



# EXPLORATION OF IMPACT INVESTMENT FOR SKILLS CREATION

EXISTING ACTIONS, EMERGING TRENDS,  
IMPLEMENTATION MODALITIES, BEST PRACTICE

*A case study with relevance to the Western Balkans region*

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# Exploration of impact investment for skills creation

Existing actions, Emerging trends, implementation modalities, Best practice

*A case study with relevance to the Western Balkans Region*

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## Acronyms

ANPAL - Italian Agency for Active Labour Market Policies  
CEO - Chief Executive Officer  
CEED - Centres for Entrepreneurship and Executive Development  
CGD - Centre for Global Development  
CEFTA - Central European Free Trade Agreement  
CIF - Cost, insurance and freight  
DG ECFIN - Directorate- General for Economic and Financial Affairs  
DG EMPL - Directorate- General for Employment  
DG FISMA - Directorate-General for Financial Stability, Financial Services & Capital Markets Union  
EASL - European Programme for Employment and Social Innovation  
EBRD – European Bank for Reconstruction and Development  
EC - European Commission  
EDIF - The Western Balkans Enterprise Development & Innovation Facility  
EFSI - The European Fund for Strategic Investment  
EIB – European Investment Bank  
EIF - European Investment Fund  
EIT - European Institute of Innovation and Technology  
ENIF - Enterprise Innovation Fund  
ERDF - European Regional Development Fund  
ESF - European Social Fund  
ESG - Environmental, Social and Corporate governance  
ETF - European Training Foundation  
EU - European Union  
EUIPO - European Union Intellectual Property Office  
Finnfund - Finnish Fund for Industrial Cooperation  
FMO - Netherlands Development Finance Company  
HVAC – Heating, Ventilation and Air Conditioning systems  
ICT - Information and communications technology  
IFI - International Financial Institutions  
IP – Intellectual Property  
IPA - Pre- Accession Assistance  
KIC - The Knowledge and Innovation Communities  
KfW – Kreditanstalt für Wiederaufbau  
KPI - Key Performance Indicator  
NCVER - National Centre for Vocational Education Research  
NEET - Neither in Employment, Education or Training population  
NGO - Non- Government Organization  
OECD - Organization for Economic Co-Operation and Development  
PM - Prime Minister  
PPPs – Public and Private Partnerships  
PSIMS - Portugal Social Innovation Mission Structure  
RCC - Regional Cooperation Council  
RCF - The Regional Challenge Fund  
RIS - Regional Innovation Scheme  
SATTs - Sociétés d'Accélération du Transfert de Technologies

SDGs – Sustainable Development Goals  
SEAF - Small Enterprise Assistance Funds  
S&E - Skills and Education  
SIB - Social Impact Bond  
SIFEM - Swiss Investment Fund for Emerging Markets  
SMEs - Small and medium sized enterprises  
TTO - technology transfer offices  
UN – United Nations  
UNICEF - United Nations International Children’s Emergency Fund  
VET – Vocation and Educational Training  
VTIs - Vocational Training Institutes  
WB - Western Balkans  
WBF - Western Balkans Fund

## Abstract

This study was set up to provide an overview of impact investment and skills creation in the area of innovation, covering the main features of impact investment, the historical development of the phenomenon, and how it can be linked to the skills creation process.

It begins with an examination of the emergence of impact investing and explains its principles and defining features. It maps some existing initiatives at European and local level, presents examples of good and innovative practices in investments with social impact and explores what practices and instruments for impact investment in innovation skills have been and/or could be applied in the Western Balkans.

While the discussion and awareness about impact investment in the region appears to be highly limited, there is a need for developing new instruments (both financial and capacity building ones) to promote and spur impact investment so as to ensure the sustainability in the skills creation and retention process, ultimately resulting in reducing the brain drain and supporting the creation of high value-added jobs.

## Methodology

The report has been developed in the framework of the cooperation between the JRC and the ETF, with complementary contributions from both institutions in addition to input from external experts. The objective was to explore the potential of innovative tools and financing mechanisms in support of inclusive skills development and retention policies to address skills gaps and brain drain in particular in the Western Balkans region. JRC has designed and coordinated the overall framework of this report and contributed with technical expertise on innovation and technology transfer. The ETF has provided input into the design and development of the report as well as the dissemination of its results in line with its mandate for human capital development and based on its knowledge and networks in the countries of the region.

To achieve the objectives of the present study, the authors complemented their existing knowledge with a literature review and consultations with additional experts, including policy officers at various Commission services, experts from International Financing Institutions and government administrations<sup>1</sup>.

The authors acknowledge that, given the broad scope of the analysis, the conclusions only provide some initial thoughts and considerations to aid policy development.

Further studies in forthcoming white papers will be welcome to provide guidance on additional questions, such as how impact investment schemes can be designed for best results in skills creation, and how to measure the performance of such schemes.

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<sup>1</sup> Full list of units and organisations interviewed can be found in Annex III.



# 1 Introduction

The lack of skills and capacities is a major obstacle for innovation, in particular in the creation and growth of innovation-driven SMEs in South East Europe, including the Western Balkans (WB; Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia and Serbia). The persistent brain drain in the region and the absence of incentives for investment in human capital, further exacerbate the abovementioned challenge. Skills, and especially innovation-related ones, also have a potential to boost entrepreneurship, job creation, and sustainable development. Providing skills that boost employability and create opportunities is instrumental to stop emigration and subsequent brain drain from the region, thus also decreasing the divide in living conditions in the various parts of Europe.

In this light, the aim of the present study is to explore how the gap in skills development in the region can be filled by redirecting (or reinforcing) investment in SMEs and their skills ecosystem through **impact investing**<sup>2</sup>. For this purpose, a diagnostic analysis was conducted on how impact investment is used for skills development in leading European innovation systems, in order to propose best practices and examples which can be applied in the WB region to support skills development.

Over the years, impact investing has been endorsed by various public institutions, starting with the European Union, which has firmly embedded it in its policies and funding programmes, up to the most recent ones — the Green Deal and Invest EU. The study maps the existing initiatives, and proposes adapted financial instruments, enabling conditions, complementary measures, and modalities for impact investment in innovation skills, with a focus on the WB. It is worth noting that the description of the programmes in the WB six economies and the examples here provided are not exhaustive, but rather the result of a deliberate choice that best fit the purpose of this study.

The study begins with an examination of the emergence of impact investing and explains its principles and defining features. We present a selection of products, projects, and case studies that illustrate its structure and potential in relation to the objective of the study and within the scope of action of the European Union. Specifically, the study is focused on impact investing as a partnership between private investors and capital working in partnership with public institutions, in particular the European Union. The study then explores the current situation with impact investment and skills for innovation in the WB region, concluding with proposals for instruments and activities that can help build sustainable skills in the region — all the while taking into account the specific environment and potential challenges in the WB which may constrain the replicability of the best practices.

The study shows that the discussion and awareness about impact investment in the WB region is highly limited, which holds even more for the impact investment programs and initiatives. There is an urgent need for developing new instruments (both financial and capacity building ones) to promote and spur the impact investment in the WB region, so as to ensure the sustainability in the skills creation and retention process. Similar to the EU Members States, the WB region needs to further build and enhance relevant skills and competences for a twin green and digital transition and to recover from COVID 19's economic consequences. In this context, impact investing in the WB region has a promising potential to support skills creation, as it assigns to financial actors a mission in society. First of all, the objective of investments is to generate monetary gains along with other non-financial values, typically positive social and

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\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

<sup>2</sup> Impact investing – operating definition in brief

Several are the definitions of impact investing. It's an emerging market. Classification and theory is still fluid. Even the denomination varies. Synonyms are social investments and social finance. The new trend in finance is also referred as sustainable finance and socially responsible investments. These denomination belong to the same semantic cluster although they all put the accent on different applications. The most credited and encompassing definition in the market, although quite broad, is the one by the Global Impact Investing Network (GIIN): "impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return" (GIIN, 2009).

environmental impacts. Secondly, such generated value (values, to be more precise) is due to be shared by design with the other stakeholders and the community as a whole. At the same time, there is a need for developing the capacity of NGOs, the third sector, training providers, impact investing specialists and social economy organizations in the WB region to improve entrepreneurial capabilities and their ability to attract private investment. This can be coupled with direct matched funding of innovative projects/social enterprises.

This study can be used by different types of organisations, both governmental and non-governmental, including International Financial Institutions (IFIs), to: i) design new or amend/supplement the existing financial instruments for impact investment with an aim to support skills development for innovation and ii) to propose or implement capacity building activities in the region, in order to create or foster the necessary eco-system for impact investment.

## 2 What are the different modalities of implementing investment programmes that focus on skills creation?

### 2.1. Defining features and the impact investment spectrum

Three are the **defining features of impact investing** that distinguish it from all the other forms of finance and financial products: *intentionality, measurability, and additionality*.<sup>3</sup>

First of all, intentionality exists when positive impact is a direct consequence of a deliberate action of investing, so to exclude all the other economic activities that generate externalities. In other words, impact investing factors externalities in, and is accounted in the due diligence and evaluation of any investment – i.e., ex ante and ex post.

Secondly, measurability concerns the possibility to gauge the value of the generated social impact in objective and consistent manners and represents a crucial determinant of accountability and transparency. There are many, competing international standards, although there are converging frameworks referring to UN SDGs and EU Green Deal, namely the European taxonomy for sustainable activities<sup>4</sup>. Furthermore, under the Taxonomy Regulation, the Platform on sustainable finance has been established as a permanent Commission expert group.

Thirdly, additionality defines the extra positive social outcome generated by and attributed to the investment that, otherwise, would have not occurred. This last criterion draws the line between impact investing and other forms of ethical and sustainable finance. The latter do not generate a positive plus in social value, but investment decisions are aligned to a predetermined set of non-financial values – those being environmental, social and governance as in the case of ESG (Environment, Social, and Governance) that have become the most common form of sustainable finance. Additionality aligns impact investing to the investment policy of most public investors, such as EIB.

Impact investing is also to be distinguished from philanthropy and public subsidies, as it is defined by the expectation of a financial return. Indeed, it should not be considered at odds with the most basic principle of traditional finance, i.e., profit maximisation, but rather in harmony with the evolution of such principle in the direction of producing more than just financial value and not just for the benefit of capital owners (shareholders) and fund managers. **The realisation of financial gains is therefore a prerequisite of impact investing. But value sharing includes targeted stakeholders and may nevertheless give way to other non-financial objectives.** The question debated amongst professionals considers if there is a trade-off between financial and non-financial results or impact investing can deliver market risk-adjusted returns in line with the correspondent asset classes. In the latter case, impact investing could really have an impact in the future of mainstream finance and investment volume for public value.

Hence, there is a rich phenomenology of impact investing that demands a conceptual classification. Most of the variations that impact investing may assume and its relation with mainstream finance and philanthropy can be efficiently represented along the axes of the degree of focus on impact and on financial returns (figure 1). The result is the impact investment spectrum specified on a linear continuum

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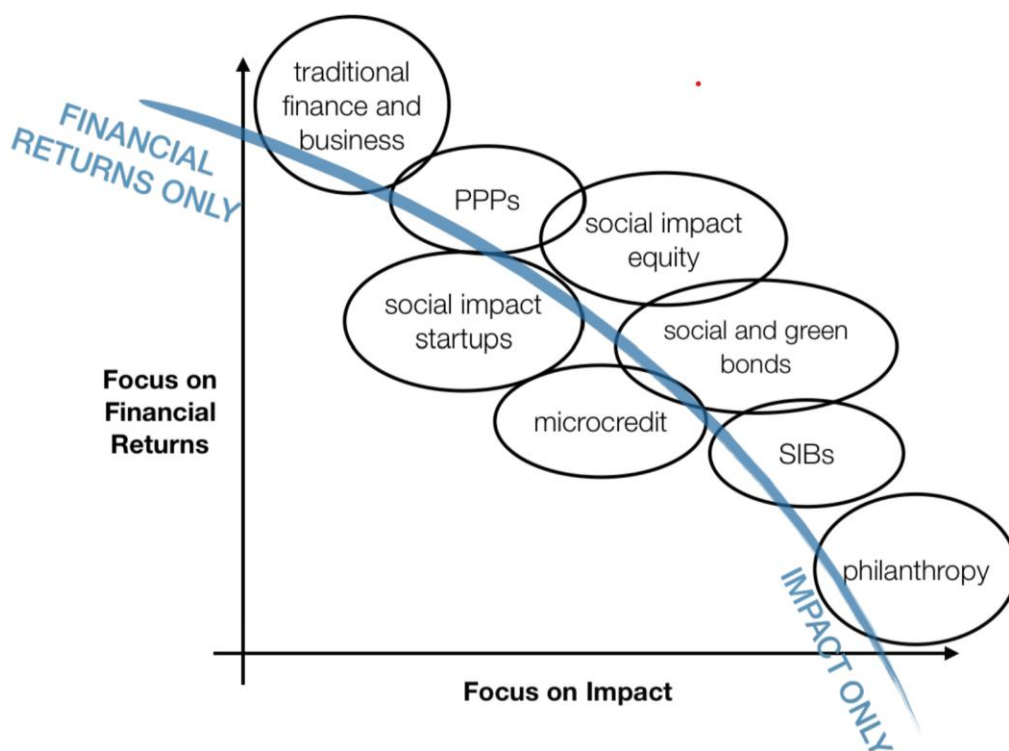
<sup>3</sup> For the three defining features see:

- Calderini Mario, 2020, Impact investing: so far, so fluid, online at: Politecnico di Milano, <https://www.som.polimi.it/en/impact-investing-so-far-so-fluid/>
- Neil Gregory; Volk Ariane, IFC, 2020, GROWING IMPACT New Insights into the Practice of Impact Investing, online at: <https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impact.pdf?MOD=AJPERES&CVID=naZEst9>
- UNDP, 2016, Impact Investment
- OECD, 2015, Social Impact Investment: Building the Evidence Base, OECD Publishing, Paris.

