with success in jobs relating to coding and programming. E.g. a programme is developed together with Dell, Microsoft and SAP, where candidates can get training and possibly a job.

Project Delivery Framework

The structure of the project is displayed in the Figure A1.5 below. A description of each actor is also provided below.

Figure A1.5 A pilot SIB scheme with Specialisterne



Source: ICF, after interview with Den Sociale Kapitalfond (SKF) DK.

A1.1.1.85 Project manager

The project manager is the SKF.

A1.1.1.86 Financing Model

At this stage, the SKF is trying to test these kinds of payment schemes in which municipalities might be able to cooperate more closely with social enterprises and introduce more results-based interventions. At the same time, a project such as this will provide insights to SKF in terms of risks and structure of capital flow from an investor's perspective.

A1.1.1.87 Assumptions / Risks

The risk is first and foremost that the employment target is not reached. Especially, as some people with autism are being introduced to a high skill labour market such as the IT -sector.

Aggregation Potential

A1.1.1.88 Likely spatial scale

The "market size" is the 170,000 to 290,000 people diagnosed with Asperger's or autism in Denmark. Moreover, Denmark spends around 3 per cent of GDP on disability and sickness programmes Thus, a model like the one developed with Specialisterne could have a potential of lifting people into employment and thereby generate savings for the public sector.

Potential EFSI involvement in projects like this would be beneficial in two ways: as a guarantee in terms of risk sharing, as well as to scale up the intervention.

At the initial stage, support from EFSI could be used as a guarantee share the risk with investors, i.e. SKF. The present structure of the project dictates that SKF is the sole risk-taker in the initial stage where they are paying the service provider for the interventions. EFSI support could in this case be used as a guarantee that covers e.g. 80 per cent of the complete financing following the structure of the EASI funds.

Secondly, EFSI support could be used to scale up the intervention and increase e.g. the number of municipalities in the pilot.

A1.1.1.89 Description of possible platform sponsors

No possible platform sponsors were discussed.

A1.1.1.90 Summary of the investment opportunity

The number of unemployed disabled people in Denmark is large and at there is scope to get them into employment. The social return on investments for the Danish state from having these people in employment as compared to life-long unemployment is significant.

This pilot SIB is a unique case in Denmark: it aims to be structured in a simple manner, but still contributes to solving a very specific problem: getting people with autism into employment.

While SIBs dealing with unemployment are present outside of Denmark, the opportunity to invest in actors tackling more unusual barriers to employment could be a strong supplement as well as generate significant impact. EFSI can be used to ease the risk needed at the initial stages of setting up PbRs and SIBs as well as to further develop the capacity and scale of such impact investing instruments in Denmark.

Italy

In response to the aftermath of the great recession which led to substantial increases in the Italian unemployment rate peaking at 13 per cent for 2014[236] and skyrocketing to 43 per cent for young individuals in the same year[237], the Italian government passed a series of labour market reforms.

Changes to the labour market were deemed necessary to tackle the dual insider – outsider system which characterizes the Italian labour market with older workers in the more secure forms of employment, for which most public resources were spent for employment protection, and the younger ones stuck in temporary positions[238].

In particular, the 2015 Jobs Act enabled changes towards flexicurity, helping the development of Active Labour Market Policies (ALMPs) in Italy.

Public employment services (PES) also play a limited role, with only 4 per cent of jobseekers in the period 2003-2011 finding employment through PES[239]. This can be partly explained by insufficient staffing of PES, their low education attainment, the lack of data and systematic evaluation of PES practices[240].

Italy Project example 1 - Dote Lavoro Unica

The project concerns the development of Active Labour Market Policies (ALMPs) such as professional training and targeted job search sessions dedicated to all unemployed residents in the regions of Lombardy. The project is partly built upon the principle of Payment for Result and follows other international examples. While started in early 2016, it is scheduled to last until December 2018. Regional authorities in Lombardy are currently considering an extension for future years with room for scaling up the initiative.

Target Sector

A1.1.1.91 The structure of the education sector and its various actors

Following Italian laws, the project deals with labour market policies which fall into the area of shared competences that regions manage along the central government. Labour market competences are in fact shared amongst different layers of government with no central organization existing before 2017.

Following recent major reforms that aimed at reshaping the Italian labour market, the central government set up for the first time a national agency fully devoted to active labour market policies (ANPAL). However, following the inability to pass a constitutional referendum in 2017 which would have had, *inter alia*, fully shifted competences on labour market policies from the regional layer to the central government, the role of the agency remained limited acting primarily as a coordinator and evaluator for public employment services throughout the country.

[236] OECD (2018), Unemployment rate (indicator)

[237] OECD (2018), Youth unemployment rate (indicator)

[238] Barbieri et al 2014

[239] Pinelli, Dino, et al. 2017

[240] European Commission 2016, Country Report Italy 2016 (https://ec.europa.eu/info/sites/info/files/cr_italy_2016_en.pdf last accessed on 06/04/18)

The main actors involved in the scheme are the region authorities of Lombardy, public employment services (PES), private operators in the fields of training and job searching and jobseekers who benefit from the scheme.

Capital (Infrastructure)

The project uses public resources such as regional funds and draws substantially from the European Social Fund.

Revenue (Additional Services / Lending facility)

Given the severe impact of the 2008 financial and economic crisis on the Italian economy where the unemployed rate jumped from 6.7 per cent in 2008 to 11.7 per cent in 2016[241], the project aims at reducing the social and economic costs of unemployment. This is both in terms of direct resources spent in unemployability allowance and in terms of indirect revenues generates by the reallocation of the unemployed.

