**Social Investment and Skills Window – Draft Policy Note**

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# Introduction

This policy notes describes policy objectives and the rationale for different financial products supported by the Social Investment and Skills Window (SISW) of InvestEU.

*[This policy note is still work in progress. It will be updated to align with further policy developments in the context of final decisions under the MFF and the new Commission.]*

# InvestEU for microfinance and social enterprises, social impact and social innovation

## Rationale for supporting investment in microfinance, social enterprises, social impact and social innovation

Microfinance[[1]](#footnote-2) refers to small loans of up to [EUR 50 000] and accompanying support targeted at micro-enterprises[[2]](#footnote-3) and entrepreneurs, including the self-employed, from vulnerable backgrounds, often lacking collateral and credit histories. Meanwhile, social enterprise finance is about supporting social enterprises i.e. companies with an explicit primary objective to generate a positive social or societal impact and which largely re-invest their profits to advance this goal.

Both microfinance and social enterprise finance are **still recent developments in Europe** and part of an emerging market ecosystem that is not yet fully developed. They play an increasingly important role in the European economy in terms of promoting active labour market participation, creating jobs and building a fairer and more inclusive Union.

Generally, micro-enterprises and social enterprises face continued **difficulties in accessing finance to start up and scale up** often due to a lack of collateral and credit history. In addition, public funding in this area is still lacking, especially at the national level.

In response, at the European level, the EU Programme for Employment and Social Innovation (EaSI) (EU Regulation No. 1296/2013) devotes around EUR 200 million for improving access to, and the availability of, microfinance and social enterprise finance in the current programming period 2014-2020. Together with the added firepower of the European Fund for Strategic Investments (EFSI) and the European Investment Bank Group, the total Union support has reached close to EUR 800 million, which in turn is expected to unlock more than EUR 3 billion of financing for micro- and social enterprises.

In spite of the successful market take-up of the EU-level financial instruments mentioned above, one of the main criticisms currently levelled by stakeholders is precisely the **need for significantly more Union support in light of the insufficient resources allocated** in order to bridge the financing gap. In addition, stakeholders have voiced complaints that EFSI was "not social enough".

While an EIB Investment Report[[3]](#footnote-4) highlighted that the investment recovery has firmed and access to finance has generally been improving at the company level, **significant EU-wide market failures and sub-optimal investment situations remain**. Furthermore, from a policy point of view, it is crucial to ensure that economic growth is more socially inclusive.

Social investments through microfinance and social enterprises have a considerable potential to help achieving **major EU policy priorities**. For instance, measures to support the integration of under-represented and vulnerable groups including the unemployed, women, young people, migrants, people with disabilities and rural population require a substantial level of resources, which are only partially available in public budgets. The use of repayable forms of financing can help mobilise additional resources to overcome huge barriers faced by underrepresented and vulnerable groups to access appropriate financing.

In view of the above, boosting EU-backed investments in microfinance and social enterprise finance can therefore play an important role in particular with a view to: (i) bridging the financing gap that cannot be addressed at the national level alone, and (ii) catalysing systemic developments in the emerging ecosystems that would otherwise not happen without targeted EU-level interventions with a clear signalling and demonstration effect.

Support to **impact-driven enterprises**, which act as drivers of social change, can complement and further enhance all these efforts.

The main goal of these enterprises is the pursuit of impact, which refers to the **positive net change to society,** induced through the business activity or service provision of a company and is **intentional and measurable**.

## Estimated EU-wide financing gaps

1. **Microfinance**

Micro-enterprises account for 94.16% of the non-financial economy in the EU, employing almost one-third (29.5%) of the labour force (Eurostat). Based on a recent market analysis, the **total financing gap for microfinance in EU Member States and Iceland is estimated at EUR 12.9 billion [per year]**.

Moreover, the gap is expected to widen to between EUR 15.7 billion and EUR 18 billion by 2030 as credit demand from micro-enterprises in the EU is projected to grow at an annual rate of 1.5 - 2.5 % over the period 2020 - 2030 (constant prices). For candidate countries, growth rates of credit are expected to be higher, at 3 - 4.5 % per year (constant prices).[[4]](#footnote-5)

1. **Social enterprise finance**

The total financing gap for social enterprises across Europe is currently **in the range of EUR 600 million to slightly over EUR 1 billion per year**, out of which around 60% is for equity and 40% for debt.[[5]](#footnote-6)

While the primary market gap at EU-level is for tickets below EUR 500 000, there is also a gap for tickets above this amount [up to EUR 2 million] to encourage the scaling-up of operations through additional fund-raising.

Access to finance is a major obstacle for social enterprises. The four main barriers for starting up a social enterprise are: (i) lack of/poor access to/affordability of finance (45%), (ii) cash flow (22%), (iii) lack of appropriate skills/experience (19%) and (iv) lack of awareness of social enterprise among customers (15%).[[6]](#footnote-7)

1. **Social impact and social innovation**

In addition, there is an interest in experimenting with developing a social impact investment space alongside social enterprises, supporting the scale-up of impact-driven enterprises where the primary focus is on achieving a net financial rate of return alongside a targeted positive social impact. Key to this business model is a rigorous process of defining impact and measuring it.

## Funding needs and types of EU-level financial instruments

A complementary range of financial instruments covering intermediated debt, including loan portfolio guarantees, and intermediated equity is required in order to foster systemic developments and comprehensively tackle the EU-wide market failures in the microfinance, social enterprise finance and impact investment space:

1. **Microfinance**

Access to funding is crucial for microfinance institutions (MFI) in order to reach financial sustainability and to cater for the needs of vulnerable clients at affordable interest rates. The primary funding needs are **debt financing** (74% for all MFIs / 65% for non-bank MFIs), followed by **equity** (10%/10%), **guarantees** (5%/9%) and **grants** (3%/5%).[[7]](#footnote-8)

In particular, non-bank microfinance institutions require **debt financing** in order to bridge their liquidity needs, subsequently boosting their capacity to on-lend to micro-borrowers. Given the absence of deposits, non-bank financial intermediaries typically need to boost their loan capital via external debt finance in order to reach scale.