<sup>4</sup> [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en#what](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en#what)

that goes from a focus on financial returns only, to a focus on impact only: the first category includes traditional finance, whose sole purpose is the maximisation of profits with no explicit interest in the social impact generated, whereas the second refers to philanthropy, whose sole purpose is the generation of social impact with no interest in generating financial returns. In between the two extremes, there lies a range of asset classes and tested models of impact investing. This is a conceptual model that offers a general approach to the field and draws from the recommendations of the G8 Taskforce for social impact investing (2014).<sup>5</sup>

**Fig 1** The impact investment spectrum



(source: Plusvalue Advisory Ltd. 2019)

To conclude this expedite review, it is worthwhile to mention that impact investing, from a theoretical perspective, has to be interpreted through the lenses of the collective action problem for public good. Impact investing is a case of institutional innovation providing a framework for the alignment of public and private interests. It is a market-based solution with a form of commodification and financialisation of public value. However, contrary to past institutional reforms, this is not a form of privatization of public resources, but a form of public private partnership leading towards the creation of a new market. The Social Impact Bond (SIB) is the epitome of impact investing and the best exemplification of the public private partnership, as it will be illustrated later in one of the case studies.

<sup>5</sup> The framework has been adopted in the most recent study on impact investing commissioned by the European Parliament (Mackeviciute et al 2020).

## 2.2. The evolution of the impact investing market and policy relevance

The roots of impact investing are multiple and stretched back to the dawn of capitalism. Their intertwine is anything but linear and clear. Therefore, this summary will cover only the last couple of decades, highlighting the most relevant developments and milestones for policy and public value creation.

In Europe, impact investing emerges at the beginning of the new millennium, driven by a coalition of policymakers and investors in London. In 2000, the New Labour government established the Social Investment Task Force to identify innovative solutions to channel private investments into community development. This move responded to the Third Way agenda to overcome the conflict between market and society and use market-based solutions to reform public services.

In 2005 the Commission on Unclaimed Assets was set up to use money left unclaimed in dormant bank accounts. Several years later, the Commission's recommendation led to the establishment of Big Society Capital, the first wholesaler or fund of funds created to foster the impact investing market. In 2006, Muhammad Yunus was awarded the Nobel Peace Prize for founding the Grameen Bank and pioneering microcredit and microfinance.

However, impact investing remained a niche for policy experimentation, financial innovation and social entrepreneurship until the global financial crisis hit in 2008. Then it emerged as a response to bring finance back to its core purpose to serve the real economy, and to assuage public anger against the financial sector. In particular, in the UK the new Government Coalition was elected in 2010 with a programme of public spending cuts and transformation of public services. It was the Big Society agenda that brought impact investing at the core of institutional innovation. In 2010 the first Social Impact Bond was launched to tackle reoffending. This is the first example of public private partnership that draws private capital to finance innovation in public service with a payment by result approach that shifts the risk from the State to private investors. In 2012 Big Society Capital was launched with £600m capital partially 'given' by the major commercial banks. And, in 2013, the British Government launched the G8 Taskforce for social impact investing as part of its Presidency of G8.

The opening statement of the then British PM is particularly revealing: "We've got a great idea here that can transform our societies, by using the power of finance to tackle the most difficult social problems. Problems that have frustrated government after government, country after country, generation after generation. Issues like drug abuse, youth unemployment, homelessness, and even global poverty. The potential for social investment is that big. So I want to make it a success in Britain and I want to sell it all over the world".

That zeal underpinned by the activism of the G8 Taskforce kicked off impact investing as a global movement multiplying new, dedicated funds and initiatives worldwide, and multiple acknowledgements from the most prominent international institutions and opinion leaders. Not least, it helped rebranding the financial sector after the global crisis.

The European Union has recognised the strategic importance of a kind of impact investing since the Dutch presidency in 1997, which inspired both the Lisbon Treaty and the Europe 2020 Strategy. The focus was on the convergence between economic and social development — although the contribution of the private sector, especially finance, was ancillary. Change and full inclusion of private partners in renewing public institutions and their mandate came to the front of policy making in 2010 as the concept of social innovation was introduced in Innovation Europe, the new innovation strategy of the European Union. The global financial crisis had accelerated the retrenchment of the welfare state and its ability to offer solutions to a wide range of growing challenges. Phenomena such as an ageing population, increasing migratory flows, changes in family structures, and the pressure on employment exerted by unprecedented technological shocks, threatened the capacity of public finance to cover the costs of basic services as never before. In the face of this emergency, on the solution of which will partially depend the survival (by means of evolution) of a social contract, social innovation presents itself as the application of innovative practices to societal problems, which engage forces beyond the State and requires first and foremost a particular type of funding aligned with the principles of impact investing.

Then, an array of new policies was introduced, giving ever greater space to private initiative within public policy. In the Social Business Initiative (2011), Commissioner Barnier explicitly introduced impact investing as a source of private investment targeting private companies pursuing a mission of public interest besides profit making. That was the turning point, also considering that policy was part of the overall revision of the capital market in the Union.

Two more policy strands of the European Union are to be considered to have a clear picture. Impact investing has been introduced within the reform of the Welfare State as the application of the investment mindset for the transformation of public services and revaluation of funding allocated by the State to support citizens in all stages of their life. This was the approach championed by the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL, European Commission) with the Social Investment Package. There was a role for private investors, but it was marginal. On the other hand, DG EMPL launched another programme, namely the European Programme for Employment and Social Innovation (EaSI)<sup>6</sup>, that brought together all the components of impact investing to tackle unemployment and channel investments and innovation in the job market. Especially in its support to microfinance and social entrepreneurship, EaSI has been a direct public support to the development of the impact investing market. But it has given a rather restrictive interpretation favouring non-profit institutions (or companies with substantial limitation in profit distribution) at the expenses of the participation of mainstream market players.

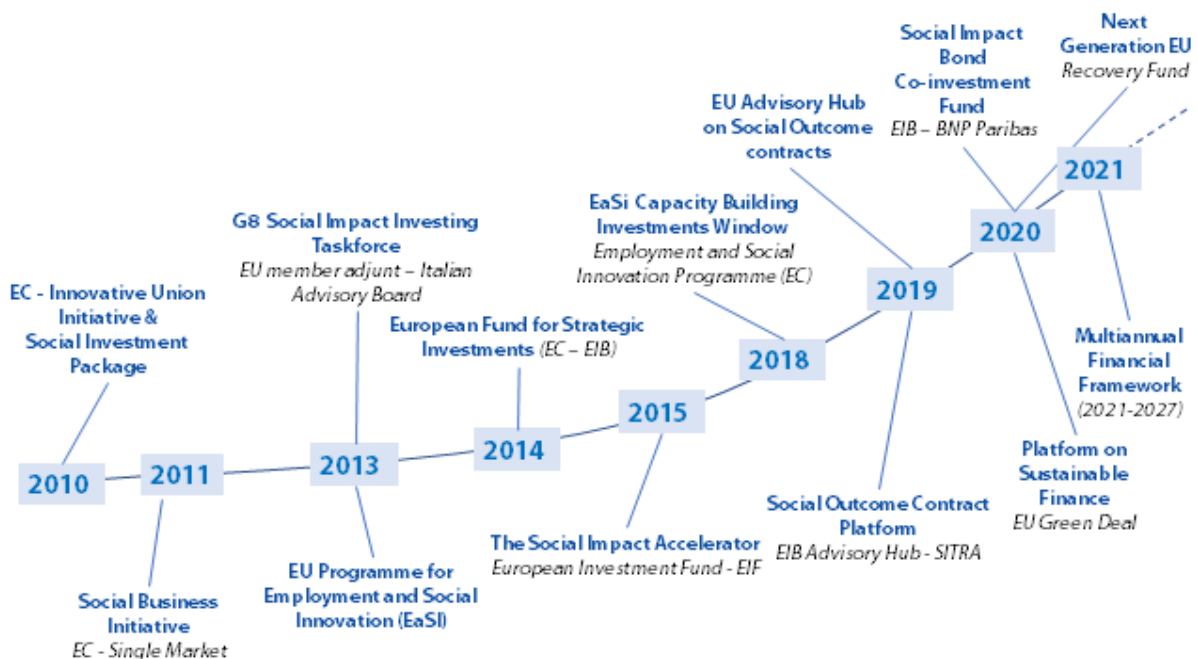
The European Investment Bank (EIB) and its equity investment arm, the European Investment Fund (EIF), have been at the forefront of impact investing. In 2015, EIF launched the Social Impact Accelerator, the European equivalent of Big Society Capital although with less fanfare, capital, and capabilities. The turning point was marked by the Juncker Plan as the first public private investment programme to support the recovery of the European economy after the long tail of the global financial crisis over the real economy. The European Fund for Strategic Investment (EFSI) reached €0.5 trillion, introduced impact as evaluation criteria for investment, and identified social infrastructures as investment targets – in other words putting hospitals, schools, and affordable housing on the same level as the traditional infrastructures such roads, bridges and energy facilities. The Juncker Plan also included the establishment of the Advisory Hub, a unit within the EIB that provided technical assistance to project proponents. In the following years, the Advisory Hub launched a number of programmes to support impact investing, especially the Social Impact Bonds. The Juncker Plan marked a milestone and most of its innovation have been taken and expanded in Invest EU, the follow up programme that represents the most mature expression of a European policy for creation of an impact investing market. We will see more about Invest EU in the case studies in Annex I.

In figure 2 the sequences of policies related to impact investing from 2010 to 2021 are summarised and presented in chronological order to show the growth and spread of the idea in European policy process.

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<sup>6</sup> Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ("EaSI") and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion

**Fig 2** Policies related to impact investing in 2010 – 2021



Source: Elaboration of the authors in collaboration with PlusValue Ltd 2020

The response of the European Union to the impact of the Covid pandemics has reinforced the new trend increasing the political backing and committed resources as in the Next Generation EU Recovery Plan. At the same time, the European Union has made a step forward with the launch of the European Green Deal, establishing global leadership in the environmental dimension of impact investing. The **Platform on Sustainable Finance**<sup>7</sup> is the dedicated programme within the Directorate-General for Financial Stability, Financial Services and Capital Markets Union, European Commission (DG FISMA); a move that had been planned since 2018 as a response to the rising threat of climate change and the need for an effective engagement in the Paris Climate Agreement (2016). In the authors' opinion, it is expected that the response to the socio-economic consequences of Covid-19 pandemics will switch the public attention back to the social dimension.

Very recently, in July 2021, the Platform on Sustainable Finance published Draft Report by Subgroup 4 on a Social Taxonomy<sup>8</sup> for discussion and reflection, with a suggested structure in **two dimensions - vertical and horizontal**. On the one hand the vertical dimension is to focus on products /services for basic human needs and basic infrastructure, whereas the economic activities that make these products and services more accessible do no harm to efforts to achieve other social objectives. On the other hand, the horizontal dimension takes into account impacts on different groups of stakeholders affected by economic activities including workers, consumers and communities. Horizontal objectives would be likely to include a combination of entity-and activity-level criteria.

The document thus recognises that economic activities such as job creation are inherently socially beneficial and that a social taxonomy has to distinguish between these inherent benefits and added social

<sup>7</sup> The platform is established under Article 20 of the Taxonomy Regulation as a permanent expert group of the European Commission. The Platform will assist the Commission in developing its sustainable finance policies, notably the further development of the EU taxonomy. See also the "Taxonomy Regulation": Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.