Investment context

A1.1.1.92 Current levels of national investment in education and training

At the start of the project in 2016, Lombardy pioneered the use of a quasi-market solution in the field of ALMP by adopting the project "Dote Unica Lavoro". Subsequently, the project has been followed by a similar pilot initiative, Assegno di Ricollocazione, at national level launched by ANPAL in 2017 for a sample of 29,000 potential beneficiaries[242].

Despite sharing a similar aim of reintegrating jobseekers into employment, Dote Unica Lavoro and Assegno di Riallocazione also show remarkable differences.

Dote Unica Lavoro is open to all jobseekers resident in Lombardy. Jobseekers can request it by either approaching a PES or a private employment provider. There are no sanctions in terms of reductions in unemployment allowances imposed in case participants fail to attend or commit to the activities proposed. Jobseekers are then screened and profiled through an algorithm shared by both public and private employment service providers, into categories of intensity of treatment measuring the distance between the individual and the labour market. The profiling into the category determines the amount of the Dote, in terms of a voucher, which jobseekers can spend at either public or private service providers. The services offered by the scheme range from orientation and job searching to formal and informal on-the-job training, ranging from a minimum of 50 hours to a maximum of 150 and are built around a set of occupational profiles defined with regional standards. In Dote Unica Lavoro all training, orientation and project activities offered to beneficiaries are charged at a standard cost which has been pre-defined by the regional authorities.

The voucher can then be redeemed by the service provider covering the full amount spent, within the cap of the Dote determined by the profiling, if the jobseekers manage to secure employment lasting more than six months or only half of the amount if the outcome is not achieved.

[241] OECD (2018), Unemployment rate (indicator)

[242] ANPAL Website http://www.anpal.gov.it/Cittadini/Servizi/Pagine/La-Sperimentazione.aspx last accessed 23/04/18

Assegno di ricollocazione is instead a national project aimed at unemployed individuals who have received unemployment allowance for more than 4 months. The starting point for the unemployed is also different as jobseekers must always first refer to their local PES office for profiling and then also spend their vouchers at private providers.

Simiarly to Dote Unica Lavoro, the national scheme is built upon the same principle of a quasi-market solution with a voucher that can be redeemed by service providers in case of positive outcomes. However, the services only include advanced and intensive job search with no clear or transparent indication of the activities that can be included. This leaves the mechanisms of the scheme operating as a black box.

Besides the system is also conditional on commitment with jobseekers who join the programme but do not participate to the various activities or fail to accept an appropriate job offer facing an administrative reduction of their unemployment allowance.

The differences above can also partly explain the different penetration of the projects. There is a preference to Dote Unica Lavoro, highlighted by that Assegno di ricollocazione was only chosen by 300 out of the 4,000 potential beneficiaries in Lombardy.

A1.1.1.93 Any government / Market failure leading to under-investment / public expenditure?

Under-investment in the area is mostly due to the fragmented framework of labour market policies in Italy and the low levels of effectiveness and efficiency of traditional PES offices. These are understaffed, mostly involved in dealing with bureaucracy and usually low skilled.

A1.1.1.94 Scale of investment / expenditure required

a. At project level – resources required for a typical project

The value of the vouchers depends on the profiling class. Values can range from a minimum of € 1,265 to a total of € 6,789 for the most disadvantaged group[243].

b. At portfolio level (national or regional, may also be cross-border opportunity?)

No information provided at this stage.

Private / Social Sector Finance Provider

This investment is of principal interest to non-profit and profit organisations which operate in the area of social investing. Foundations, corporate firms and financial institutions can also be involved (please see project framework below) by the provision of financial guarantees, funds or advisory consulting. The use of guarantees and support for foundations and financial institutions might prove to be pivotal to help service provides in accessing funds given low credit scores and the reluctance of traditional financial intermediaries.

[243] FAQ – Dote Unica Lavoro http://www.regione.lombardia.it/wps/wcm/connect/17fd50a3-e98e-4b13-b7b5-46da32e67cf5/FAQ+DOTE+UNICA+LAVORO+170418.pdf?MOD=AJPERES&CACHEID=17fd50a3-e98e-4b13-b7b5-46da32e67cf5 last accessed on 23/04/2018

Income Generation

The revenue stream is still to be finalized following talks with the Italian Ministry of Justice. However, early discussions feature the idea of milestone payments throughout the full course of the project with the final instalment payed upon completion and assessment of the results.

A1.1.1.95 Payees

Core payees are the service providers that offer training and job search sessions to jobseekers. Providers are paid according to a set of standard costs that the Lombardy region has identified for different services that jobseekers need to confirm that they have indeed received.

A1.1.1.96 Income collection

As the project is partly built upon the principles of payment for results, service providers are fully paid back if jobseekers manage to secure employment. Otherwise, service providers will only recover 50 per cent of the costs for the provided services.

A1.1.1.97 Time period

Following access to Dota Unica Lavoro, results are considered valid only if jobseekers find employment of at 6 months. According to Italian labour law, employers are required to submit to their local PES a declaration of employment upon hiring new staff and the declaration is thus used to automatically detect employment for jobseekers.

Project Delivery Framework

The project is coordinated and run by the regional authorities of Lombardy together with PES offices and private service providers who must register with the region.

Jobseekers who want to benefit from the scheme must approach and register with either the PES offices or with private providers to be profiled and then have access to their voucher.

Vouchers are then spent either at public or private providers who can recover the full or half of the amount of services delivered depending on the employment outcome achieved by beneficiaries.

In designing the framework, regional authorities have not opted for a social impact bond given the complexity of the instrument and the high numbers involved in the project (i.e. about 80,000 individuals per year), which required administrative procedures to be easy and simple to implement and monitor.

Periodic monitoring is carried out by regional authorities and has also enabled particular attention and support to long term unemployed, which involves jobseekers looking for employment for more than 3 years.