**Portfolio loan guarantees** can help cover the credit risk of their loan portfolios, notably to reach out to the most vulnerable target groups, including young people, migrants and female entrepreneurs. Bank and non-bank microfinance institutions require direct guarantees, whereas counter-guarantees are suitable for guarantee institutions. The focus on risk-sharing without a funding element renders the direct guarantees particularly useful for microfinance institutions with a strong social focus, but it is also suitable for more upmarket microfinance institutions that seek to contain the level of risk involved in enlarging their portfolios.

Alongside debt funding and guarantees, MFIs are expected to increasingly demand also other types of funding, such as **mezzanine finance and equity**. Larger MFIs will also need support to enable bond issuance as an alternative means for funding.

In parallel to the increasing financing needs, the outlook for market funding for MFIs for the period 2021-2027 may prove to be challenging. Stricter regulation (e.g. Basel III) and potentially higher interest rates, compared with the current historically low rates, risk leading to higher funding costs for MFIs.

1. **Social enterprise finance**

**Portfolio loan guarantees** are aimed at institutions providing debt financing to social enterprises. These institutions are mainly banks and potentially, foundations. Bank loans are already in place for non-profit organisations, which use them to finance infrastructure or other long-term investments. However, social enterprises are active in fields where the business model is based on less stable revenue streams, with fewer assets that they can use as collateral. As the financing decision and the interest rate are influenced by the default rate of the social enterprise, the provision of an EU guarantee could improve the European financing landscape for social enterprises.

While **debt financing** is a more widely used instrument for the financing of more established social enterprises, there is still a **missing secondary market for equity investments** which are needed to finance early-stage social enterprises.

Debt financing can be considered as an impediment to growth since it requires a social enterprise to be able to generate predictable cash flows to cover the interest rates and to repay the principal, thereby dampening the degree of innovativeness and risk-appetite of social enterprises.

Insufficient access to **risk capital (or equity) financing** for social enterprises remains one of the main obstacles for their growth, in particular for small ticket sizes at their pre-seed, seed, start-up and early stage of development. There is an upward pressure on social venture capital fund sizes, which need to reach about EUR 50 million in order to generate enough fees to cover their operating expenses[[8]](#footnote-9).

Due to the proportionately high transaction costs needed to analyse and manage many small investments, such funds rarely cover financing needs below [EUR 500 000]. Therefore, the objective of providing risk capital financing is to strengthen the nascent market for social investments. In particular, to support the start-up and scale-up of social enterprises through small ticket investments of below [EUR 500 000]. Concurrently, in the case of microfinance and social enterprise finance, there is also a strong market need for **patient capital i.e. long-term equity and quasi-equity investments** to strengthen the capacity of financial intermediaries in order to attract additional private capital and develop their institutional capacity, which in turn supports their future lending activities. In terms of value added, these equity or quasi-equity investments allow for co-investments with other long-term investors as well as a high level of risk tolerance in terms of counter-party risk.

1. **Social impact and social innovation**

Support for access to **risk capital (or equity) financing** is also key for the growth of impact driven businesses, as .

impact focus in a company’s business model is still widely perceived as being return compromising by traditional VC funds.

# InvestEU for Education, training and skills

## Rationale for supporting investment in education, training and related services

Education and training are part of the solution to get more people into jobs and respond better to the economy's needs for skills. Investments in skills contribute to growth, competitiveness and social convergence, while strengthening Europe's resilience in a context of rapid and profound changes, including digital transformation and the transition to a carbon-neutral economy.

General education equips citizens with general skills and competences that transcend the limits of specific occupations. Job-specific skills, on the other hand, address the particular needs of the workplace. Taken as a whole, both general education and job-specific skills are equally important and act in a complementary way across the entire working life and beyond.

Investments in both strands are particularly important for vulnerable groups such as migrants who often face a high level of educational failures and drop up rates This has substantial social impacts, given that in the EU in 2018 almost 31% of the non-EU born were at risk of poverty or social exclusion, compared to about 15% of the EU-born. Language trainings, building upgrade skills, bridging courses and specific professional orientation courses could have an important impact in building communities that are more inclusive.

The economic and social benefits of skills and learning can be grouped into three categories[[9]](#footnote-10):

1. For learners:

* Economic:Increased wages and income as well as improved employability;
* Wellbeing:Improved general wellbeing (including improvements in self-confidence) as well as improved health (physical and mental); and
* Social:Improved disposition to voluntary and community activity as well as improved civic attitudes.

1. For employers:

* Companies’ innovation performance can be increased;
* Higher motivation of the workforce can be attained; and
* Increased productivity and profitability can be achieved.

1. For the community:

* Economic:greater economic competitiveness and higher GDP; and
* Social:positive effects on health, the environment and reduced reoffending.

To unlock the abovementioned benefits and be (and remain) effective in the long-run, knowledge and skills development policy interventions should cover all stages of life from a lifelong perspective. At the same time, such policy interventions should factor in the fact that skills foundation begin in early childhood and is built up over one’s lifetime.[[10]](#footnote-11)

## The need to enhance access to quality education, training and related services

The Skills Agenda for Europe, adopted in June 2016, bridges the worlds of education and work, mobilising stakeholders in numerous policy fields. Education and training cooperation is one part of this wider skills policy landscape. The Agenda launched 10 actions to make the right education and training, skills and support available to people in the EU. It is centred on three strands: 1) improve the quality and relevance of skills formation; 2) make skills and qualifications more visible and comparable; and 3) improve skills intelligence and information for better career choices. The European Pillar of Social Rights, proclaimed in 2017 by the European Parliament, the Council and the European Commission, sets as its very first principle “The Right to Education, Training and Lifelong learning”.