<sup>8</sup> Platform on Sustainable Finance, Draft Report by Subgroup 4: Social Taxonomy, July 2021, available online at: [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sf-draft-report-social-taxonomy-july2021\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf)

benefits such as improving access to quality healthcare or ensuring decent jobs. It also recognises that for some social topics it might be more difficult to develop meaningful quantitative criteria. Skills development has also been mentioned, mostly in relation to upgrading skills of employees in companies, which could contribute to boosting company competitiveness.

The move of the European Union with the Green Deal has been echoed by some of the main asset managers championed by BlackRock. With almost 8 trillion asset under management, BlackRock is the largest asset manager in the world. In 2018 Larry Fink, CEO of BlackRock, wrote a letter to all portfolio companies calling his peers to take in consideration the value a company creates for society along with profits for shareholders.<sup>9</sup>

That message translated into action, leading to a gold rush for sustainable investments otherwise coded as ESG (environment, social and governance). As illustrated in Fig 3, ESG has grown exponentially, especially in Europe, reaching over \$800 billion by the end of 2020. Some estimates of the market's size were as big as \$32 trillion, using the broadest definitions, and suggested it had tripled in a decade. Fig 4 shows how the investors expect even further growth in the next years.

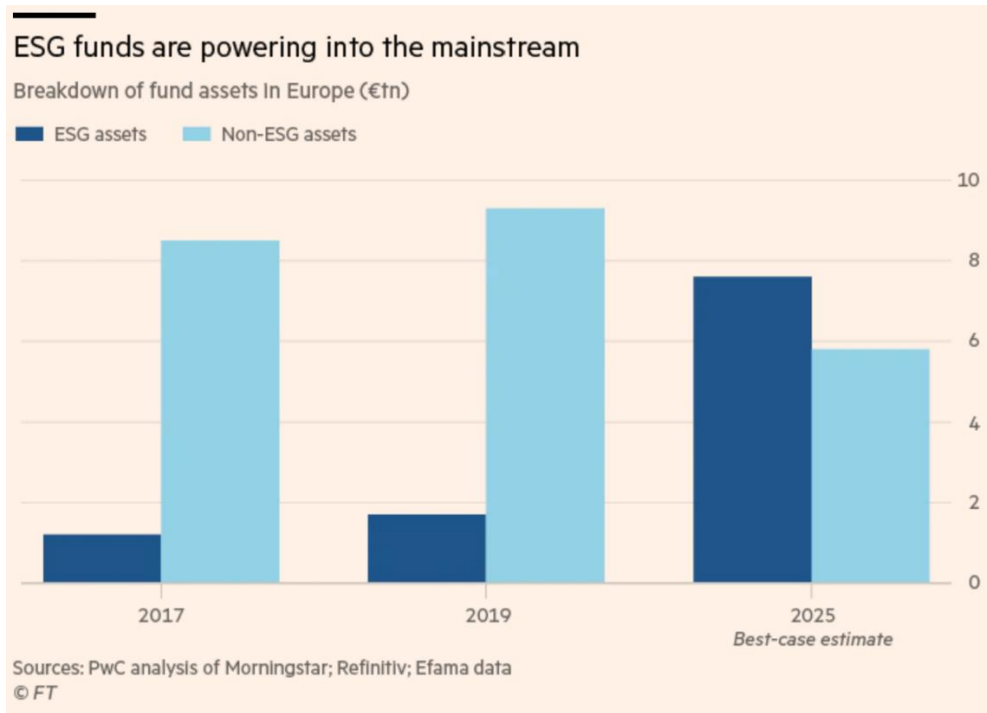
**Fig 3** The rise of sustainable finance in 2018 – 2020



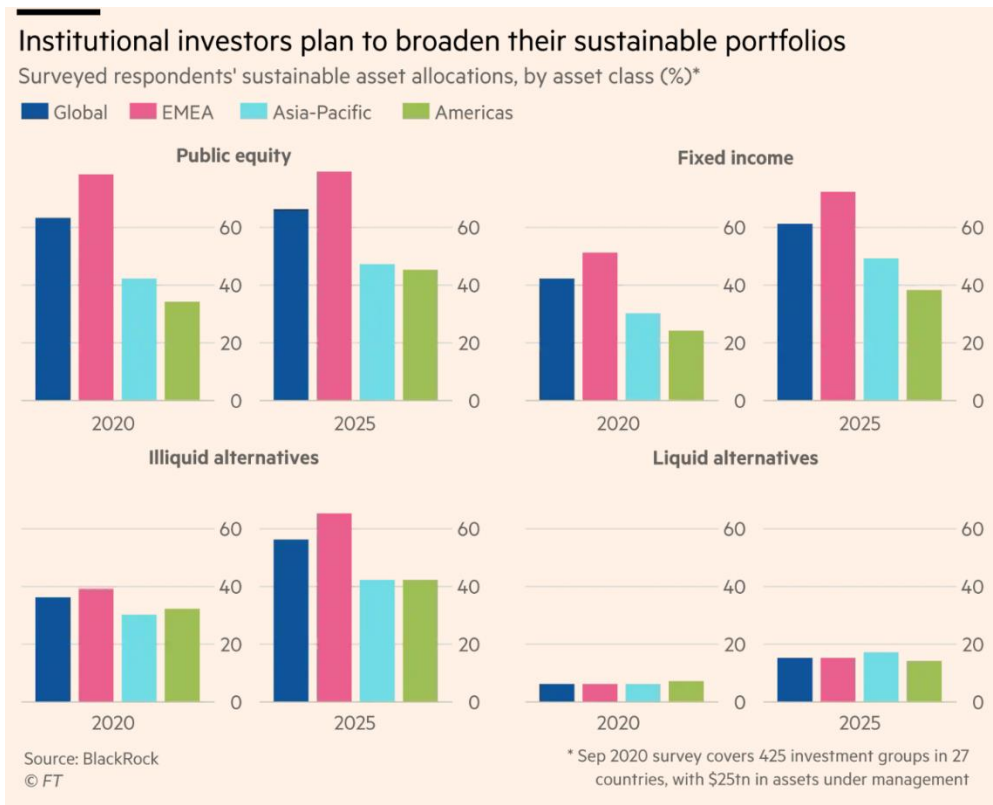
<sup>9</sup> <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter>



**Fig 4** Projections of further growth of sustainable investment market



Projections of further growth of sustainable investment market



This is promising but such gap in market size estimate signals a lack of clarity in categorisation and risk of frauds or even a financial bubble driven by determination to do good with finance.

It is believed that in 2008, impact investing was a reaction to the financial crisis and its social and political consequences. But from 2018 on, the market enthusiasm for sustainable investments has been driven by a changed context and rational calculation: reputation, competition for talented customers and employees, and preventing climate change from rocketing the world economy (i.e., systemic risk).

### 2.3. Impact investing initiatives that target skills development

The initiatives described below show how impact investing can be a tool to improve outcomes in education and support skills development while inducing public bodies, banks, service providers, philanthropists, and other stakeholders to develop evidence-informed, outcome-oriented mind-sets and processes. They are examples selected by the authors to give an idea about modalities to support skills development, yet they are not comprehensive. The analysis of these initiatives provides design and execution elements to be taken into account in view of their relevance and viability in the Western Balkans, identifying preconditions and possible solutions to constraints that may emerge.

The “**Portugal Inovação Social**” Initiative<sup>10</sup> is the largest experiment of “market creation” in the European Union (excluding the UK after Brexit) through European Structural Funds in a sector – impact investing – that is still underdeveloped, like in the Western Balkans. It demands an incisive and coordinated intervention as well as a political leadership and substantial mobilisation of public resources. Its success will be assessed in the long term, but it surely represents a blueprint for other countries. However, the Portuguese initiative brought out how current funding rules might pose constraints to the design and implementation of social impact investing programmes especially with regard to performance payments in SIB schemes, since inputs, but not outputs and outcomes are eligible expenditure.

- ▶ *In this regard, there are at least three solutions that can be put in place on European level:*
  - *fiscal incentives for SIBs investors;*
  - *investment models in which philanthropic or public investors use part of their outcome payments to support return payments to other investors;*
  - *the use of European resources, namely structural funds, not as grants but for financial instruments.*

The experiences launched in the wake of the Portuguese experience indicate that the effective execution of schemes might be hindered by factors other than regulatory constraints. This is particularly the case of:

- The **Social Investment Fund for Employment Impact** (*Fondo di investimento sociale per l’impatto occupazionale*) constituted in May 2021 by ANPAL (Italian Agency for Active Labour Market Policies) using €50 million of the Youth Employment National Operational Programme (funded by ESF) to finance centres of excellence and other innovative projects aimed to provide professional training and upskilling to the NEET<sup>11</sup> population of central and southern regions.<sup>12</sup> The Fund struggles to advance to the implementation stage due to the lack of an in-depth analysis of the target market characterised by a low level of maturity of both service providers and investors, a lack of market infrastructure and limited number and capabilities of intermediaries.

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<sup>10</sup> <https://inovacaosocial.portugal2020.pt/>

<sup>11</sup> NEET = young people (20-34) not in employment, education or training.

<sup>12</sup> ANPAL, Fondo di investimento sociale per l’impatto occupazionale, <https://www.anpal.gov.it/-/garanzia-giovani-istituto-il-fondo-di-investimento-sociale-per-l-impatto-occupazionale>.

- The **Sardinian Social Impact Investing Fund** (*Fondo Social Impact Investing*), launched during the 2014-2020 programming period with €2 million from the European Regional Development Fund (ERDF) budget and €6 million from the European Social Fund (ESF) budget, with the intention to go beyond the classical logic of grant-based financing and to attract co-investors.<sup>13</sup> The call for proposal launched in March 2019 was suspended in August 2019 since no projects were submitted and it was never re-opened. Potential applicants were discouraged by the fact that the information required (ie. identification of targets, baseline and control group, a methodology for measuring potential savings) was beyond their actual capabilities, and the risk-return profile of the operation discouraging.

These two experiences suggest that:

- ▶ *Capacity building and technical assistance should be provided to public administrations and service providers to design and implement innovative financial tools with complex operating mechanisms. Such activities should firstly cover collection and management of relevant data to be used in the design phase and for measurement and validation of project results (i.e., feasibility study and market assessment);*
- ▶ *Impact investing does not work if its ecosystem is not ready. Pilot initiatives in Western Balkans should engage and involve stakeholders (training and education providers, impact advisors and investors, philanthropic institutions, aid agencies, intermediaries, evaluators) inclined to partner with public actors to launch innovative initiatives.*

The Fund for Impact of Intesa Sanpaolo and the CGD-EFSI initiative show that leading — private and public — financial institutions can be key in ensuring the right to education.

- ▶ *Asset managers should be engaged by governments with a view to create co-investment funds to support young people throughout the whole educational and upskilling journey.*

At EU level, an important initiative is **InvestEU**. With **relevance to the Western Balkans**, the EU compartment of the InvestEU Fund and each of the policy windows (such as the social investment and **skills window**) **is open to contributions from candidate countries and potential candidates** for the purpose of participation in certain financial products

*“in accordance with the general principles and general terms and conditions for the participation of those countries in Union programmes established in the respective framework agreements and Association Council decisions or in similar agreements and in accordance with the specific conditions laid down in agreements between the Union and those countries;”<sup>14</sup>*

Taking into account leading European innovation systems, it emerges clearly that the **InvestEU** Fund, combining the European Fund for Strategic Investments (EFSI) with 13 centrally managed EU financial instruments into one instrument, offers a framework to accelerate the development of human capital for innovation for the modalities it presents.

- First, the programme is designed to tackle market failures and lack of capabilities through a combination of high-risk capital, pre-set and simplified legal framework and technical assistance. In an interview, this was underlined by an InvestEU policy officer as follows: “the programme tends to favour financial relationship with companies investing in people”.

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<sup>13</sup> Regione Autonoma della Sardegna, [Fondo Social Impact Investing](#)

<sup>14</sup> Article 5, Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017

- Second, features of the programme that have proven workable and impactful include the ‘Social Investment and Skills’ policy window, which has the objective to tackle areas of issues such as working conditions, poverty relief, social exclusion.
- Third, it provides social impact eligibility criteria “sustainability proofing”<sup>15</sup> to assess the eligibility of investment proposals that target social impact, for example, via skills creation for innovation.