A1.1.1.98 Project manager

Given the structure of the project framework, combining both private and public employment providers, each service provider manages the resources of Dote Unica Lavoro together with the jobseeker which has also to agree on the services she benefitted from. Random controls are then carried out by regional authorities to avoid potential frauds with service providers charging more than the services delivered.

A1.1.1.99 Financing Model

The project is financed by public resources with the involvement of the European Social Fund.

A1.1.1.100 Assumptions / Risks

Risks are mitigated by the nature of the Payment for Results which entails full payment only in case of successfull employment lasting more than 6 months.

Besides this, while the project can be renewed in case of further unemployment, to avoid frauds service providers do not benefit from project vouchers if job seekers are employed anew by the previous employer.

Aggregation Potential

A1.1.1.101 Likely spatial scale

At a local/ regional level the project has recently expanded to the case of company crises that triggered massive rounds of lay-offs concentrated in given communities. This enabled individuals to get involved into the project before becoming officially unemployed.

Additional room for scaling-up can be envisaged in terms of reducing youth dispersion towards inactivity by approaching young generations in their last year of high school.

At a national level, the project set the foundation for the national pilot phase of Assegno di Ricollocazione, run and managed by ANPAL.

From an international perspective, the project could be successfully replicated in dynamic economic contexts, where the PES play a limited role and can be assisted by private providers.

A1.1.1.102 Describe possible platform sponsors

Possible sponsors are all local PES, social communities and unions which can help unemployed reintegrate into the labour market.

A1.1.1.103 Summary of the investment opportunity

In short, the investment entails a scheme allowing jobseekers to benefit from a series of training and job search services. The scheme features a quasi-market solution through the use of vouchers that service providers can redeem partly depending on the outcome achieved. The scheme leaves substantial room to private service providers to act as key partners to traditional PES and local authorities, especially given the traditional weakness associated with the PES in Italy.

Italy Project example 2 - Professional training for prison inmates

This project concerns the development of Active Labour Market Policies (ALMPs) such as professional training and counselling sessions dedicated to prisoners. It is partly built upon the principle of Payment by Result, mimicking the mechanisms of a Social Impact Bond. The project started with a feasibility and business case study for a pilot phase aimed at about 100 inmates from the prison Casa Circondariale "Lorusso e Cutugno" in Turin. Project organizers are holding talks with the Italian Ministry of Justice for eventual implementation and finalizing details.

Target Sector

A1.1.1.104 The structure of the education sector and its various actors

According to article 27 of the Italian Constitution the Italian prison system is aimed at the reintegration of convicted individuals:

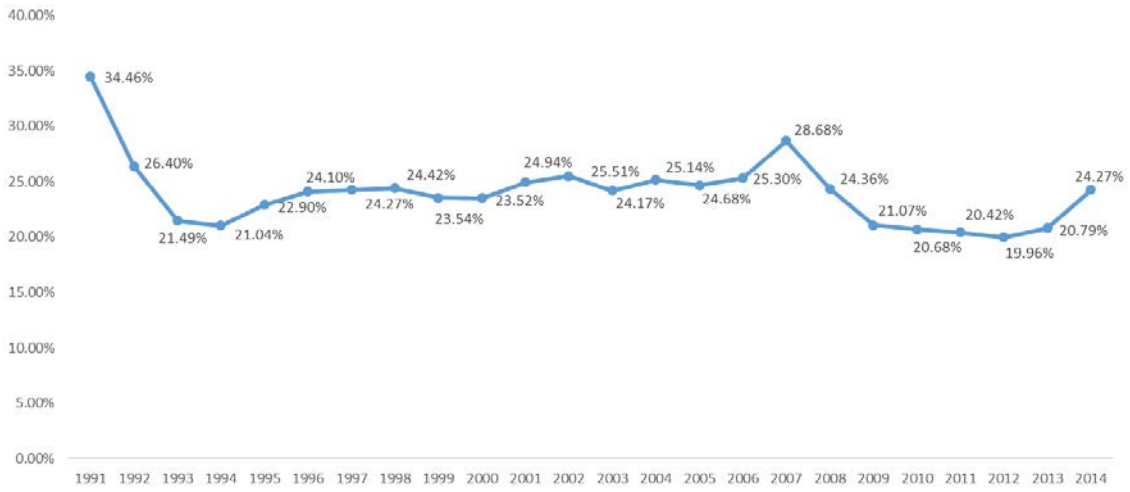
"Criminal responsibility is personal. A defendant shall be considered not guilty until a final sentence has been passed. Punishments may not be inhuman and shall aim at re-educating the convicted. Death penalty is prohibited"

This is based on the grounds that reoffence leads to high social costs, due to additional judicial expenditure and the lack of public security, combined with economic costs of the prison system itself and inactive labour force.

Nevertheless, in 2007 the rate of reoffence in Italy, which can be envisaged as measuring the success rate of the prison system to reintegrate prisoners, stood as high as 68.5 per cent.