Notwithstanding the above, education and training opportunities are still not accessible to a significant number of people. We now need to move one-step further to turn into reality the first principle of the European Pillar of Social Rights promoting the right for everyone to quality and inclusive education, training and lifelong learning.

The level of educational attainment and of key information processing skills – literacy and numeracy – in the EU are lagging behind those possessed by adults in other key mature economies. Furthermore, adult participation in learning and investments in adult upskilling and reskilling, based on available international data, are lagging in the EU as compared to the US, Canada or Australia[[11]](#footnote-12).

For example, in 2018, 59.6 million adults, aged 25-64, had only a low level of education –representing 21.9%, still a very significant share of the total adult population within this age-group in the EU. Even larger proportions of adults are low skilled, meaning they struggle with reading, writing, simple calculations and/or using a computer (‘basic skills’), according to OECD’s Survey of Adult Skills (PIAAC). More generally, the EU suffers from persistently low levels of participation by adults in learning. Significant differences in the level of competences between countries and between socio-economic groups across the EU remain.[[12]](#footnote-13)

All these considerations point to weaknesses in skills investment markets in the EU, in particular private investment markets. Furthermore, evidence also suggest that a much more significant investment in adult learning would be required to realistically provide opportunities for a majority of adults to access adequate and frequent education and training opportunities.[[13]](#footnote-14)

The lack of financial resources is a major barrier to accessing education and training and creates unequal chance to education. For young people, access to education in many countries relies too heavily on parental social background and financial standing - 63% of the Erasmus+ EU survey respondents would require their family support in the absence of the national or EU supported finance[[14]](#footnote-15).Such inequality is further enhanced for transnational mobility, as many national higher education support schemes do not allow students to take their national grants or loans to study abroad[[15]](#footnote-16). Similarly, for adults, interested to pursue further learning opportunities, the cost of training is one of the most significant barriers[[16]](#footnote-17).

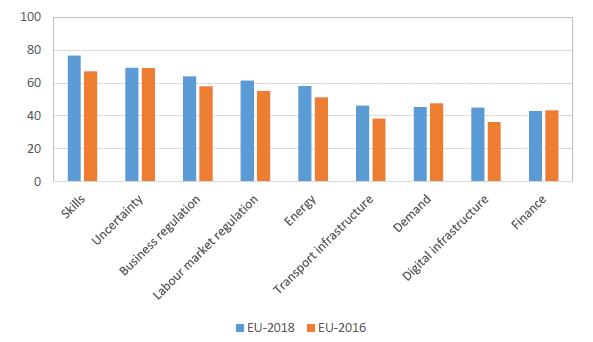
At the same time, access to finance remains an issue for 25% of European SMEs[[17]](#footnote-18), while around 15% of SMEs report to be seeking external finance for hiring and training employees[[18]](#footnote-19). The lack of such finance coupled with the research which shows that employers’ investment in learning is key to increasing the availability and participation of adults in learning programs, constitutes a significant blockage to skills development. At the same time, finding skilled labour constitutes one of the most important issues faced by European SMEs. When looking at the SMEs that consider finding skilled labour a challenge, there is a clear upward trend pointing to the fact that finding skilled labour has become a more pressing challenge in recent years.

**Percentage of SMEs that indicate finding skilled labour is a pressing problem**

***Source:***EIF

In addition, the EIB Investment Survey (IBIS)[[19]](#footnote-20) shows that since 2016, the limited availability of skills has increasingly become a concern for firms and it is the most frequently named impediment to investment in a list of nine obstacles to investment. On average, 77% of firms report the limited availability of skills as an impediment to investment.

**Share of firms reporting different obstacles to investment, in % (2016-2018)**



***Source***: EIB Working Paper. “Skills shortages and skill mismatch in Europe. A review of the literature.

In the EU, there is an evident problem of skills shortage; with 40% of the European employers are having difficulties in finding people with relevant and up-to-date skills. There is also a growing demand for skilled workforce with recent forecasts indicating that by 2030 some 16 million jobs will be created, which require higher skills, while jobs requiring only low level of skills will decline by more than 7 million.[[20]](#footnote-21) At the same time, more than half of the long-term unemployed are considered as low skilled; around one third of the EU workforce is lacking basic literacy and/or numeracy skills and around 20% have only a low level of educational attainment. The ageing and shrinking EU workforce will further aggravate the already existing skills gaps[[21]](#footnote-22).

Finally, there are significant gaps in the European market of early stage and venture capital investment targeting start-ups who develop new technologies or business models in the area of education, training and related services. For example, a recent report[[22]](#footnote-23) from a dedicated VC fund for investment in education and training technology (Brighteyefund) suggests, that the total financing volume for education and training technology in the EU is significantly behind other world regions. Notably, in 2018 the total investment in education and training technology **in the EU was EUR 0.7 bn, less than half as compared to US (EUR 1.7 bn) and less than one-fourth as compared to China (EUR 3.3 bn)**, suggesting major gaps in the pipeline and financing.

## Funding needs and types of EU-level financial instruments

The financial products under Invest EU for skills will target nine categories of activities, depending on the policy objective and type of delivery mechanism:

* Supporting education, training and related services (first objective)
* Employee training (second objective)
* Apprenticeships[[23]](#footnote-24) (second objective)
* Supporting skills-intensive business models (second objective)
* Hiring, training and support for vulnerable adults (third objective)
* Investment platforms and PPPs (fourth objective)
* Training funds (fourth objective)
* Individual learning accounts (fourth objective)
* Support to individual learners (fifth objective)

1. Supporting education, training and related services

The objective is to incentivize implementing partners and other financial intermediaries to extend debt and/or equity finance to eligible organisations or projects, with the aim of **supporting the growth and expansion of education, training, skills and related services across Europe and internationally.** Activities could cover the whole life-cycle; from early childhood education to higher education, vocational training and adult learning.