Looking at the allocation principles for establishing financial products per policy window contained in the Investment Guidelines Regulation<sup>16</sup> for InvestEU, we note that social impact has been explicitly listed together with skills development, so that:

*“financial products to support financing and investment operations whose main objective is to achieve a **positive social impact** or **skills development**, fall under the Social Investment and Skills window;”*

**Social Outcome Funds is another mechanism that can support skills development** accelerating the introduction and growth of a social impact investing market in the region and, in particular, **Social Outcome Contracts**. The Social Outcome Fund is a new financial model which has as a main purpose to simplify for the public administration the purchase of outputs as realised results delivered by third parties (either public, private or not-for-profit) that meet policy goals. Internationally, the most successful example is the Education Outcome Fund, a public-private initiative led by UNICEF and already operating in developing countries.<sup>17</sup>

In relation to the European Structural and Investment Funds (ESIF) in the programming period 2021-2027 and in particular the European Regional Development Fund (ERDF), there appears to be increasingly more potential and more opportunities for supporting human capital development and skills for innovation in the EU Member States. In particular, under Policy Objective 1 one of the specific objectives is “*developing skills for smart specialisation, industrial transition and entrepreneurship*”<sup>18</sup>. Investments in education and training are essential for the [green and digital] transition.<sup>19</sup>

The above analysis shows that overall, the impact investing market has a huge potential to support skills development for inclusion and innovation. Its development requires leadership, multi-stakeholder approach and appetite for experimentation and risk- taking. Such a new market is strongly aligned with the EU’s policy goals, but it hasn’t reached maturity within the EU yet to deliver on its potential. Furthermore, the level and degree of experimentation with associated risks and financial capabilities requires a high level of commitment by private partners. That indicates that private partners must combine a mix of public value mission with robust financial capabilities to be the most suitable partners, especially in volatile markets such as the Western Balkans.

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<sup>15</sup> Commission Notice on Technical guidance on sustainability proofing for the InvestEU Fund, Brussels, 14.4.2021 C(2021) 2632 final.

<sup>16</sup> Commission Delegated Regulation (EU) 2021/1078 of 14 April 2021 supplementing Regulation (EU) 2021/523 of the European Parliament and of the Council by setting out the investment guidelines for the InvestEU Fund.

<sup>17</sup> See <https://www.educationoutcomesfund.org/>

<sup>18</sup> Article 3, Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund.

<sup>19</sup> In relation to the relevance of education, training and skills in the context of industrial transition see also: Pontikakis, D., Fernández Sirera, T., Janssen, M., Guy, K., Marques Santos, A., Boden, J.M. and Moncada-Paternò-Castello, P. (2020), Projecting Opportunities for INDUSTRIAL Transitions (POINT): Concepts, rationales and methodological guidelines for territorial reviews of industrial transition, EUR 30375 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-22152-4, doi:10.2760/590389, JRC121439

### 3 The Gap in the Skills Base for Innovation

Like in previous years, the Economic Reform Programmes 2021 and the Annual EU Enlargement Package 2021 point to the lack of relevant skills and capacities as a major obstacle to innovation in the Western Balkans (WB), in particular to the creation and growth of innovation driven SMEs. Aging populations, long years of unemployment for large population groups, inactivity, underemployment and engagement in low productivity–low value-added economic activities, as well as the persistent brain drain — in particular among youth — have led to a shrink of the skills pool in the region<sup>20</sup> (ETF, 2019). The absence of incentives for investment in human capital further exacerbates the above challenge and creates obstacles in inclusive skills development that can support innovation. According to OECD, SMEs generally struggle to ‘combine different types of innovation’, and access to strategic resources, such as skills, finance and knowledge can become an obstacle to efficient innovation diffusion<sup>21</sup>. Skills, on the other hand and especially innovation related skills, have the potential to boost entrepreneurship and job creation on national level and also drive sustainable investment.

The SME sector is considered the backbone of faster growing economies. According to the EIF (2021), across the WB and the EU as a whole up to 99% of all enterprises are small and medium sized (SME). Ensuring support to innovative SMEs is thus key to ensuring economic growth, innovation, social integration and, perhaps most importantly, jobs creation. In fact, within the WB region SMEs employ between 60% and 80% of the active population, which is on average higher than in the EU (EDIF, 2021).

However, middle income countries require a certain degree of human capital capable to provide the necessary technological, managerial, and marketing capabilities to boost the production processes and products of these enterprises — which entails bringing together market players to create a toolbox of experience to face new challenges.

Productivity challenges require in turn that skills creation adapts to the changing skills demand. In the WB this is driven by different policies, including smart specialisation strategies, education and research policies<sup>22</sup>, and inclusive skills creation (using both formal and non-formal learning). In fact, within the WB employability is heavily dependent on modernised qualifications, entrepreneurial learning, and workplace training among other elements of human capital development.

Digital skills are of high importance for the innovation capacity of SMEs. The Regional Cooperation Council has observed a growing regional interest to increase training in digitalisation together with gender inclusion as a way to promote digital skills as a transversal skill for innovation. This trend was also confirmed in the interviewing stage of the present study, by a representative of the University of Alicante who revealed that digital literacy provided by the University Technology Transfer Office (TTO) has been instrumental to help young scientists and entrepreneurs to establish innovative SMEs in Spain and gain commercial expansion while settling in and contributing to their local innovation ecosystem.

On top of that ICT can become a niche sector for innovation in the region. Best practice suggests that such a policy decision be considered on the relative importance of ICT in total exports. A close examination of exports carried out on WB by JRC (2018)<sup>23</sup> shows however that the starting position differs widely among WB countries and that in the entire region only Serbia has a relative economic specialization in computer programming, consultancy, and related activities that has been growing in terms of employment and turnover since 2010. All this hints that having ICT as a priority domain for innovation should entail very different niches and approaches across the WB.

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<sup>20</sup> ETF 2019, Policies for human capital development: South Eastern Europe and Turkey – An ETF Torino Process Assessment

<sup>21</sup> <https://www.oecd.org/industry/oecd-sme-and-entrepreneurship-outlook-2019-34907e9c-en.htm>

<sup>22</sup> For definition, check: Morisson, A. & Pattinson, M. (2020). *Smart Specialisation Strategy (S3)*. Lille: Interreg Europe Policy Learning Platform. July 2020

<sup>23</sup> Matusiak, M. and Kleibrink, A., editors (2018). See bibliography for the full citation of this publication.

It is also necessary to increase Intellectual Property (IP) awareness among innovators, inventors, and SMEs decision-makers. The number of patents in the WB is however rather limited. IPRs are intangible assets whose value and importance as an asset class constantly increases as we move to knowledge-based economies worldwide. One example to do that would be creating an IP interface between academia and chambers of commerce to support innovative SMEs to increase competitiveness based on an IP-bundle strategy. This can be transformative for key industries to shift from labour-intensive into innovation-driven while fuelling strategic sectors targeted in each country's roadmap for skills creation and retention. This can be done by promoting support facilities in the region that help innovative SMEs to make strategic use of IP as a way to project their trade in the domestic and international market. Besides, it will be conducive to the increase of competitiveness and income from IP-bundle, which can have long-term effect in the WB economy in terms of better paid job creation and brain retention. Also, creative SMEs (with low IP content) can play an important role in providing disruptive services and attracting investors while nurturing the local ecosystem.

The skills-for-innovation development process is a complex one and needs to take into account rapid technological changes. From the analysis of EU & WB initiatives that link the funding for innovation with skills development tools (ANNEX I & II), findings suggest that common pressing issues in the region include:

- Urgent need to expand the skills base and achieve critical mass of qualified workforce to give life to a strong innovation ecosystem and support the development of the SME sector.
- Lack of a dedicated investment window for social investment and skills in the region that targets social enterprises, microfinance, training, and social innovation (likely to be positively impacted by the recent policy initiatives and instruments in particular the Economic and Investment Plan for the Western Balkans<sup>24</sup> as well as, under certain conditions, InvestEU).
- The need for developing the capacity of institutions devoted to advance entrepreneurial capabilities in the region, and their ability to attract private investment that can be coupled with direct match funding of innovative projects/social enterprises.
- The need to integrate advisory services and train the trainer components into programs for skills development and innovation, to support larger market absorption and capacities, and enhance the necessary impact.
- The lack of programs in the region with clear KPIs to measure in an objective and consistent manner skills spill-over effects.

The effort to increase skills for innovation in the Western Balkans' economies is aligned to the EC pursuit to help countries in the Enlargement Region with human capital development as a way to nurture the birth of a local innovation ecosystem conducive to achieve a multiplier effect in terms of prosperity, wealth, and quality jobs creation.

The close relations between the EU and the Western Balkans have been once again been reiterated with adoption of an Economic and Investment Plan for the region in April 2020. Its aims are to spur the long-term recovery, boost economic growth, and support reforms to move forward on the EU path. Human capital development and competitiveness of SMEs are on the agenda. This is complemented by the Western Balkans Agenda on Innovation, Research, Education, Culture, Youth and Sport (launched on 6<sup>th</sup> October) that aims at a sustainable innovation ecosystem and the transition to a knowledge-based society.

At regional level, the policy dialogue continues with the impetus of the Berlin Process and the Common Regional Market 2020, and other initiatives looking into SME investment and human capital development.

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<sup>24</sup> Communication from the Commission from 6.10.2020 COM(2020) 641 final, [An Economic and Investment Plan for the Western Balkans](#), see page 14 regarding the possibilities to provide finance and training for entrepreneurship (micro, small and medium enterprises, social enterprises).

The Regional Cooperation Council supports the countries in addressing the urgent need to expand the skills base and achieve critical mass of qualified workforce to give life to a strong innovation ecosystem. An important focus is on digital transformation to help a knowledge-based economy that creates equal opportunities for all citizens. Further attention is dedicated to expanding the use of digital technologies to create new opportunities and innovative business processes to strengthen ties and cooperation within the region and increase the convergence with the European Union.

Overall, interviews and experience from the authors suggest that the discussion on and awareness of impact investment in the WB region are highly limited, which holds even more for the impact investment programs and initiatives for skills development.

However, recent developments show that there is a growing focus on: i) skills enhancement for innovation and ii) regional approach and exchange of knowledge and experience among the countries of this region.

## 4 Instruments that can help building sustainable skills in the Western Balkans

### 4.1. Enhancing current financial instruments for effective delivery

The EU finances a large part of its interventions in the Western Balkans through the Instrument for Pre-Accession Assistance (IPA) at country/economy and at regional level and in close cooperation with its partners from the region. IPA III for the period 2021 to 2027 was approved in September 2021 to push the reforms further.

The EU is the biggest donor in the area of human capital development. There are many international actors, including IFIs, active at country and regional level, and the trend is upwards. As an example, the EBRD has increased its support for SMEs in the WB to provide new credit lines to partner financial institutions for on-lending to local businesses, and the EU is complementing these funds to ensure that SMEs increase their competitiveness by shifting towards a green economy. Also UN Institutions, like UNDP and UNIDO, have an increasingly important role in implementing SME and human capital development initiatives.

By looking at the current most relevant investment instruments for innovation promotion and skills development in the Western Balkans (ANNEX II) it transpires that among those offering access to finance (the biggest constraint on businesses in the region today) and non-financial support (such as guidance and advice on how to create and develop their businesses), practical initiatives that present suitable candidates for upscaling include:

**The Western Balkans Enterprise Development & Innovation Facility (EDIF)** which, with the support of international donors, aims at enhancing access to finance for SMEs through:

- Bank loans extended at improved conditions (such as lower collateral and interest rates), often also to riskier categories of SMEs.
- Access to targeted equity investment and support to foster the launch and development of high-growth and innovative SMEs.

Expanding the EDIF platform services and targeted focus on innovation skills, as part of the best practices to embrace, will help promote initiatives in each WB country that target inclusive skills creation while supporting key stages of the enterprise development process. This would include the provision of seed and scale-up financing. In addition, it will further fortify a nascent regional innovation ecosystem.

This was confirmed by members of the Programme Advisory Group of the WB EDIF platform, whom in an interview convened that financial instruments offered by the facility in the WB are aimed at stimulating a multiplier effect via skills creation. In their view, the facility has the potential to bring a twofold advantage to the region, i.e., nurturing the innovation ecosystem with human capital able to innovate and create and lead new business while opening up new opportunities for the economic fabric to grow and expand offering more jobs and educational opportunities to those willing to seize it.

According to experts at DG NEAR, an impact driven fund will be created under WB EDIF. Skills creation will be supported indirectly via the fund by improving the governance and the ability of the companies to do business.