Jobs and professional training can be thought of as meaningful ways to reduce reoffence rates and help prisoners towards a smoother transition between prison and civil society. However, the share of prisoners who had a job in 2014 was about 24 per cent, as shown in Figure A1.6 below:

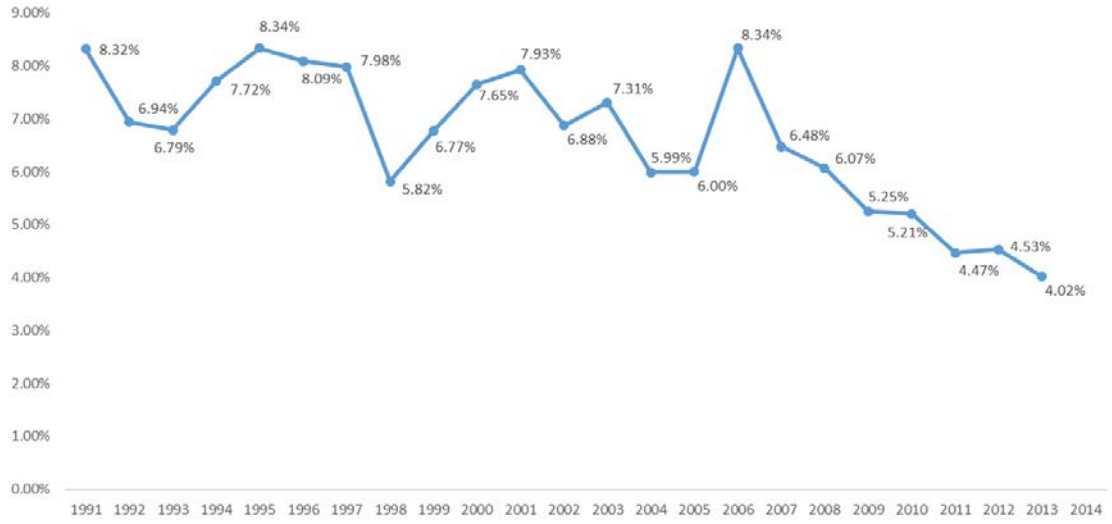
Figure A1.6 Share of prisoners with a job



Source: Minidossier "dentro o fuori", Open Polis 2016

The share of convicted individuals receiving any training in 2014 was even lower. Only 4 per cent of prisoners were enrolled in training in 2014, as seen in Figure A1.7 below:

Figure A1.7 Share of prisoners enrolled in training courses



Source: Minidossier "dentro o fuori", Open Polis 2016

Regarding the main actors, within the Italian Mistry of Justice the Cassa delle Ammende is the body in chair of financing projects aimed at easing the prisoners' reintegration, providing assistance programmes and improvising welfare.

A1.1.1.105 Capital (Infrastructure)

The current status of jobs and training for prisoners in Italy is rather poor, especially given the fact that prisoners who are successfully employed tend to be in involved in fairly unskilled occupations.

A1.1.1.106 Revenue (Additional Services / Lending facility)

Given the high rates of reoffence in Italy, a smoother transition from a regime of constrained liberty back to civil society might have societal benefits. It could reduce social costs associated with reoffence and lower public expenditure for the judicial and prison system while reducing the inactive labour force.

It might be possible in a future phase of the pilot project, before scaling it up to regional or national level, to measure the achieved savings from local administrations and balance them against the costs of the initiative.

Investment context

A1.1.1.107 Current levels of national investment in education and training

In 2015, Italy spent 1.8 per cent of its gross domestic product (GDP) on labour market policy interventions (LMPs) above the EU average[244] of 1.4 per cent. This amounted to about € 28,864 million out of which 73 per cent was spent on out of work income maintenance and support, 13 per cent on

[244] Excluding the UK and Malta

employment incentives, 10 per cent on training, 3 per cent on labour market services, 1 per cent each on start-up incentives and early retirement[245].

With reference to prisoners, Cassa delle Ammende spent around € 6 million in 2016 of which € 5.5 million (91.6 per cent) was for financing projects dedicated to the social reintegration of inmates[246].

A1.1.1.108 Any government / Market failure leading to under-investment / public expenditure?

Low levels of investments in social impact projects can be explained by the traditional way that public administrations usually operate. In addition, the use of the more innovative financial instruments is also hampered by the rigidity of accounting principles which pose hurdles in the managing of innovative financial tools such as pure social impact bonds. Besides this, there is some persistent reluctance of entrepreneurs to hire inmates or former prisoners.

A1.1.1.109 Economic and social returns from investment in education and training

Social and economic returns in this project are expected from freeing up resources devoted to the judicial and prison system while at the same time putting the inactive labour force at work. The project postulates that a smoother transition from prison to civil society might help curb the reoffence rate. While there are no estimates specific to social costs of reoffence for Italy, estimates from the US suggest that the per capita social cost of victimization is estimated to be between USD 3,000 and USD 6,000[247].

However, a rather remarkable example of returns from integration of prisoners in the Italian context comes from the prison of Bollate near Milan. This institution is currently operating as the only pure "open door" prison in Italy. Inmates in Bollate are involved in jobs or training aimed at completing schooling or acquiring labour market skills (e.g. English classes, computer skills, etc). Vocational training is also available where prisoners are able to work both inside the prison's own facilities, such as the prison greenhouse, and outside the prison through a network of partners. There is also a clear social and community dimension, where prisoners can impact how the prison is managed through elected representatives. As a result, a relationship of trust has been built up between inmates and guards and violence has been reduced. With less need for tight security, the institution has lower costs compared to other institutions.

In a study aimed at measuring the causal impact of the "Bollate Treatment" Mastrobuoni and Terlizzese (2014) investigated the link between prison conditions and rehabilitation. Their results showed that spending an additional year at Bollate compared to other prisons reduces the reoffence rate by around 10 per cent of the average reoffence rate.

[245] Eurostat lmp_expsumm

[246] Eurostat lmp_expsumm

[247] Mastrobuoni, G., and Terlizzese, D., 2014. Rehabilitation and Recidivism: Evidence from an Open Prison. Working paper. Available at: http://questionegiustizia.it/doc/Rehabilitation_and_Recidivism_Evidence_from_an_Open_Prison_G_Mastrobuoni_D_Terlizzese_September_2014.pdf [Accessed 25 April, 2018].