Developing new or expanding existing business models in this sector is challenging, given that majority of such services are provided or financed by the public sector. This induces barriers for organisations working in this field to access financing for innovation and growth. Therefore, to facilitate innovation and scaling of innovative and competitive practices, supporting instruments are required enabling access to capital (debt, quasi-debt or equity) for all stages of business development and expansion (including initial stages of financing, i.e. pre-seed; seed and early stage financing).

International trade in tertiary education and increasingly vocational education and training services have seen significant expansion during last decades, also relating to internationalisation and mobility of students[[24]](#footnote-25), [[25]](#footnote-26). Furthermore, the growth of MOOCs/e-learning platforms, often based outside Europe, saw rapid expansion in providing their services across borders in recent years. To benefit from these trends, improving access to financing and advisory support could be provided to assist European organisations to grow and internationalise – both within and outside Europe.

1. Employee training

The objective is to incentivise implementing partners and other financial intermediaries to extend loan facilities to eligible organisations or projects, with a particular focus on SMEs, with the aim of **stimulating investment in the education and training of their workforce to develop firm-specific human capital.**

Future growth in advanced economies is assumed to be dependent on productivity-raising innovation and investment in intangible assets, particularly firm-led training. Intangible assets appear to have in common characteristics that give rise to the assumption that intangible assets investments (such as R&D and training) systematically remain below a socio-economically optimal level, thus justifying policy intervention[[26]](#footnote-27). Recent research shows intangible assets investment is lagging in the EU as compared to US[[27]](#footnote-28).

Based on the Continuing Vocational Training Survey[[28]](#footnote-29), 2015 and Labour Cost survey[[29]](#footnote-30) 2012, annual company expenditure on training is around 80 billion EUR/year (more detailed analysis available also in Commission analytical publications[[30]](#footnote-31)). DG GROW, in its access to finance survey "SAFE", identifies that around 15% of SMEs report to be seeking external finance for hiring and training employees.

The estimated level of adults' participation in education and training in the US is around 50% higher than in the EU. This EU-US differential translates into a funding gap of around EUR 20bn in the EU (or 50% of the estimated current company spending on training standing at around 1.5% of total labour costs[[31]](#footnote-32) or EUR 45bn in the EU).

Furthermore, market failures for investment in skills and knowledge capital required for economic change are related to company size. Big employers provide training opportunities on average for half of their employees while small employers provide it for only a quarter of employees. It is even more difficult for micro-enterprises to invest in training.

1. Apprenticeships[[32]](#footnote-33)

The objective is to incentivize implementing partners and other financial intermediaries to extend loan facilities to eligible organisations or projects, with the aim of **stimulating company engagement in and capacity of the provision of initial education and training (apprenticeship) opportunities.** This would enable more companies to include apprenticeships and their better use as a way to develop qualified pool of employees in their HR sourcing strategies.

Annual company expenditure on apprenticeships and traineeships is around 30 billion EUR/year, or around 1% of their annual labour costs[[33]](#footnote-34) , with significant differences across Member States (Germany contributes around 50% of all EU company spending on apprenticeships). Furthermore, there are significant differences in the extent to which companies engage in providing initial education and training opportunities depending on company size. Small companies find it particularly difficult to hire apprentices due to cost and other considerations (OECD, 2017[[34]](#footnote-35), [[35]](#footnote-36)).

Employers are only likely to offer apprenticeships if there are net benefits to them, as a balance between the costs incurred in the mix of short term and long-term benefits[[36]](#footnote-37). However, in many countries employers are often not able to recoup the full costs of engaging in apprenticeships and therefore engage in providing less than would be optimal from social point of view.

1. Supporting skills-intensive business models

The objective is to incentivise implementing partners and other financial intermediaries to extend loan facilities to eligible organisations or projects, with the aim of **stimulating company investment in and adoption of skills intensive business models, technologies, production and service provision process and work organisation practices that would increase the demand for and use of skills.** This would strengthen the capability for SMEs to make best use of the available human capital they possess, provide high-quality and high-value products to the market, improve the quality and attractiveness of workplace and overall enhance their productivity and competitiveness.

Facilitating a healthy demand for skills and upgrading business process towards skills-intensive business models is the only long-term guarantee for a sustainable employment. Furthermore, it helps ensure good skills utilisation as well as avoiding the risks of over-skilling.

There is still lack of both awareness and incentives, especially among SMEs, how to develop work organisation processes that ensure better utilisation of the skills of employees. While large companies frequently have the resources to experiment and implement those, for other companies this is often not feasible, even despite clear evidence on the benefits of learning conducive workplaces (CEDEFOP, 2012[[37]](#footnote-38)) and high-performance work practices (OECD, 2017[[38]](#footnote-39)).

1. Hiring, training and support for vulnerable persons

The objectiveis to incentivize implementing partners and other financial intermediaries to extend loan facilities to eligible organisations or projects, with the aim of **stimulating companies’ capability to access and benefit from a productive contribution of vulnerable persons (including those with disabilities).** This would on the one hand enlarge the pool of qualified labour available for companies and on the other would stimulate the employability and improve the skills of vulnerable persons.

Young and adult persons at risk of economic or social exclusion are often disadvantaged in the labour market; they also often have skills gaps, precluding them from accessing good quality and sustainable employment opportunities. At the same time, companies also often are not interested in hiring people with skills gaps and other difficulties, in part also due to additional costs related to training, retention in employment or their lower productivity (OECD, 2016[[39]](#footnote-40)).