Similarly, the **Small Enterprise Assistance Funds (SEAF) South Balkan Fund**<sup>25</sup> in the region aimed to help:

- Open-up to strategic collaboration with financial partners (such as Swiss Investment Fund for Emerging Markets-SIFEM; Netherlands Development Finance Company-FMO; Finnish Fund for Industrial Cooperation-Finnfund) providing equity and quasi-equity financing and can also help:

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<sup>25</sup> <https://www.seaf.com/small-enterprise-assistance-funds-establishes-seaf-south-balkan-fund/>



- (a) Deliver tailored technical assistance to public administrations and service providers on complex operating mechanisms. For example, via the Centres for Entrepreneurship and Executive Development (CEED), which provide training, education, peer networking, and global access to entrepreneur-backed SMEs.
- (b) Boost technical and managerial assistance to regional SMEs while investing in companies across a diversified range of industries through a Fund that identifies and invests risk capital in high growth companies.
- (c) Contribute to attract prospect investors interested to build a portfolio in the WB that benefits from the upside potential of a substantial equity/venture debt component, generating diversified exposure, thus limiting the risk of capital loss.

## 4.2. New set of instruments

As already mentioned, impact investing is meant to produce more than just economic value through the realisation of financial gains, by giving way to several non-financial objectives, including **skills creation and retention**, and local economic stability.

There are a series of new set of instruments that can be used to develop an impact investing market supporting skills development in the WB region mobilising resources and actors. This is a moment in time when IPA III Programming for 2021 and 2022 is in full swing and that for 2023 is about to start.

These include:

*The **InvestEU Fund**, which is open to contributions from third countries (non-EU Member States), including candidates and potential candidates (thus providing opportunities to the six Western Balkan economies to participate subject to certain conditions<sup>26</sup>). This is expected to allow continued cooperation with the relevant countries, in particular in the fields of research and innovation as well as SMEs. According to Article 4 of the Regulation, third countries would have to provide their full contribution to financial products in cash. It is worth noting that each policy window, including in particular the social investment and skills window, can receive targeted contributions from third countries for the purpose of participation in certain financial products. In addition to the amount dedicated for provisioning the EU guarantee itself, the budgetary envelope for **advisory support, the project portal and other accompanying measures** would amount to €430 million, and these measures are instrumental in ensuring that countries **develop capacities** to make best use of the opportunity.*

*An instrument similar to InvestEU but dedicated specifically to the WB region is the **Economic and Investment Plan for the Western Balkans**.<sup>27</sup> The plan sets out a substantial investment package mobilising up to €9 billion of funding for the region. Already the introduction recognises that:*

*Sustained competitiveness inevitably rests on the region's ability to build its **human and entrepreneurial capacity to innovate** and develop an economic niche. Thus, investing in the future also means **investing in research, innovation, health, education** [...].*

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<sup>26</sup> Third countries shall observe specific requirements and conditions laid down in various agreements between the European Union and those countries regarding the participation of the latter in Union programmes. See Article 5 of Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017.

<sup>27</sup> Commission Communication on An Economic and Investment Plan for the Western Balkans, Brussels, 6.10.2020, COM(2020) 641 final.

Chapter IX. “Investing in Human Capital” of the Plan specifies the means to achieve the desired results of the investment:

*Financial instruments will be used to attract private funds that target social needs (**impact finance**), in close partnership with International Financial Institutions (IFIs).*

*Under Flagship 9 (Investing in the Competitiveness of the Private Sector) of the Plan, the need for increased investments in **SMEs and their capacity to innovate, scale-up and grow** is once again recognised.<sup>28</sup>*

*The IPA III grant financing will be utilised in combination with guarantees to help reduce the cost of financing and the risk for investors. While the investment package under the Economic and Investment Plan intends to mobilise up to €9 billion of funding for the region for supporting human capital, competitiveness and inclusive growth, among others, the support through the new **Western Balkans Guarantee facility**, under the EU External Action Guarantee and the European Fund for Sustainable Development Plus, is expected to further mobilise investments of potentially up to €20 billion in the next decade.<sup>29</sup>*

New instruments that can be key to attract further impact investment in the WB region at national level, institutional level, and SMEs level can be a combination of existing tools and funding programmes and creation of new ones, as per the example of InvestEU. For an effective design and implementation of such instruments, it is essential to ensure:

- **Political Commitment:** it is important for each WB economy to develop a cohesive instrument to foster an inclusive skills creation process and to help deploy the funding for the implementation of the investment plan.
- **Broader engagement of the Private Sector in skills development:** the private sector has become more active in skills development during the last years, e.g., through opportunities for work-based learning, involvement in definition qualification and training standards, cooperation with training providers to deliver training. But the bulk of this engagement is concentrated among a certain number of innovative companies. Unlocking the innovation potential of the private sector requires governmental action that creates appropriate incentive structures and support mechanisms for engagement of a wider spectrum and number of companies (in particular SMEs) in skills development.
- **Increase of intellectual property (IP) awareness** while boosting ecosystem-based strategy to develop and evolve with suitable partners and skilled workers, getting positive technical spill over effect from external sources and testing these adjustments in the local market before planning expansion abroad.

### **4.3. Measuring impact generated by sustainable finance & skills creation on innovation**

According to Annex II that identifies undergoing and recently completed initiatives in the Western Balkans that link impact investment with *human capital development and innovation* there seems to be evident need in the region for programmes that measure (in an objective and consistent manner) the social impact generated by skills creation and skills retention, for which a well-developed system of KPIs is deemed necessary.

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<sup>28</sup> See the Annex to the Economic and Investment Plan for the Western Balkans.

<sup>29</sup> Press release, 6 October 2020, Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_1811](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1811)

In an interview with representatives of the European Investment Fund (EIF), the answer to the question ‘How do you measure social impact generated by impact investments?’ was that there are not predefined indicators to measure social impact, and that instead an evaluation performance approach is normally undertaken to establish five indicators for each specific client. Such an impact is therefore done on a case-by-case basis for the portfolio, which performance is validated by the Fund based on the report presented by the client.

For investments made by the EIF in the WB, the point was made that most of the time qualified entrepreneurs came from top ranked universities and for that reasons there is no abundance of proposals. This point was also addressed by representatives of DG EAC, who consider that investment in innovation requires investing in education and training. It was said that a particular emphasis has been provided to this goal after the 2008 crisis with the re-launch of economic investments to stimulate economic growth and thereby create more jobs through three windows: Infrastructure, SMEs and Social. This has caused some controversy, particularly because basic help was mostly given to support local authorities to build schools which does not guarantee that SMEs upskilling needs are addressed. The problem to help funding SMEs to increase capacity building seems to lie on the fact that EIF has to find a compromise to fund mid-high risk projects such as skills for innovation, which in the case of WB is considered “a very-high risk investment”.

This is corroborated by representatives of DG FISMA, who sustain that the EU taxonomy for sustainable initiatives is still developing its social objectives and that clear criteria are not yet available to measure the outcomes of impact investing on skills creation and skills retention.

At the end of this section we list several recent publications and initiatives by EIF in relation to impact investing and social impact:

In its 2020 Annual Report<sup>30</sup>, EIF outlined the increased focus on impact investment, having mobilised additional EFSI resources to focus more on impact investing, including in the social dimension. EIF also expanded their toolkit under the EaSI programme to increase support to social entrepreneurship and the inclusive finance ecosystem through capacity-building activities and inclusion of very small actors from the microfinance scene.

A Working Paper<sup>31</sup> from 2019-2020 by EIF provides the first testimony on the integration of social considerations and impact investing in the areas of venture capital (VC) and business angel (BA) investing, finding that there is a general consensus that social considerations and investment performance are not mutually exclusive.

EFSI Equity<sup>32</sup> (2018, part of EFSI) is a facility managed by the EIF providing equity investments to or alongside financial intermediaries focusing on early stage, growth stage and expansion financing. Through this facility the Commission and EIF aimed to help strengthen the European social impact ecosystem. To receive social impact financing under the EFSI Equity Instrument, financial intermediaries had to observe/acknowledge certain criteria<sup>33</sup>, such as (with relevance to social impact):

- Prioritising investments in Social Enterprises, dedicating ideally a majority of its invested amount, or
- Fostering investments in the field of Impact Investing
- Agreeing to apply a social impact measurement methodology

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<sup>30</sup> EIF Annual Report 2020, [https://www.eif.org/news\\_centre/publications/eif-annual-report-2020.pdf](https://www.eif.org/news_centre/publications/eif-annual-report-2020.pdf)

<sup>31</sup> Botsari, Antonia; Lang Frank; Working Paper, ESG considerations in Venture Capital and Business Angel investment decisions: Evidence from two pan-European surveys, 2020. [https://www.eif.org/news\\_centre/publications/eif\\_working\\_paper\\_2020\\_63.pdf](https://www.eif.org/news_centre/publications/eif_working_paper_2020_63.pdf)

<sup>32</sup> EIF, EFSI Equity social impact investment instruments, [https://www.eif.org/news\\_centre/publications/eif\\_efsi\\_equity\\_en.pdf](https://www.eif.org/news_centre/publications/eif_efsi_equity_en.pdf)

<sup>33</sup> EFSI Equity Instrument - Guidance for social impact investors, [https://www.eif.org/what\\_we\\_do/equity/efsi/call/Guidance\\_for\\_social\\_impact\\_investors.pdf](https://www.eif.org/what_we_do/equity/efsi/call/Guidance_for_social_impact_investors.pdf)

## 4.4. Recommendations for policy-makers

### 4.4.1. Tailored tools according to the skill needs of the Western Balkans region

Innovative financial tools combined with appropriate supporting measures and activities that are already producing practical learning in EU countries, such as InvestEU, can be extended to/ or replicated to accelerate the development of human capital for innovation in the Western Balkans. *Targeted technical assistance to public administration, service providers and financial operators and ecosystem developing components are crucial for effectiveness of any investments in human capital development and in skills for innovation in the Western Balkans region, as financial incentives alone would not be sufficient to achieve the expected results.* Since these are complex operating mechanisms, it is advisable that practices, tools, and procedures already developed under the InvestEU-Advisory Hub be used as a reference by Western Balkans stakeholders *when it comes to financial, operational and impact measurement models.*

Additionally, private sector employers should get progressively acquainted with the long-term benefits of their involvement as training providers, as it is basic to break the silos effect across sectors in the process of consolidating an innovation ecosystem made of diverse stakeholders who have different perspectives but unified vision towards achieving common goals. Likewise, the importance of training for business success is a critical factor in how relevant and important training and skills development is perceived in a SME. A general recommendation is to encourage networking between companies and training organisations to share knowledge and expertise and develop common solutions. For example, more platforms can be installed to bring companies together. SMEs should also be able to direct specific questions to the academic world. Academic institutes could be more closely connected with practical reality of companies and their issues.

To the question “What kind of training is more suitable for SMEs?” there is no one-size-fits-all answer. However, two-thirds of small business in Australia, for example, do not provide structured business training for their employees. Instead, they look for strategies that focus on business needs rather than government agendas and funding (NCVER, 2017). Those strategies are more based on mentoring, networking and collaborative group learning with other businesses through clusters. One factor that is to take into account for the future in the WB, in addition to formal education, refers to technical and vocational trends shaped by automation, social media and the increasing personalisation of training. Last but not least, diversity and inclusion practices should also be at the centre of the policy focus to achieve the presence of underrepresented groups at work. While in Canada, for example, much of the policy focus on diversity in SMEs has been on improving access to capital for women to form or grow business, a larger impact came from attending to all SMEs and their ability to implement diversity and inclusion in their work (Gender and the economy, 2021). EBRD has long experience in engaging its clients in inclusive skills development processes.

### 4.4.2. Strategic planning and monitoring

Taking into account that the development of Social Impact criteria of the EU taxonomy is still undergoing, measuring social impact generated from Impact Investments will need to adapt to current approaches undertaken by financial institutions involved on the ground. It is appropriate, however, that future impact investments in the WB contemplate the ability of skills for innovation to deter brain drain and foster innovation as a Key Performance Indicator (KPI).

Measuring the social impact generated by financial instruments linked to skills creation and skills retention in an objective and consistent manner will support the relevant decision makers and institutions in the WB economies in building SMEs skills into smart specialisation strategies while boosting their innovation potential. Skills have been often treated as an under- thought and are only now being considered in more

depth. Nevertheless, better monitoring of SME support programmes will be needed to enable decision makers to identify successful and less relevant support actions. Practical recommendations that should be considered for this purpose include:

- Continue to move SMEs skills forward with smart specialisation to affect demand for skilled workforce. For this, each WB country will need to adapt SMEs education and training policies.
- Training offer should be tailored to local needs, especially for SMEs responding to local and regional markets, as proximity plays a significant role in innovation consolidation.
- Designate a dedicated institution for SMEs skill-building in the region, which in turn supports individual countries innovation systems governance. Such institution/s should also coordinate and share relevant data gathering, policy making and funding.