A1.1.1.110 Scale of investment / expenditure required

a. At project level – resources required for a typical project

According to the foundation Fondazione Sviluppo e Crescita CRT the total cost of the initiative would be around € 1.4 million. The Italian Ministry of Justice has expressed their interest by providing data for the feasibility study and the business case built by the proponents of the initiative. The Minister of Justice also attended the conference presenting the results of the study.

b. At portfolio level (national or regional, may also be cross-border opportunity?)

Was the initiative to be successful, the pilot might be extended to other prisons within the region or scale up to national level. At a larger scale, the costs at national level would be about € 3 to 4 million and might provide enough economies of scale to cover the costs associated with the issuance of a formal social impact bond between the parties.

Private / Social Sector Finance Provider

This investment is of principal interest to non-profit and profit organisations which operate in the area of social investing. Foundations, corporate firms and financial institutions can also be involved (please see the project framework below) by the provision of financial guarantees, funds or advisory consulting. The use of guarantees and support for foundations and financial institutions might prove to be pivotal to help service provides in accessing funds, given low credit scores and the reluctance of traditional financial intermediaries.

Income Generation

The revenue stream is still to be finalized following talks with the Italian Ministry of Justice. However, early discussions feature the idea of milestone payments throughout the full course of the project, with the final instalment paid upon completion and assessment of the results.

A1.1.1.111 Payees

Core payees are the service providers that offer training and counselling sessions to prisoners. Depending on the nature of the provider, the paye may be either a for-profit or a not-for-profit organization. Additional payees would also include financial guarantee providers, advisory and coordination companies as well as evaluators.

A1.1.1.112 Income collection

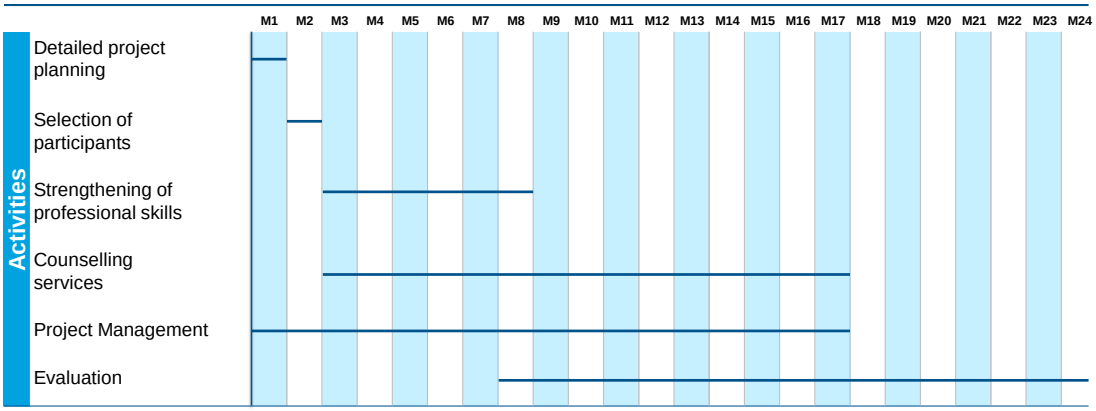
The investment would be repaid upon the completion of the project. However the proponents are still in discussion within the Italian ministry of Justice for proposing a milestone paying option.

Given the length of the pilot case (2 years) the proponents are also in contact with financial institutions to ensure a financial lifeline support throughout the project execution. Such support would amount to around € 1.2 million.

A1.1.1.113 Time period

According to the feasibility study, which outlines the various phases of the pilot, the project would last for 24 months. The first year would mainly focus on activities that prisoners can benefit from, while the second year is devoted to follow-up and evaluation to measure the causal impact of the project on the reoffence rate. A more detailed breakdown of the project activities is presented in Figure A1.8 below:

Figure A1.8 Gantt of pilot phase



Source: Studio di fattibilità – Human Foundation 2017

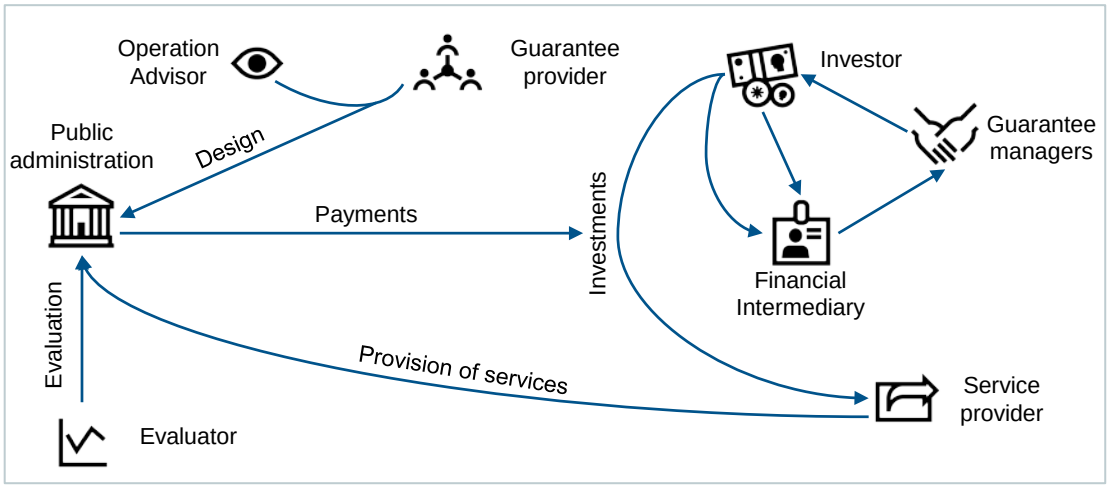
Service Provider

Services to inmates would be provided by a network of social cooperatives and non-profit organizations. According to the proposal following the feasbility study, the service provider would coincide with the investor.

Project Delivery Framework

The overall project delivery scheme with the various actors is summarized in Figure A1.9 below.