Companies, working at disadvantaged or depopulated locations often face limitations in the pool of potential workers they could hired. Extending and making best use of the workforce available locally would help enhance the pool of workers as well as contribute to retaining cohesion and competitiveness of disadvantaged and depopulated locations.

To address the sustainable employment challenges of people at risk, integrated skills development and employment support measures are also often needed, including blended measures (combining debt and grant instruments) to address the more substantial training and other needs of people at risk.

1. Investment platforms and PPPs [[40]](#footnote-41)

The objective is to incentivize implementing partners and other financial intermediaries to extend debt and/or equity finance to eligible organisations or projects, with the aim of stimulating the development of investment platforms and public-private partnerships in the area of education and skills and related services (e.g. early childhood education, student housing, accessibility measures, etc.).

Investment platforms and PPPs have the objective of mobilising funds from the public, social and private sectors to finance smaller projects to enable diversified investments with a geographic or thematic focus. The small scale and often fragmented nature of interventions related to skills, makes investment platforms a promising instrument since they pool relevant projects. In view of the lack of maturity of investment platforms and weak institutional capacity in some Member States in the area of skills investments, it is also necessary to compliment financing with support in terms of advice.

Financing of public-private partnerships has a long track record, particularly in the field of infrastructure[[41]](#footnote-42). Overall, the same principles would also apply to the skills, education, training and related services sector, with some additional specificities including large part of soft (intangible) v/s hard (tangible) investment.

1. Training funds [[42]](#footnote-43)

The objective is to incentivize implementing partners and other financial intermediaries to extend debt and/or equity finance to eligible organisations or projects, with the aim of stimulating the formation of training funds at national, regional or sectoral levels. The financing could cover initial start-up costs and well as initial financing needs before the funds are running at full scale.

Training funds is an important instrument both in the EU (CEDEFOP, 2008) and internationally (World Bank, 2009) supporting the development of workforce skills. Training funds can serve different purposes (focusing on pre-employment, enterprise training or equity), have variety of objectives and us different financing instruments and sources (and often multiple of those in combination).

1. Individual learning accounts

The objective is to incentivize implementing partners and other financial intermediaries to extend debt and/or equity financeto eligible organisations or projects in EU Member States, supporting the expansion of **individual learning accounts** where thoseexist and/or supporting the set-up of such schemes where none exist**.** Individual learning accounts (ILAs) can help stimulate uptake of learning by individuals and sharing of costs between employers and the public sector.

An ILA is an account managed by individuals to provide a vehicle for funding adult learning.  Similar to a bank account that pays for training and development, ILAs also present a flexible and innovative approach for individuals to take control of their own learning and career development.  By using ILAs, it is possible to shift the focus from a one-time learning event to continuous learning, from required training to strategic workforce development, and incorporate resources for training while balancing work and learning time of individuals.  In addition, an individual can choose what they want to learn, how they want to learn and have the opportunity to gain the skills they need. ILAs are also meant to encourage more individuals to invest financially in their own future, by contributing to their own accounts along with the contributions provided by other entities (employers, public agencies and/or the general government).

1. Support to individual learners

The objective is to incentivize implementing partners and other financial intermediaries (incl. education institutions and associations thereof) to provide debt facilities to a broad range of individuals pursuing education & training activities:

* Higher Education (Bachelor, Master & PhD levels, as well as vocational HE);
* Upper-secondary education, including educational opportunities for adults (migrants; low-qualified adults; etc.)
* Vocational education and training, dual & blended learning, incl. traineeships;
* Skills development, continuous & lifelong learning activities;
* Specific focus on support for transnational mobility;
* Digital skills
* Labour market relevant skills

# InvestEU for Social Infrastructure and Services

## Rationale for supporting investment in social infrastructure and services

Investment gaps in social infrastructure and services, in particular on sub-national level, are large. Without additional investment boost, these gaps are expected to remain while demand for social infrastructure and services, linked to demographic and socio-economic changes, will grow.

The European Pillar of Social Rights underscores the right to access quality services for everyone, as well as social housing for those in need. In addition, the Pillar pays attention to the inclusion of persons with disabilities, and their equal right to access services.

This product will contribute to the implementation of the Pillar through increasing availability, provision and accessibility of social infrastructure, housing and services on the one hand, and, on the other hand, through safeguarding quality principles.

According to the High Level Task Force on Investing in Social Infrastructure in Europe (HLTF), the investment gap in social infrastructure amounts to **EUR 142 billion** on an annual basis (estimated for infrastructure related to selected services). The above investment market gap includes an estimate for certain services, namely: long-term care (excluding disability and migration) at **EUR 50 billion**, and education and lifelong learning (including: childcare, vocational training, adjacent infrastructure) at **EUR 15 billion**. The gap for other social services and for the social services delivered in an integrated and community-based way has not been estimated.

InvestEU for Social Infrastructure and Services aims at tackling specific failures in the supply of infrastructure and services in the following fields.

## Main policy areas under social infrastructure and services

### Affordable Social Housing

Housing affordability and adequacy are increasing issues of concern in EU Member States, in particular in main urban areas. More and more people in the EU experience difficulties in accessing housing of good quality in the regular private housing market and are at risk of social exclusion. Of particular concern for the Pillar’s objective of social cohesion, homelessness and housing exclusion[[43]](#footnote-44) numbers have increased in almost all Member States over the last decade and insufficient housing supply has been identified as one of the main factors behind this trend (FEANTSA, Overview of Housing Exclusion, several years; ESPN, 2019). Affordable s**ocial housing of good quality** is one of the necessary tools to address the societal challenge of homelessness and housing exclusion, but there is a shortage of this type of dwellings across the EU and demand for social housing by far exceeds supply in many countries (as highlighted in the Economic and Social Developments in Europe 2019 report).