#### 4.4.3. Specific measures for SMEs training and capacity building

It is clear that SMEs are the main drivers of economic development in the region because they account for creating private initiatives, innovation, and employment. However, despite their importance, SMEs are extremely sensitive to economic downturns. The current WB financial support is concentrated primarily in the banking sector through loan guarantee schemes and reduced interest rates, reason why debt financing remains the major mechanism for SMEs funding in the region. This has several implications, the first being that guaranteed loans are temporary solutions to a long-term problem: debt finance is not only expensive and difficult to get, but also inconvenient unless it has a ‘convertibility’ feature. Equity finance, instead, offers an opportunity for SMEs to raise capital, share risks and complement knowledge and skills. New policy initiatives for SMEs funding should therefore leverage on the **benefits of equity funding**, which remains small in size in the WB region.

On a sectoral point, it seems that regional SMEs are increasing their efforts to shift towards green economy and digitalisation in the post-pandemic. While these results align local businesses to smart specialisation, it is also opportune to recall that investments in physical infrastructure should be accompanied by skills development together with management and technological upgrading.

In an increasingly knowledge-driven economy, intellectual property (IP) should be for innovative SMEs a key consideration in day-to-day business decisions. New products patents, industrial designs, trademarks, and creative designs appear almost every day on the market and are the result of continuous human innovation and creativity. The European Commission (EC) aims to help SMEs use IP more effectively by providing a coherent policy of IP support for SMEs. One way this has been done is via the European IP helpdesk of the EU IP Office (EUIPO). It provides technical support to cross-border SME and research activities in managing and commercialising technologies and other intellectual property rights and IP assets at an EU level. A best practice every innovative SME should adopt demands strategic IP portfolio management and protection in order to fend off competition and secure market position.

Innovation ecosystems seem to be the answer to the challenges that can make SMEs fit in the long term. This is valid because being part of the business economy fuels a company’s innovative power and growth by allowing SMEs to tap into new customer groups. According to Deloitte (2021) more than half of German SMEs have already utilized ecosystem-based strategies to develop and evolve by being in consultation with suitable partners and skilled workers, getting positive technical contamination from external sources and testing these adjustments in the local market before planning expansion abroad.

An innovation ecosystem can be engineered using clusters as a key part of its design. This is because clusters have a shared responsibility both to foster competitiveness, technology and knowledge transfer, and increasingly to act as innovation intermediaries to reach and engage quadruple helix actors (i.e., science, policy, industry, and society). A good example to follow is offered by the *Sociétés d’Accélération du Transfert de Technologies* or Technology Transfer Accelerators (SATTs) in France. In fact, SATTs concentrate expertise in the science-to-business process to act as intermediaries between universities or public research labs, which are their shareholders, and regional businesses. The labs transfer their IP to the regional SATT, which is then responsible for accelerating the technology transfer via the three channels indicated above. The SATT also scout for or define innovation projects to guide them towards the market:

projects are selected by an investment committee which investigates the best pathways to the market and calls on its network of contacts — from regional to global — to identify partners and sources of grant funding.

From the emerging innovation ecosystem, the complementarity of these recommendations will generate a great deal of information and data. This information could well provide the necessary elements to further envision, run and support programmes aimed at boosting regional economic development and growth but also strengthening democracy, fostering European integration, and affirming the role of the Western Balkans in addressing Europe's emerging challenges and welfare.

## 5 Conclusions and next steps

The economic and social transformation triggered by the transition to greener and digital societies has to be supported by investment in inclusive skills development for innovation. Impact investing has proven a valuable tool to improve outcomes in both education and innovation development programmes. It has a promising potential to support skills creation and retention in the Western Balkans because it assigns to financial actors a mission in society.

First of all, the objective of investments is generating monetary gains along with other non-financial values, typically positive social and environmental impacts.

Secondly, such generated values are due to be shared by design with the other stakeholders and the community as a whole. In other words, finance is not set just to generate profits for a minority of capital owners, but as an engine of societal prosperity creation and distribution hinged on the power of capital in a market economy. Such a vision of finance has gained traction over the last two decades, propelled by 2008 global financial crisis, and has turned into a priority in the post-Covid recovery plans finding its most suitable place in the partnership between public and private sectors.

This paper investigated the gaps in current programmes and financial instruments in relation to skill creation and retention in the Age of Innovation and knowledge-based societies. It identified new opportunities under InvestEU and the Economic and Investment Plan for the Western Balkans, as well as explored innovative practices such as Social Impact Bonds schemes. At the same time it has also defined some of the challenges that the South East Europe region faces, and focused on the Western Balkans to attempt to steer the attention into two directions: 1) the lack of financial instruments to target the sustainable development of skills for SMEs and innovation, and 2) the enabling conditions and factors which are required to ensure successful delivery of such instruments.

Furthermore, the whole notion of impact investment, as presented, is attached to accountability and measurability, which suggests the need for ex-ante definition of the expected results. In this context, KPIs linked to performance in impact investing need to be elaborated and adapted to the European (and in particular Eastern European) context in an attempt to improve the framework conditions for impact investing in skills.

# ANNEX I

## Overview of investment instruments for skills development in Europe

### Case studies on impact investing for the development of skills and competences to foster innovation ecosystems

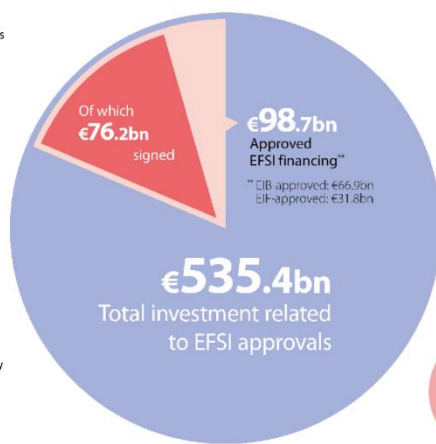
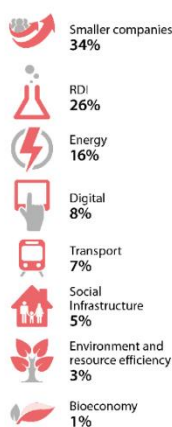
#### 1. InvestEU

InvestEU is a EUR 372 billion public-private investment programme to support growth, competitiveness, innovation, and job creation in the European economy, instituted after the success of The Investment Plan for Europe — the Juncker Plan for public and private investments launched in 2014 to support the recovery of the European economy following the global financial crisis.

A cornerstone of the Juncker Plan was the financial guarantee provided by the European Commission and EIB to leverage 15 times private investments in strategic infrastructures. The programme had three key components: the European Fund for Strategic Investments (EFSI) that managed the implementation of the guarantee; the Advisory Hub to provide technical assistance for project proponents; and the Investment Platform to facilitate matching between projects and private investors.

### EIB Group figures As of 17/09/2020

#### EFSI investment by sector\*

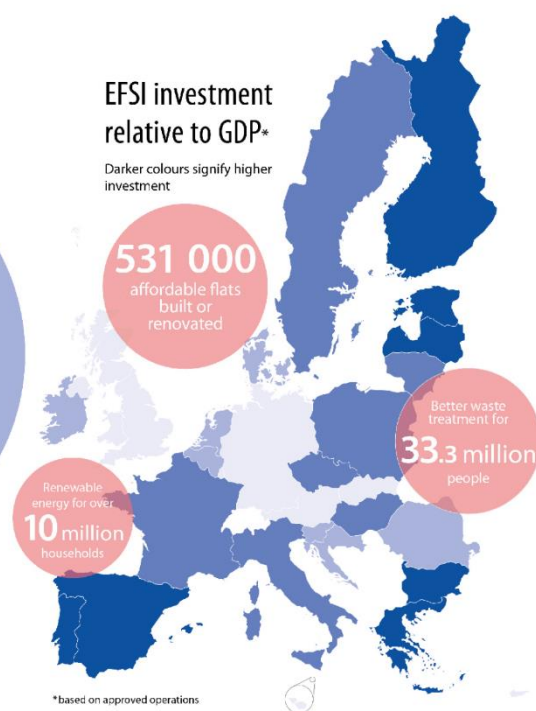


Target by 2020 **€500bn**



#### EFSI investment relative to GDP\*

Darker colours signify higher investment



Source: [www.eib.org](http://www.eib.org)

InvestEU builds upon the EFSI model — with the EU providing a EUR 26 billion guarantee through the European Commission and EIB to leverage EUR 370 billion (plus an additional guarantee to be provided by Member States) — all the while introducing a few new substantial features:

- Policy alignment with the twin Green and Digital transitions objectives, the Post-Covid Recovery and Resilience plan, and investment goals addressing market failures and suboptimal investments situations;



- Four defined and strategic investment areas — so called “policy windows”: sustainable infrastructures (e.g., energy, transport, and digital); research, innovation and digitalisation; SMEs; and social infrastructures and skills. Furthermore, it also includes strategic investments to foster the green and digital transitions;
- Convergence of 14 EU investment programmes in one, and opportunity for Member States to efficiently use existing EU funding programmes (including grants);
- Implementation is extended to a wide array of public financial institutions, such as national promotional bank and other investment banks (e.g., EBRD) beyond the EIB Group to increase access and local penetration.
- Upgrade of the environmental and social impact assessment as eligibility criteria for projects. Any investment proposal has to meet the “sustainability proofing” to become eligible, regardless of the financial assessment.

A novelty introduced by InvestEU is a **dedicated investment window to develop and empower the social sector**, the social economy, and a nascent European impact investing market, with the ultimate goal of achieving the objectives of the EU Pillar of Social Rights. The so-called **social window** is provided with a EUR 2,8 billion guarantee. It targets social services, infrastructures, enterprises, microfinance, training, social innovation, and integration of migrants and other vulnerable groups. The window has a clear focus on human capital, with emphasis on reskilling and upskilling, and strategic investment in digital innovation potential for education and training.<sup>34</sup>

InvestEU also includes an Advisory Hub — the technical assistance service that EIB, together with the other implementing partners, offer to project proponents to turn their ideas and ambitions into viable, investment-ready initiatives. This is a crucial component to enable market absorption and value multiplier especially in the Union’s regions the most underdeveloped and fragile. Furthermore, within EFSI, the Advisory Hub developed vertical specialisations to support the creation of new markets such as the Social Outcome contracts (also known as social Impact Bonds) that historically have been applied for human capital creation.<sup>35</sup>

Some highlights relevant to the study are the following:

- The Regulation<sup>36</sup> provides the possibility for third countries to take part, under certain conditions, in InvestEU
- Human capital development, such as skills for innovation, could be included in the “sustainability proofing” in a dedicated investment programme
- Besides the dedicated Social Investment and Skills window, the other three policy windows (for Infrastructure, Research and Innovation and SMEs) could also include a human component as part of their additionality – i.e., the intrinsic value-added that only EU guarantees can generate. All the other policy windows required a skilled workforce to deliver on their objectives.
- The Advisory Hub could develop a dedicated vertical specialisation related to skills for innovation.

InvestEU should not be confused with the Economic and Investment Plan for the Western Balkans, the latter is a completely different instrument that targets by design the economies of the WB region.

## 2. Caixa Geral de Depósitos (CGD) - European Fund for Strategic Investments (EFSI)

Given that the rollout InvestEU programme is in its nascence, the EFSI application scheme (Juncker Plan) can serve as a model potentially relevant to the object of the study. For instance, the European Investment Fund (EIF), part of the European Investment Bank Group, provided Caixa Geral de Depósitos (CGD) — a Portuguese leading financial group with more than 143 years’ experience and sound international presence — with a guarantee of up to EUR 25 million to promote investments in the human

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<sup>34</sup> [https://europa.eu/investeu/home\\_en](https://europa.eu/investeu/home_en) also on social window <https://evpa.eu.com/policy/the-eu-budget/investeu>

<sup>35</sup> <https://eiah.eib.org/about/initiative-social-outcomes-contracting.htm>

<sup>36</sup> Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017

capital of SMEs and education sector in Portugal<sup>37</sup>. The agreement is backed by the EFSI Skills & Education Guarantee Pilot — a debt financing initiative launched in 2020 to stimulate investments in education, training, and skills.

The key terms of the EFSI Skills & Education Guarantee Pilot are:

- Guarantee rate of up to 80% on a transaction-by-transaction basis
- Up to a maximum guarantee cap rate of 25%
- No guarantee fees are charged and no penalties are applied.<sup>38</sup>

CGD will develop two loan products aimed at increasing its lending capacity to both Portuguese companies that invest in the upskilling of their employees and to organisations that offer education and training services. The EIF will assume 80% of the risk of debt financing granted by CGD to Portuguese companies and organisations.