Figure A1.9 Example of Delivery framework diagram (pilot phase)



Source: Studio di fattibilità – Human Foundation 2017

According the framework proposed, private organisations would design the initiative to be proposed to the public administration. The framework would also entail a set of investors who raise the financial resources, either through specialized financial institutions and guarantees or not, one or more service providers and a final evaluator who would carry out a counterfactual evaluation of the impact stemming from the initiative. Upon completion, the public administration would make payments to the investors based on results from the evaluator.

A1.1.1.114 Project manager

Given the private initiative of the pilot scheme the project would be managed and coordinated by the proponents themselves with the help of advisory consulting companies. The proponents include a

wide range of organisations spanning from associations, banking foundations, universities and advisory firms.

A1.1.1.115 Financing Model

The project builds partly on the principle of Payment by Results, triggered by meeting the project target of reducing the reoffence rate against a target established *a priori* within 24 months. A priori-targets can for example be the 10 per cent target used in the Peterborough prison in the UK. According to early talks, the following suggestions are subject to approval by the Ministry:

1. In case of meeting the project target: Cassa delle Ammende would repay the full costs of intervention and an additional 3-4 per cent as project premium
2. In case of not meeting the project target: Cassa delle Ammende would only repay 70per cent of the initiative, 25per cent of the initiative would be covered by Fondazione CRT Crescita e Sviluppo as the financial guarantor, thus leaving service providers exposed to only 5 per cent of total costs.

A1.1.1.116 Assumptions / Risks

Risks are mitigated by the nature of the Payment by Results mechanism, which according to the proposal under discussion with the Ministry, would allow Cassa delle Ammende to only repay 70 per cent of the initial investment if the results are not according to targets for the reoffence rate reduction.

On this regard, service providers can benefit from a financial shield offered by Fondazione CRT Sviluppo e Crescita, which would provide financial funds to cover 25 per cent of the initial investment in case of the inability to meet targets. This leaves services providers exposed to only 5 per cent of their investment.

The project builds upon the examples of social impact bonds of the UK and the US where the provision of training and rehabilitation successfully reduced the reoffence. This expereince, alongside building on the experience of Bollate, would be extended in the Italian context.

With reference to the measurement of savings for the public administration, the initiative assumes that in case of success, public administrators will be able to measure savings generated by lower reoffence rates through their accouting standards.

Aggregation Potential

A1.1.1.117 Likely spatial scale

There is substantial room for scaling-up the initiative in case of successful results both at regional and at national level.

In addition, positive evidence might be used internationally to support the role of the prison system as rehabilitators for the reintegration of prisoners back into society.

A1.1.1.118 Description of possible platform sponsors

Possible platforms sponsors can be found in profit/ non-profit organizations which aim at social impact investments or national networks of the above which could promote the initiative and help it escalate in case of success.

The Italian Ministry of Justice and Cassa delle Ammende have proven to be cooperative players by providing data for the feasibility study and has shown interest by having talks for implementation.

In case of scaling up to a national level, it might also be relevant to investigate whether financial institutions or financial intermediaries could be involved in issuing a full social impact bond. As such,

they might promote the collection of funds either through their channels or through the direct provision of funds. .

A1.1.1.119 Summary of the investment opportunity

In short, the investment features the possibility to mimic a social impact bond by proposing a pilot initiative for designing a wide range of rehabilitation services to inmates. This would be done in partnership with several stakeholders stretching from social organisations, banking foundations, investors, universities, financial intermediaries and the public administration. Payments to investors would be partly conditional on the results achieved at the end of the project and aim at reaping social and economic benefits associated with the lowering of the reoffence rate.

Annex 2 EFSI eligibility criteria and application process

Generally speaking, to be financed, EFSI interventions need to be:

- **Economically and technically viable –** projects that are capable of repaying capital and loans. As regards investments in human capital and skills development, there is limited technical experience of payments by results (PbR) projects in this field (mainly relating to support for young unemployed). Technical competences in relation to student or adult loan funds, loan guarantees for student or adult loans, and PPPs are well established, and interviews confirmed that these interventions have the most robust economic and commercial outlook;
- **Mature enough to be bankable –** Student or adult loan funds and PPP have demonstrated to be bankable. The bankability test is harder to satisfy given the lack of experience with payments by results (PbR) projects in this field, but evidence does confirm the potential to provide financial return based on fiscal benefits. First discussions with financial intermediaries confirm this, however there are encouraging examples such as the Finnish Koto-SIB[248];
- **Provide additionality –** The required innovation and the probable higher risks associated with the skills development interventions should satisfy this criteria;
- **Provide aggregation potential –** In the case of smaller interventions which are in itself not eligible for direct EFSI support, skills development investments generally will have to provide some potential for aggregation under an investment platform, or alternatively provide a large enough market to raise interest from financial intermediaries.

The detailed EFSI project appraisal and approval process within the EIB Group looks different for the two EFSI-windows. As such, skills development (human capital) projects are evaluated according to the procedure stipulated under each window.

Under the IIW

There are no sector specific eligibility rules.[249] EIB due diligence tests as well as an assessment by the EFSI Investment Committee apply. In a nutshell, projects that can apply for EFSI financing need to be economically and technically sound; contributing to EU objectives, including sustainable growth and employment; be mature enough to be bankable; and priced in a way that represents the risk taken.[250]

Eligible applicants for EFSI financing are private and public-sector entities; banks, NPBs or other financial institutions; funds and other forms of collective investment vehicles; and investment platforms.