More generally, out of the EUR 142 billion of estimated investment gap in social infrastructure, HLTF estimates that **EUR 57 billion** are attributed to the housing sector, defined for this purpose as including tangible and intangible components. The latter includes energy efficiency/low carbon programmes addressing energy poverty, programmes for housing refurbishment/renovation and the provision of care & support services for social housing residents.

Based on the estimated market gaps and failures and pursuing its social inclusion goal, InvestEU should support investment in affordable social housing to address the issue of disadvantaged persons excluded from the regular housing market due to solvency constraints, with a particular focus on the most vulnerable and socially excluded. In the latter case, InvestEU should follow a **housing-led approach, targeting investments that combine the provision of housing units with person-centred enabling support services**.

The vulnerable groups targeted by investment in social housing include people with low incomes or below the poverty threshold facing housing exclusion, homeless, youth leaving institutional care, elderly, people with disabilities and other people experiencing social exclusion such asmigrants. While the lack of sufficient affordable social housing may be particularly visible in urban areas, the market needs for affordable social housing exists also in rural and other areas. In addition, there is a need for housing to be accessible for persons with disabilities.

### Social infrastructure and services aimed at social inclusion

The investment gap for social infrastructure and services aimed at social inclusion has not been estimated. One of the reasons is that the social infrastructure and services supporting social inclusion are increasingly delivered in an integrated way (i.e. different services and stakeholders delivering join interventions). Additionally, they are delivered at a community level, to respond to local contexts and needs. While this kind of provision has been recognized as effective in addressing barriers to social and labour market integration, regional and local governments, who carry out two thirds of investment in public infrastructure, often depend on central government transfers. Often, these services are simply not available on local level.

Therefore, InvestEU should target investments that enhance social planning, construction and reconstruction at regional and local level that aim at social inclusion. This could contribute to increasing availability and sustainability of social infrastructure and services on regional and local level, as well as their effectiveness and efficiency, through planning based on needs and forecasting, in other words the planning that links investments to long-term social inclusion strategies. Moreover, mobilizing a sustainable investment guarantee for social inclusion at regional and local level could contribute to better targeting social infrastructure and services through address specific and complex needs. Additionally, it could complement public and EU grant based resources, as well as enhance social innovation aspects through pulling together different stakeholders. Finally, it could enhance social aspects in urban and rural planning, construction and reconstruction.

### Enabling solutions for the inclusion of persons with disabilities in the community

Investment gaps in the provision of services for persons with disabilities, provided in an inclusive, targeted and coherent manner, are large. Yet, population ageing increases the number of persons with disabilities and consequently, the need to provide additional tailor-made services for this group. Only for health and long-term care, the minimum gap is estimated to be at 70 EUR bn, with an unknown amount for disability alone. Given the advances in technology and health, disabled persons are living longer and consequently, there is a rising need to make all type of mainstream services accessible and disability inclusive.

In addition, there is a market failure in the provision of services needed for a successful process of deinstitutionalisation. According to the Synthesis report ‘The right to live independently and to be included in the community in the European States’, thousands of adults and children with disabilities in the European Union still live in institutions because of the lack of community-based services. Moreover, older adults acquiring disabilities are experiencing difficulties to exercise their choice to remain at home and live independently with the support they need. For example, lack of accessible housing and transport or limited inclusive and accessible cultural, leisure and sport activities make creates barriers in exercising the rights to independent living.

InvestEU has a potential to contribute towards closing the investment gaps in the **provision of services and infrastructure for persons with disabilities** and to pave the way for the **transition for persons with disabilities from institutions to services in the community**, in line with the UN Convention on the Rights of Persons with Disabilities. There is a strong need to develop person-centred, integrated targeted community based support to secure independent life and inclusion in the community for all people with disabilities. In addition, it is essential to **ensure the accessibility and disability inclusion of mainstream services** provided in the community including social, health, education, supported employment, transport and other type of services including accessible housing, transport, cultural, leisure, sport and others.

### Health

Health systems in the EU are in need of reforms and cost-effective innovations to adapt to the challenges they face, such as the increasing demand for healthcare, population ageing, rising burden of chronic conditions and multi-morbidity, as well as risks to their sustainability due to expensive innovative products. The direction of travel is towards new care models that support a shift from the traditional hospital-centred approach to more community-based and integrated care structures, putting the focus on health promotion, disease prevention and person-centred care. The reforms can be facilitated by the digitisation of health systems and by strengthening the research, development and testing of innovative cost-effective solutions, including technological, organisational and service innovations.

The reforms and modernisation of health systems require **sustained** financing - both for up-front investments and during a transitional period until the reforms are implemented and bring the anticipated benefits and returns. In this context, investments are needed **not only** in the traditional areas of hospital infrastructure and medical equipment, but also on several **additional** fronts: new facilities such as primary care and community care centres; digital systems such as eHealth and mHealth tools and services; system re-organisation into new service models; novel financing/reimbursement methodologies; integration of new innovative products/technologies; and education and up-skilling of health workforce in new roles and skills.

The lack of investments in health has been documented by the High-Level Task Force (HLTF) on investing in social infrastructure in Europe, which indicates an **annual investment gap of €70bn in social infrastructure for health and long-term care** across the EU Member States. Furthermore, a market study commissioned by the EIB and DG SANTE has identified a combined **deficit in healthcare capital stock (assets) of €262bn in 18 Member States**[[44]](#footnote-45). The same study revealed that even if EU Member State strategies prioritise investments in areas such as primary care and disease prevention, in practice, little is invested in these. **Limited available budget** and **insufficient access to financing** are among the reasons for this failure.

**Other market failures relate** to:

* The fact that it can take several years to realise the benefits of reformed health services, hence the return on investment may come in the medium to long term and at high risk;
* Risk due to regulatory uncertainties;
* Risk caused by the uncertainty of whether an innovative solution will actually deliver benefits when integrated in a health system or whether it is of limited value or poses risks to patients (in essence, lack of sufficient evidence for many innovative solutions);
* The fact that investments in services are “intangible” and of rather small size, thereby less attractive to many investors;
* The financing for combinations of technological, service and organisational innovations is complex and risky.