Key features are:

- The EFSI guarantee allows banks to improve their lending terms to increase SMEs access to capital;
- It also establishes a conditionality between such favourable terms and private investments in the workforce's skills, thus providing economic incentives for contributing to human capital growth and engendering a positive impact at societal level (i.e., public good).

### 3. “Portugal Inovação Social” Initiative

The “Portugal Inovação Social” Initiative was created in 2014 and was allocated EUR 150 million from the European Social Fund to finance social innovation and social entrepreneurship projects while creating a social investment market.<sup>39</sup> The initiative is managed by an *ad hoc* structure, the Portugal Social Innovation Mission Structure (PSIMS) and operates through four instruments:

- a capacity-building grant scheme (Capacity-Building for Social Investment), to improve the capabilities of social innovation organisations, preparing them to attract social investments.
- a venture philanthropy matching-fund scheme (Partnerships for Impact), a structured financial instrument leveraging other social investments to support high-potential and high-impact projects.
- a Social Innovation Fund, to improve access to finance for social economy organisations and social start-ups.
- a Social Impact Bonds (SIBs) Programme, to provide funding to local and regional governments in Portugal that are interested in developing SIBs or similar structures in specific policy areas, namely Employment, Social Protection, Justice, Health, Education and Digital Inclusion.<sup>40</sup>

Key features of the SIBs Programme are:

- the consortium (private investors, implementing entities, at least one public sector entity) must guarantee the upfront financing of the estimated costs covered by their own resources.
- the SIBs delayed grant covers up to 100% of the total eligible costs of the project (85% ESFI-ESF + 15% Portugal State Budget), upon validation of contracted outcomes.<sup>41</sup>

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<sup>37</sup> European Commission, EIF and CGD promote investments in the education sector in Portugal, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_1849](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1849).

<sup>38</sup> European Investment Fund, EFSI Skills and Education Guarantee Pilot, [https://www.eif.org/what\\_we\\_do/guarantees/skills-and-education-guarantee-pilot/presentation-skills-education-guarantee.pdf](https://www.eif.org/what_we_do/guarantees/skills-and-education-guarantee-pilot/presentation-skills-education-guarantee.pdf).

<sup>39</sup> Fi-compass, The Portuguese Social Innovation Initiative, [The Portuguese Social Innovation Initiative The Social Impacts Bonds Programme Using ESF to finance Social Innovation and Social Entrepreneurship](#).

<sup>40</sup> Portugal Inovação Social – SIBs <https://inovacaosocial.portugal2020.pt/financiamento/titulos-de-impacto-social/>

<sup>41</sup> fi-compass, Case study of Portugal Inovação Social, [How to set-up a Social Impact Initiative – the case study of Portugal Inovação Social](#).

— projects last up to 5 years, from the start until outcome validation and payment.

As of now (June 2021), a total of 15 SIB projects have been financed, amounting to more than 123 thousand beneficiaries and an overall value of EUR 4,6 million.<sup>42</sup> One of the SIBs, “*Ubbu Aprende a Programar*”, aims to tackle digital exclusion in schools<sup>43</sup>. The expected impact of this SIB is increasing “basic and more than basic digital skills” of beneficiaries, 750 students (1st and 2nd cycles).

#### 4. Intesa Sanpaolo Bank – Fund for Impact

Intesa Sanpaolo Bank Group, as part of its 2018–21 business plan, created a EUR 250 million Fund to extend access to credit to individuals, families and businesses who do not meet the requirements to be granted credit according to standard credit lines of the Bank. The Fund enables the Bank to grant loans for a total of EUR 1,25 billion<sup>44</sup>.

Intesa Sanpaolo is the largest Italian bank, also operating in a selection of countries in CEE and the Western Balkans. The bank has taken a new strategic market positioning by investing in its role of active contributor in public value creation, i.e. developing an impact strategy in which the Fund for Impact provides a market solution to a societal problem as well as an opportunity for business development.<sup>45</sup>

The Fund supports the following initiatives:

- “Per Merito”, aimed to grant loans to all university students, with no guarantees needed, on the sole condition that they remain committed to their studies. Launched in February 2019, the initiative has granted EUR 107 million and served almost 10 000 students as of the 31st March 2021.<sup>46</sup>
- “Mum@Work”, aimed to support women who are forced to choose between work and motherhood. It uses two tools: i) a loan for working mothers to supplement their personal income and ii) funding for start-ups founded by young mothers, enabling them to become entrepreneurs. Since its launch, in July 2020, the subsidized credit to reconcile motherhood and work amounted to EUR 0,3 million.<sup>47</sup>
- “XME STUDIOSTATION”, launched in August 2020 to support families in covering all expenses related to distance education (laptops, tablets etc.). Approximately EUR 1,6 million have been granted since its launch.

Key features are:

- Similar to InvestEU, it provides EUR 250 million of guarantee leverage funding by decreasing risk and cost of capital, with the effect of increasing access to capital for otherwise unbankable people.
- Unlike InvestEU, the guarantee is entirely privately generated from a fraction of the banks’ profits and creates a new business model that expands the business opportunity for lending (market-driven).

The financial solution is blind to the application and target beneficiaries, thus allowing for a more flexible implementation, necessary to adapt to evolving needs and conditions — as evidenced by the Covid pandemic.

The initiatives described in Annex I show how impact investing can be a tool to improve outcomes in education and skills development programmes, while inducing public bodies, banks, service providers,

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<sup>42</sup> Portugal Inovação Social – SIBs projects, <https://inovacaosocial.portugal2020.pt/projetos/>.

<sup>43</sup> Ubbu Aprende a Programar, <https://inovacaosocial.portugal2020.pt/project/ubbu-aprende-a-programar/>.

<sup>44</sup> Intesa Sanpaolo, Impact banking to promote social inclusion, <https://group.intesasanpaolo.com/en/newsroom/indepth/all-indepth/2020/impact-banking>.

<sup>45</sup> Michael Porter, Harvard business strategy theorist, elaborated the “Shared Value” as a new conceptual framework for business to align public and private values (Porter and Kramer 2011)

<sup>46</sup> Intesa Sanpaolo, Consolidated results (31<sup>st</sup> March 2021), <https://group.intesasanpaolo.com/it/investor-relations/comunicati-stampa-price-sensitive/2021/05/20210505-ris-1q21-it>.

<sup>47</sup> Intesa Sanpaolo, Consolidated results (31<sup>st</sup> March 2021), <https://group.intesasanpaolo.com/it/investor-relations/comunicati-stampa-price-sensitive/2021/05/20210505-ris-1q21-it>.

philanthropists, and other stakeholders to develop evidence-informed, outcome-oriented mind-sets and processes. The analysis of these initiatives provides design and execution elements that might be of interest, in view of their replicability in the Western Balkans, as well as useful insight for the identification of possible solutions to constraints that may emerge.

The “*Portugal Inovação Social*” Initiative is the largest experiment of “market creation” in the EU 27 (after Brexit) using European Structural and Investment Funds for impact investing — a sector that, like in the Western Balkans, still remains underdeveloped and requires an incisive and coordinated intervention, as well as a massive mobilization of public resources. Its success will be assessed in the long term, but it surely represents a blueprint for other countries. However, the Portuguese initiative brought out how funding rules might pose constraints to the design and implementation of social impact investing programmes, especially with regard to performance payments in SIB schemes, which cannot be considered eligible expenditure.

- ▶ *In this regard there are at least three solutions that can be put in place: fiscal incentives for SIBs investors; investment models in which philanthropic and public investors use part of their outcome payments to support return payments to other investors; the use of European resources, namely structural funds, not as grants but for financial instruments..*

The experiences launched in the wake of the Portuguese experience indicate that the effective execution of schemes might be hindered by factors other than regulatory constraints. This is particularly the case of:

- The Social Investment Fund for Employment Impact (*Fondo di investimento sociale per l’impatto occupazionale*) set up in May 2021 by ANPAL (Italian Agency for Active Labour Market Policies), which was allocated EUR 50 million of the ESF-funded Youth Employment National Operational Programme for financing centres of excellence and other innovative projects aimed at providing professional training and upskilling to the NEET population of central and southern regions.<sup>48</sup> The Fund struggles to advance to the implementation stage due to the lack of an in-depth analysis of the target market — characterised by a low level of maturity of both service providers and investors, a lack of market infrastructure and limited capabilities of intermediaries.
- The Sardinian Social Impact Investing Fund (*Fondo Social Impact Investing*), which was launched during the 2014-2020 programming period — receiving EUR 2 million from the ERDF budget and EUR 6 million from the ESF budget — with the intention to go beyond the classical logic of grant-based financing and to attract co-investors.<sup>49</sup> The call for proposal launched in March 2019 was suspended in August 2019, since no projects were submitted and it was never re-opened. Potential applicants were discouraged by the fact that the information required (i.e., identification of targets, baseline and control group, a methodology for measuring potential savings) was beyond their actual capabilities.

These two experiences suggest that:

- ▶ *Training should be provided to public administrations and service providers to design and implement innovative financial tools with complex operating mechanisms. Training activities should firstly cover collection and management of relevant data to be used in the design phase and for measurement and validation of project results.*
- ▶ *Practices, tools, and procedures developed under the InvestEU Advisory Hub can become references for Western Balkans stakeholders when it comes to financial, operational and impact measurement models.*

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<sup>48</sup> ANPAL, Fondo di investimento sociale per l’impatto occupazionale, <https://www.anpal.gov.it/-/garanzia-giovani-istituito-il-fondo-di-investimento-sociale-per-l-impatto-occupazionale>.

<sup>49</sup> Regione Autonoma della Sardegna, Fondo Social Impact Investing, <https://www.regione.sardegna.it/j/v/2568?s=388609&v=2&c=3&t=1>.

- ▶ *Impact investing does not work if its ecosystem is not ready. Pilot initiatives in Western Balkans should engage and involve relevant stakeholders (training and education providers, impact advisers and investors, intermediaries, evaluators) more inclined to partner with public actors and to launch innovative initiatives. The activation of large partnerships will discourage the provision of services according to a process-logic in favour of a result-based logic.*

The Fund for Impact of Intesa Sanpaolo and the CGD-EFSI initiative show that leading (private and public) financial institutions can be key in ensuring the right to education.

- ▶ *Asset managers should be involved by governments with a view to create co-investment funds to support young people throughout the whole educational and upskilling journey.*

Further recommendations:

- ▶ *InvestEU is the investment programme designed to tackle market failures and lack of capabilities through to the combination of high-risk capital, a pre-set and simplified legal framework and technical assistance. To accelerate the development of human capital for innovation on the Western Balkans such a programme should be effectively extended<sup>50</sup> to the region in partnership with knowledgeable implementing partners such as EBRD and combining IPA funding, aid from Member States and philanthropy. Cautionary note: the technical assistance component is crucial for effectiveness, as financial incentives alone would not be sufficient for the market to respond.*
- ▶ *To consider the implementation of a dedicated Social Outcome Fund to accelerate the introduction and growth of a social impact investing market in the region and, in particular, of Social Outcome Contracts. The Social Outcome Fund is a new financial model whose main purpose is to simplify for the public administration to purchase outputs as realised results delivered by third parties (either public or private and not for profit) that meet policy goals. Internationally, the most successful example is the Education Outcome Fund, a public-private initiative led by UNICEF and already operating in developing countries.<sup>51</sup>*
- ▶ *The development of the impact investing market requires leadership, multistakeholder approach, and appetite for experimentation and risk-taking. Whilst such a new market would be strongly aligned with the EU's policy goals, it has yet to find the right political backing within the EU to deliver on its potential. Furthermore, the level and degree of experimentation with associated risks and financial capabilities requires a high level of commitment by private partners. That indicates that private partners must combine a mix of public value mission with robust financial capabilities to be the most suitable partners, especially in underdeveloped markets such as the Western Balkans. The case study of the Fund for Impact of Intesa Sanpaolo is an example. Philanthropic institutions can also play such a role.*

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<sup>50</sup> Taking into consideration that third countries may, under certain conditions and for certain programmes, already contribute to and participate in InvestEU.

<sup>51</sup> See <https://www.educationoutcomesfund.org/>

## ANNEX II

### Listing of investment instruments for skills development in Western Balkans

#### Main features of existing financing programmes

The listing below provides a basic description of the existing (and recently completed) financing programmes for skills development in the Western Balkans region.