Concretely, the application process holds seven-steps as illustrated in Figure A2.1 below. Project promoters do not apply for EFSI but should follow the usual EIB loan application procedures. The initial stage of the proposal is followed by appraisal of financial, economic, social, and environmental factors as well as a technical assessment. The third step involves the review and approval from the EIB

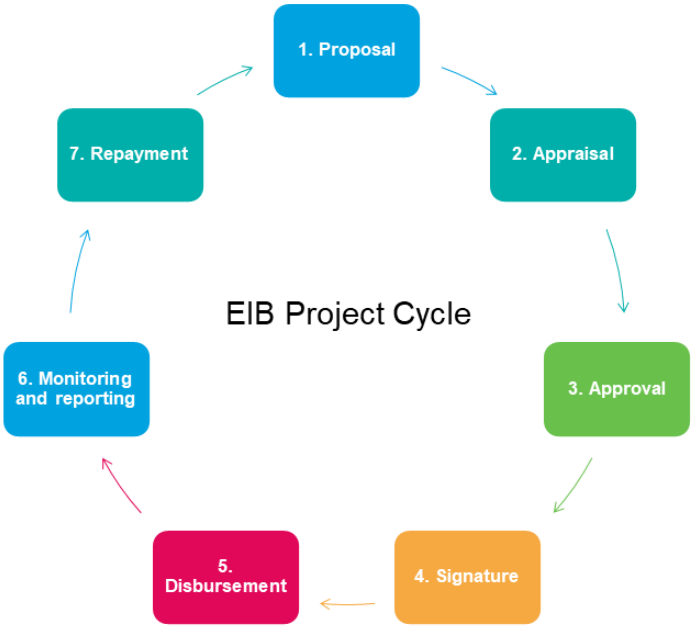
[248] http://www.eif.org/what_we_do/equity/news/2017/efsi_epiqus_payment_by_results.htm

[249] As long as it is within at least one of the EFSI eligible sectors as defined in Article 9 of the EFSI 1.0 (and 2.0) Regulation, including human capital, and in particular education and training, and social infrastructure and solidarity economy.

[250] EIB, 2018. How does a project get EFSI financing?. Available at: http://www.eib.org/efsi/how-does-a-project-get-efsi-financing/index.htm [Accessed 24 April 2018].

Management Committee, the Investment Committee (for operations potentially benefiting from an EU guarantee under EFSI) and finally also from the EIB Board of Directors. At the fourth stage the financial contract is signed and in the following step the money is disbursed. Monitoring and reporting follows the disbursement of the funds before the money is repaid in the seventh and final stage of the EIF project cycle.[251]

Figure A2.1 The EIB project cycle for the IIW



Source: Adapted from EIB presentation "Investment Platforms: risk, pricing & remuneration" by Neto Pinto, M., and Suselj, B., p.3, 7 December 2017

Under the SMEW

SMEs and mid-caps interested in applying for EFSI financing should turn to EIF financial intermediaries directly.[252] As such, the final financing decision is taken by the financial intermediary. The criteria which need to be met by the SMEs and mid-caps will vary depending on the underlying EU programme that EFSI topped up / according to the precise instrument (for instance see target groups in Table 1.4:)

Financial intermediaries as well as Fund management companies targeting SMEs and Small Mid-Caps, should apply via an Open Call for Expression of Interest, which forms the basis for EIF's selection of EFSI financial intermediaries.[253] Standard EIF selection procedures are followed for the selection of EFSI financial intermediaries including Screening, Due Diligence, Assessment and approval in accordance with EIF's internal assessment and decision making rules and Negotiation and signature.

[251] EIB, 2018. How does a project get EFSI financing?. Available at: http://www.eib.org/efsi/how-does-a-project-get-efsi-financing/index.htm [Accessed 24 April 2018].

[252] EIB, 2018. How does a project get EFSI financing?. Available at: http://www.eib.org/efsi/how-does-a-project-get-efsi-financing/index.htm [Accessed 24 April 2018].

[253] EIF, 2018. How to apply for EFSI financing. Available at: http://www.eif.org/what_we_do/efsi/how_to_apply_for_EFSI_financing/index.htm [Accessed on 24 April 2018].

Annex 3 Mandate of the EIAH and EIPP under EFSI 2.0

European Investment Advisory Hub

The European Investment Advisory Hub (EIAH) is the main mechanism providing technical assistance and developing a 'pipeline' of potential projects in human capital, among other areas.

The EIAH, while not directly part of EFSI, was also established by Regulation 2015/1017 (EFSI 1.0) and formally launched in September 2015. Governed by a separate agreement between the EC and the EIB, the hub acts as a one-stop shop for technical advisory throughout the project lifecycle. It relies on existing expertise and advisory services provided by the EC, EIB, national promotional banks and the managing authorities of European Structural and Investment Funds. Its mandate is not limited to projects financed by EFSI. Under the EFSI 2.0 regulation, the EIAH is now mandated to:

- leverage local knowledge to facilitate EFSI support across the Union and contributing actively where possible to the objective of sectorial and geographical diversification of the EFSI. This is done by supporting national promotional banks or institutions to originate and develop operations, in particular in less-developed and transition regions, and, where necessary, by helping to structure demand for EFSI support;
- providing a platform for peer to peer exchange and sharing of know-how regarding project development;
- providing pro-active, advisory support, where necessary, by means of local presence, on the establishment of investment platforms, in particular cross-border and macroregional investment platforms involving several Member States and/or regions:
- using the potential of attracting and financing small-scale projects, including through investment platforms;

Moreover, the EIAH operates in four delivery-oriented work streams:

- **First work stream - requests coming from the website.** At the moment, only a small percentage of requests come from the website, due to a lack of public awareness of the hub.
- **Second work stream - requests coming via expert sources such as consultancies,** NPBs, individual experts, EIB and EC. These requests have a greater chance of being channelled through to EIB-managed or other support mechanisms, as they have undergone some form of "pre-screening" already.
- **Third work stream - development of local presence**. This part of the work focusses on capacity building at the local level, such as supporting individual NPBs or fostering exchange between groups of NPBs.
- **Fourth stream - market development**. This stream includes queries and requests which are not identifiable projects, but include the development of an idea that would lead to the development of a project. Investment platforms fit this sort of category.