InvestEU support in this area will support EU health-related policies and in particular:

* The Commission’s Communication on “effective, accessible and resilient health systems”;
* The Commission’s Communication on “enabling the digital transformation of health and care in the Digital Single Market”;
* The Commission’s Communication on Artificial Intelligence for Europe;
* The Recommendation on a European Electronic Health Record exchange format;
* The European Pillar of Social Rights;
* The UN Sustainable Development Goal 3: “Ensure healthy lives and promote well-being for all at all ages”.

### Education and training infrastructure

The HLTF estimates an annual market gap of **EUR 15 billion** for education & lifelong learning infrastructure and related services. Among the tangible components of this sector, the HLTF identifies among others kindergartens, childcare, schools, vocational colleges, universities and student accommodation.

InvestEU should target in particular investments aimed at improving access to and quality of **early childhood education and care**, including through infrastructure investment (both new infrastructure or upgrading of existing infrastructure) and provision of training and professional development opportunities to staff involved in this sector. Eurostat data shows that many EU Member States do not have sufficient childcare infrastructure to answer the high demand. In addition, costs of ECEC services remain a barrier to accessing for poor families and alone parents, mostly mothers. The availability, accessibility and affordability of high quality childcare facilities is key to tackle possible social disadvantages of children and helps with reconciliation of work with family life, conducive to labour market participation of women and strengthening gender equality.

InvestEU should also target in particular investments improving access to and quality of **student housing**, including through infrastructure investment (both new infrastructure and upgrading of existing infrastructure) and provision of related services. Doubling the Erasmus programme’s budget will make it possible to support the mobility of up to 12 million people between 2021 and 2027, three times as many as in the current financing period. With such an increase and without adequate investment, the housing situation for mobile students in Europe can become critical. Support in this respect would also give the opportunity to students from a lower socio-economic background to participate in higher education, thereby contributing to the overall objective of inclusive education for all.

## Funding needs and types of EU-level financial instruments

A complementary range of financial instruments covering **direct equity** and **debt,** **intermediary equity** and **debt**, and **PPPs** is required in order to support social infrastructure (including health and educational infrastructure as well as social and student housing), projects involving social innovation, health services, ageing and long-term care, inclusion and accessibility, as well as cultural and creative activities with a social goal.

**Debt and equity financing** are the most used financial instruments to promote financing and investment operations with the objective of providing solutions to the above policy objectives:.

Besides traditional debt and equity financing there is a growing use of **public-private partnership (PPP)** arrangements. PPPs are cooperation agreements between a public body and private-sector body under which the parties’ respective skills are pooled to build, operate and maintain of public works or carry out projects of public interest for the management of the related services. PPP contracts involve transferring certain risks to the private sector and specifying performance outputs, rather than inputs. When properly structured and well controlled, PPP can benefit both the public authority and the private party with positive spillovers to the final beneficiary of the infrastructure or of the service. PPPs under InvestEU should not end up being costlier for public investments than had the investment been undertaken solely by public money.

In addition, support under pilot Social Outcome Contracting (SOC) schemes could be considered, depending on the results of ongoing pilot schemes deployed under current EU-level financial instruments. SOC refers to mechanisms that innovate the procurement and delivery of social services in the areas of social inclusion, employment activation, education and reinsertion, migration, housing, health and care, childcare and skills upgrading. SOC comprises various financing schemes, such as Payment by Results contracting, Social Impact Bonds (SIBs).

SOC schemes could potentially provide an opportunity to test innovative methods of procurement and foster inter-departmental collaboration on one hand, and on the other, promote the culture of performance measurement.

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1. 'Microfinance' includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities”; Proposal for a Regulation of the European Parliament and the Council on the European Social Fund Plus (ESF+), 30 May 2018 [↑](#footnote-ref-2)
2. “micro-enterprise' means an enterprise with fewer than 10 employees and an annual turnover or balance sheet below EUR 2 000 000”; idem. [↑](#footnote-ref-3)
3. <http://www.eib.org/about/economic-research/eib-investment-report.htm> [↑](#footnote-ref-4)
4. European Commission (forthcoming) “Microfinance Market Analysis and Recommendations for Delivery Options” [↑](#footnote-ref-5)
5. European Commission (forthcoming) “Social Enterprise Finance Market Analysis and Recommendations for Delivery Options” [↑](#footnote-ref-6)
6. European Commission (2014) “Imperfections in the social investment market and options on how to address them”, KE-02-14-002-EN-N [↑](#footnote-ref-7)
7. Idem. [↑](#footnote-ref-8)
8. European Commission (forthcoming) “Social Enterprise Finance Market Analysis and Recommendations for Delivery Options” [↑](#footnote-ref-9)
9. An in-depth analysis of adult learning policies and their effectiveness in European (2015)

   <https://ec.europa.eu/epale/sites/epale/files/all_in-depth_analysis_of_adult_learning_policies_and_their_effectiveness_in_europe_12.11.2015_pdf.pdf> [↑](#footnote-ref-10)
10. European Expert Network on Economics of Education: EENEE Policy Brief 5/2014: The Economic Case for Education (2014) [↑](#footnote-ref-11)
11. Based on the data from OECD Survey of Adult Skills (PIAAC) [↑](#footnote-ref-12)
12. Education and Training Monitor 2018

    https://ec.europa.eu/education/sites/education/files/document-library-docs/volume-1-2018-education-and-training-monitor-country-analysis.pdf [↑](#footnote-ref-13)
13. Education and training monitor (2018)