The Hub covers skills development through two sub-sectors in its Human capital, culture and health sector: social infrastructures and education and training. While very few advisory requests originated from this sector in 2015, there has been some increase in 2016 as the EIAH highlighted several social policy interventions in fields related to skills development. Table 1.7: shows some relevant examples which received EIAH advisory services.

Table 1.11: EIAH examples of assistance in the area of skills development and human capital

Project	Country	Description	Services provided
Social economy investment platform	France	Financing opportunities for social economy enterprises	- Business plan review - Legal and financial advice
Social impact bond	Sweden	SIB supporting municipal social impact investments with a particular focus on reducing sick leave among public sector employees	- Financial advisory assistance - Feasibility study of social impact bond mechanism
Social housing	Poland	Construction of 700 housing units	- Financial modelling

Source: EIAH

The EIAH is set up as a demand-driven instrument, and a review of current activities suggests that a strengthening of the third and fourth workstream as well as a more pro-active approach to offering technical assistance support at the Member State level might help the take-up of EIAH services, and subsequently the strengthening of a project pipeline in sectors that are currently underrepresented in EFSI, such as human capital.

European Investment Project Portal

The European Investment Project Portal has been established to enable EU-based project promoters to reach potential investors worldwide. Together with the EIAH it forms the second pillar of the Investment Plan for Europe, which aims to provide technical assistance and increase visibility for EU investment opportunities within various sectors, including human capital and social investment.

The EIPP functions as an online tool that increases the visibility of potential investment opportunities in the EU. It was launched in June 2016 with an online submission tool and searchable project directory. Investors also register online and receive updates with projects that match their interests.[254] Listed projects need to have a total cost exceeding € 1 million; fit within pre-determined high-economic value-added sectors; have a starting date within 3 years of submission; be promoted by a public or private EU entity; and be compatible with all EU and national legislation.

The EIPP covers six sectors, including "Social Infrastructure & Other", including sub-sectors relevant for skills development:

[254] European Commission (2017) European Investment Project Portal: the meeting place for project promoters and investors

- Human Capital, Education & Training
- Social Infrastructure, Social and Solidarity Economy

As of April 2018, a total of 275 projects have been published on the EIPP, 27 out of which fall under the sub-sectors listed above. Only two of those relate to the scope of this study, with all others focusing on health and social care or traditional education.[255]

The take-up of EIAH and EIPP to promote projects facilitating skills development has thus been rather low. Both the EIAH and EIPP are set up as demand-driven instruments. A strengthening of the third and fourth work-stream as well as a more pro-active approach to offering technical assistance support at the Member State level might help increase the number of requests for advisory services from the skills development sector.

[255] Helenos, a French investment and technical assistance fund supporting microfinance institutions financing social enterprises across the EU, and Tradimo, a Danish for-profit financial literacy provider.

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Interviewees

- Anonymous interviewee 1 in a financial intermediary.
- Anonymous interviewee 2 in a financial intermediary.
- Anonymous fund manager 1;
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- Nykänen, J., 2018. Founding Partner at Epiqus Oy. Interview 23 February 2018. Interviewed for the Finnish Koto-SIB and Finnish country section.
- Pyykkö, M., 2018. Project Director, Impact Investing at Sitra. Interview 27 February.
- Rahman, D., 2018. CEO and Co-founder at Integrify. Interview on 17 April, 2018. Interviewed for Integrify project example.
- Ruth, K., 2018. Labour Market Counsellor in the Finnish Ministry of Economic Affairs and Employment (MEAE). Interview on 15 March 2018. Interviewed for the Finnish Employment-SIB and Finnish country section.
- Vento, V., 2018. Program Manager at Finnvera Oyj. Interview on 13 March 2018.
- Frost Mathiesen, B., 2018. Programme Director for the Vækst med Social Bundlinje programme at Den Sociale Kapitalfond. Interview on 27 March 2018 and 12 April 2018.
- Lohse, S.B., 2018. Investment Director at Den Sociale Kapitalfond Denmark. Interview on 26 March 2018 and on 20 April 2018. Interviewed for the Specialisterne project and Danish country section.
- Pehrson, L., 2018. CEO Merkur Cooperative Bank. Written response interview, March 2018.
- Solgaard, C., 2018. Head of Division at the Danish Agency for Labour Market and Recruitment. Interview on 18 April 2018.
- Camoletto, M., 2018. Chief analysis and development at Fondazione CRT. Interview on 21 March 2018.
- Di Raimondo Metallo, G., 2018. Deputy director of education, training and employment, Region Lombardy. Interview on 13 April 2018.
- Penna, L., Cocchieri, S., 2018. Deputy Head Social Impact Bank at UniCredit and Head of Capital Optimization Department at UniCredit. Interview on 27 March 2018.
- Pasi, G., 2018. Scientific officer at Joint Research Centre. Interview on 3 April 2018.
- Sas, V., 2018. Manager of the department entrepreneurship, training and youth at CDC group. Interview on 23 February 2018.
- Viala-Claude, M., 2018. Project director in charge of PbR schemes at CDC group. Interview on 8 March 2018.
- Dementhon, D., 2018. CEO at France Active. Interview on 8 March 2018

- Faucheux, M., 2018. Manager of the department economic development and ESS at CDC group. Interview on 20 April 2018.
- Valentin, P., and Gaillard, M., 2018. Project director and team member at ETCLD for the project "Territoires zéro chômeur de longue durée". Interview on 21 February 201

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