    <https://ec.europa.eu/education/sites/education/files/document-library-docs/volume-1-2018-education-and-training-monitor-country-analysis.pdf> [↑](#footnote-ref-14)
14. Annual beneficiary survey for the Erasmus+ Student Loan Guarantee Facility, 2017 [↑](#footnote-ref-15)
15. European Commission (2018) Erasmus+ mid-term evaluation - Final report: evaluation of the student loan guarantee facility (Volume 2). [↑](#footnote-ref-16)
16. Eurostat, Adult Education Survey [↑](#footnote-ref-17)
17. European Small Business Finance Outlook by EIF

    <https://www.eif.org/news_centre/publications/eif_wp_37_esbfo_dec16_final.pdf> [↑](#footnote-ref-18)
18. SAFE, Access to Finance of Enterprises in the euro area, survey by DG GROW

    <https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe201905~082335a4d1.en.html#toc10> [↑](#footnote-ref-19)
19. <https://www.eib.org/en/about/economic-research/surveys-data/about-eibis.htm> [↑](#footnote-ref-20)
20. Cedefop, [European skills & jobs survey. Maximising skills for jobs and jobs for skills](http://www.cedefop.europa.eu/en/events-and-projects/events/MaxSkillsJobs2015), 2015 [↑](#footnote-ref-21)
21. A New Skills Agenda for Europe: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0381&from=EN> [↑](#footnote-ref-22)
22. [https://medium.com/@brighteyefund/edtech-funding-in-europe-2014-2018-report-ee6170b6512c](https://medium.com/@brighteyefund/edtech-funding-in-europe-2014-2018-report-ee6170b6512c%20%20)  [↑](#footnote-ref-23)
23. In an apprenticeship, you share your time between learning in school and training in a company. Normally you will have a contract with the company and get paid for your work. When you finish your apprenticeship, you receive a fully recognised diploma and qualification. Further information, including recent Commission initiatives can be found here: <http://ec.europa.eu/social/main.jsp?catId=1198&langId=en> [↑](#footnote-ref-24)
24. OECD (2002) International trade in Education Services. Good or Bad? [↑](#footnote-ref-25)
25. OECD (2002) Trade in educational services: trends and emerging issues [↑](#footnote-ref-26)
26. Unlocking Investment in Intangible Assets, European Commission, 2017. Discussion Paper 47. https://ec.europa.eu/info/sites/info/files/dp047\_en.pdf [↑](#footnote-ref-27)
27. Corrado, C. et. al. (2013) Innovation and intangible investment in Europe, Japan and the United States. *Oxford Review of Economic Policy. Vol 29 No 2.* [↑](#footnote-ref-28)
28. <https://ec.europa.eu/eurostat/statistics-explained/index.php/Continuing_Vocational_Training_Survey_(CVTS)_methodology> [↑](#footnote-ref-29)
29. <https://ec.europa.eu/eurostat/web/labour-market/labour-costs> [↑](#footnote-ref-30)
30. European Commission (2018) Education and Training Monitor 2018, chapter 2, section 2.6, particularly p. 68 <https://ec.europa.eu/education/sites/education/files/document-library-docs/volume-1-2018-education-and-training-monitor-country-analysis.pdf> [↑](#footnote-ref-31)
31. Eurostat, Continuing Vocational Training Survey, 2010 [↑](#footnote-ref-32)
32. As defined in the Council Recommendation on a European Framework for Quality and Effective Apprenticeships (2018/C 153/01) [↑](#footnote-ref-33)
33. Eurostat, Labour Cost Survey, 2012 [↑](#footnote-ref-34)
34. Kuczera, M. (2017), "Incentives for apprenticeship", *OECD Education Working Papers*, No. 152, OECD Publishing, Paris, <https://doi.org/10.1787/55bb556d-en>. [↑](#footnote-ref-35)
35. Kuczera, M. (2017), "Striking the right balance: Costs and benefits of apprenticeship", *OECD Education Working Papers*, No. 153, OECD Publishing, Paris, <https://doi.org/10.1787/995fff01-en>. [↑](#footnote-ref-36)
36. OECD (2007) Striking the right balance. Costs and benefits of apprenticeship. [↑](#footnote-ref-37)
37. CEDEFOP (2012) "Learning and innovation in enterprises", research paper No 27. [↑](#footnote-ref-38)
38. OECD (2016), *OECD Employment Outlook 2016*, OECD Publishing, Paris, <https://doi.org/10.1787/empl_outlook-2016-en>. [↑](#footnote-ref-39)
39. Kis, V. (2016), "Work-based Learning for Youth at Risk: Getting Employers on Board", *OECD Education Working Papers*, No. 150, OECD Publishing, Paris, <https://doi.org/10.1787/5e122a91-en>. [↑](#footnote-ref-40)
40. The most common form of educational and training infrastructure PPPs involve the design, build, finance and maintain the property of the institution by the private sector over a long term contract (25 years). A variety of arrangements could be envisaged also as regards PPPs for education or training services which could be provided by the public sector or shared between public sector and private sector. [↑](#footnote-ref-41)
41. UNESCO (2017) Public-private partnerships as an education policy approach: multiple meanings, risks and challenges <https://unesdoc.unesco.org/ark:/48223/pf0000247327> [↑](#footnote-ref-42)
42. A '**training fund**' is a stock or flow of financing dedicated to developing productive work skills. The overall purpose of training funds is to raise the productivity, competitiveness and incomes of enterprises and individuals by providing them with needed skills. World Bank (2009) A review of national training funds. [↑](#footnote-ref-43)
43. Housing exclusion refers both to affordability (i.e. people who cannot afford housing costs in the private housing market) and to quality issues (people experiencing housing deprivation). [↑](#footnote-ref-44)
44. <https://eiah.eib.org/publications/attachments/report-health-sector-study-20180322-en.pdf> [↑](#footnote-ref-45)