The listing below is based on two main criteria:

- i. The reach of the programmes in terms of the countries covered in the Western Balkans
- ii. The existence and strength of the skills-building component

In general, the analysis of the existing (and recently completed) programmes shows that here is a growing focus of the IFIs programmes on: i) skills enhancement and ii) regional approach and exchange of knowledge and experience among the countries of the Western Balkans. Still, besides the increased focus on skills building, there is not yet a well-developed system of KPIs and targets related to skills within the monitoring system of the programmes.

Following are the existing initiatives that link access to finance to skills creation in the WB region.

#### 1. Western Balkans Fund (WBF)

*Funds:* NA

*Source:* Public funds of WB countries

The Western Balkans Fund (WBF)<sup>52</sup> is an international organization located in Tirana, Albania, founded by the governments of Albania, Bosnia and Herzegovina, Kosovo\*, North Macedonia, Montenegro, and Serbia. Its establishment, as an all-inclusive and regionally owned initiative, is considered as a clear sign of a new cooperation spirit taking roots in the Balkans. The WBF is financed by the six Contracting Parties in equal quotas.

The objectives of the fund will be pursued through financial support of activities that contributes to cross-border and inter-regional cooperation, and to the strengthening of regional cohesion, in particular in the following areas: i) Promotion and development of cultural cooperation, ii) Promotion and development of scientific exchanges, research and cooperation in the field of education, and iii) Promotion of sustainable development. The crosscutting issues within the WBF are promotion and development of youth, cross-border cooperation, media, European integration, and gender.

The Fund provides grants in combination with trainings. The WBF began its first investments in the Western Balkans in November 2017. Through the first two Calls for Proposals, it supported 43 regional projects for a total commitment of EUR 460,000 over two years. Similar calls were issued in the years 2019 and 2020, while the call scheduled for 2021 is expected to be diversified and responsive to the challenges associated with the COVID-19 pandemic. The grants have been supported through steady commitments of the six Ministries of Foreign Affairs.

The Fund plans to collect data and provide evidence of the impact and value of regional cooperation on the communities it supports. It intends to learn about the yields on the investment through a good monitoring system and share its learning with partners. This should also lead to attracting international (private and public) funding partners.

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<sup>52</sup> See: <http://westernbalkansfund.org/>

*Potential impact on skills and/or innovation:*

Started as a commendable government-funded initiative, it could be further expanded both in terms of financing and in terms of impact investment (in combination with private investments). Component 2 of the Fund might support innovation and skills development, although overall there is no explicit mention of the social dimension and impact.

## 2. Western Balkans Enterprise Development & Innovation Facility - WB EDIF

*Funds:* The EUR 145 million of initial capital pulled together under WB EDIF<sup>53</sup> may translate into about EUR 300 million of finance benefitting SMEs from WB countries.

*Source:* EU, international financing organizations, bilateral donors and WB6

EDIF is the only platform of the EC and international donors that provides financing to the private sector with a major focus on innovation. It is an innovative initiative funded by the EU to support development of SMEs. WB EDIF does not support entrepreneurs directly, but provides funding to local financial intermediaries via debt and equity products, as well as support services — e.g. venture capital funds, guarantee schemes including mutual guarantee organizations, micro-finance institutions, and any other financial institution providing finance to SMEs. WB EDIF is coordinated by the European Investment Fund (EIF) and consists of four pillars: SME equity financing, SME loan guarantee, SME lending (competitiveness programme) and Support services (direct advisory to boost investment readiness).

Members of the platform are: International Financing Institutions (EIF, EIB, EBRD, World Bank), Bilateral donors (Germany, Italy, and Austria), WB 6 and Regional organisations (OECD, WB CIF, RCC). The EU provided more than EUR 277,3 million, which should leverage approximately EUR 1 billion for SMEs competitiveness. So far, more than 5 000 companies have been supported, 80 000 jobs sustained with EUR 2,770 worth of loans, and 36 equity-type investments have been issued.<sup>54</sup> The expected outcome of WB EDIF is: 5,390 SMEs supported and 500 supported projects.

**EU4Tech PoC** WB project is one of the initiatives within WB EDIF and runs in the period 2020-2021 with the expertise and technical advice from the Joint Research Centre. It is a proof of concept scheme worth EUR 2 million that is currently supporting about 50 projects. The support has been offered to promising technology-based projects from the Western Balkans at the “Proof of Concept Stage” targeting mainly academia derived innovations as well as early stage companies which lack resources to commercialise their novelties. Assistance is provided through experts and mentors, in the phases of technology validation and protection, as well as in developing a robust business model and moving the project closer to the market. The projects teams are also supported with prototyping and testing of their technologies. The previous initiative (EU4TECH 2017-2019) supported technology transfer offices (TTOs) and TTO experts’ skills development together with the development of financial instruments for technology transfer, training in investor readiness for start-up companies, etc.

**Western Balkan EDIF Youth Employment (WB EDIF GF Youth).** EUR 85 million are dedicated to this facility, covering three countries in the region — Albania, Bosnia and Herzegovina, and Kosovo. In addition, a dedicated Youth Employment window is now open to improve access to finance for SMEs in all Western Balkan Beneficiary Economies with a view to support youth employment in the region. WB EDIF GF Youth is a window of the Western Balkans EDIF Guarantee Facility, under which EIF will provide first-loss capped guarantees to selected financial intermediaries that build up a portfolio of debt instruments to SMEs established and operational in the Western Balkans region.

This programme started on the 30th April 2020 and is still ongoing. The goals are: Up to 1,200 SMEs in Albania, Bosnia and Herzegovina and Kosovo will benefit and create up to 1,300 vocational training, internship or employment opportunities for local youth. Outcomes are measured through: a) the number

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<sup>53</sup> See: <http://www.wbedif.eu/>

<sup>54</sup> Information provided in the interviews.

of Young Persons employed/having received vocational training or internship (as applicable), and/or b) the duration of the SME's commitment to keep Young Persons under employment/the duration of the vocational training or internship (as applicable).

Currently, a new initiative is being developed by EDIF in partnership with UNDP, which should bring the youth guarantee to the new level, though it is not funded yet. This initiative would add KPIs related to youth and coordinated with the Sustainable Development Goals (SDGs). The main instrument will be a guarantee fund managed with banks, which will promote inclusive growth (with a focus on women, youth, social support beneficiaries, informal workers and long-term unemployed), as well as digital enablers for inclusive growth. The main intended impact to be achieved with this instrument will be to close the gaps of WB countries in achieving SDGs, specifically in the area of youth employment.

**Enterprise Innovation Fund (ENIF).** This is the third financial instrument pillar to be launched under the WBEDIF. ENIF is a unique example of a VC fund that centralises funding from institutional, private as well as local players in the Western Balkan region. Seed and start-up funding is a complex yet crucial necessity for local SMEs to develop and thrive in the local economy. The target fund size is EUR 40 million, for equity and quasi-equity financing. It provides investments in companies from EUR 100,000 to EUR 1,5 million, with a target of 40-60 innovative SMEs, including approximately 25-30 companies within the dedicated seed compartment.

*Potential impact on skills and/or innovation:*

This is the sole initiative in the WB region with large potential impact on skills and innovation, i.e., which can be categorized as impact investment. Still, the monitoring practices have to be improved in order to measure the impact on skills as well as the spillover effects. Some advances need to be made, such as introducing intangible assets-based financing schemes (including IP).

### 3. Regional Challenge Fund

*Financing:* EUR 18,8 million (2021-2025)

*Source:* the German Federal Ministry for Economic Cooperation and Development commissioned the funds for the Regional Challenge Fund<sup>55</sup> to KfW Development Bank and WB6-CIF

The Regional Challenge Fund (RCF) supports investments in cooperative training projects for the WB countries. The Fund will disburse EUR 18,8 million until 2025 (over five years) to support investments in the region. The goal is to fund up to 60 projects during the programme period.

The Regional Challenge Fund aims to bridge the gap between the skills in demand and in supply by funding investments in the equipment and infrastructure for selected cooperative/dual training projects, that vocational training institutes (VTIs) need to help their students build the skills that today's companies demand. The Fund aims to strengthen the quality and labour market relevance of vocational education and training by promoting partnerships between vocational training institutes and enterprises. The focus is on cooperative training involving the business sector throughout the entire process of VET (Vocational Education and Training) development, implementation, and assessment. It does this by combining vocational institution-based and enterprise-based learning in a flexible manner to develop the skills, knowledge, and attitudes of future workers.

*Potential impact on skills and/or innovation:*

Although not explicitly mentioned, there is tacit skills building potential, though of limited scope.

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<sup>55</sup> See: <https://rcf-wb6.org>



#### 4. EU funded project “Support to the WB6 CIF”, implemented within the Western Balkans 6 Chamber Investment Forum

*Financing:* EUR 2,5 million, 3 years

*Source:* IPA II Multi-country Action Programme 2018

The project was officially signed on the 18th of December 2020 during the CEFTA week in Tirana, and it will last 3 years.

The Western Balkans 6 Chamber Investment Forum (WB6 CIF)<sup>56</sup> is a joint initiative of chambers of commerce and industry from the WB6 that established a platform of cooperation in 2017 with the aim to provide a joint voice to the business community in the region and to facilitate inter-business contacts and promote the region as one investment destination. The project is focused on supporting SMEs in the WB region through the internationalization of operations with an emphasis on easier access to sources of funding, the creation of start-ups, and the encouragement of research and innovation.

The EU financed project “EU support to the Western Balkans Six Chamber Investment Forum” is focused on supporting SMEs in the region in the field of: internationalization of operations with an emphasis on easier access to sources of funding, the creation of start-ups and encouraging of research and innovation.

Some of the expected outcomes of the project are:

- 1200 SMEs will be reached by trade promotion activities
- 800 SMEs will receive individual, tailor-made support to look for business and funding opportunities across borders
- 3 policy dialogues with 150-300 business community representatives
- 3 joint participations of SMEs from the region in international fairs or business events
- 60 SMEs will be supported to apply to EU funds, etc.

*Potential impact on skills and/or innovation:*

The primary goal of this project is to connect businesses from the WB region, but also to support SMEs creation and internationalisation. However, the expected outcomes (some of which are listed below) do not show strong enough innovation and skills development components. Moreover, there is no mention of any social impact initiatives or measurement.

#### 5. European Bank for Reconstruction and Development (EBRD)

The EBRD sees the Western Balkans as a priority region with EUR 13 billion total financing of to date.

EBRD uses a distinctive approach that combines investments (loans and equity) with technical assistance (donor funded) and policy engagement/reform. While the main focus of EBRD programmes has been on large and mid-size corporations, recently the same approach has been extended to SMEs. EBRD closely monitors the outputs of its business support programmes through a matrix of indicators, such as average loan size, revenues increase of the supported companies, employment growth, regional distribution, etc. Moreover, skills development is a necessary requirement to access EBRD’s loan and equity instruments. While EBRD provides training for financial intermediaries on assessment of bank loan applications, it does not implement intangible assets-based valuation (including IP).

Some of the main EBRD activities in the WB region are the following:

##### **Women in business**

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<sup>56</sup> See: [https://www.wb6cif.eu/portfolio\\_page/eu-funded-project-support-to-the-wb6-cif/](https://www.wb6cif.eu/portfolio_page/eu-funded-project-support-to-the-wb6-cif/), and <https://www.wb6cif.eu/2019/07/04/eu-support-to-the-western-balkans-six-chamber-investment-forum/>

The Women in Business Programme<sup>57</sup> provides women entrepreneurs with the capital and know-how they need to grow their businesses. The general goal is to make loans available to women in business by connecting them with financial institutions. Specifically, the Women in Business Programme offers: dedicated credit lines with local banks, business advice, training, mentoring, and networking events in 15 countries, including the WB.

### Star venture

*Funds:* NA

*Source:* funded by the European Union, Luxembourg and Korea through the EBRD Small Business Impact Fund (Italy, Japan, Korea, Luxembourg, Switzerland, Sweden, Taiwan Business - EBRD Technical Cooperation Fund and the USA).

Star Venture<sup>58</sup> has supported over 200 early-stage companies across the so-called SEMED region — namely Egypt, Jordan, and Tunisia — and the WB region. The EBRD's Star Venture targets promising start-ups, accelerators and consultants to unleash their full potential.

Furthermore, the Star Venture Programme leverages a dedicated network of mentors and advisers to provide high quality advisory services and industry best practices to start-ups. It combines workshops, mentoring, and technical assistance, with the aim to help start-ups to improve and grow quickly. At the same time, the Star Venture Programme helps young companies remove some of the systemic barriers to accessing finance by connecting them to a network of investors with a strategic interest in the early-stage phase.

*Potential impact on skills and/or innovation:*

The EBRD has a unique approach towards business support. However, there is room for improvement in its assessment matrix, as it does not take into account the overall impact on skills development and potential multiplier effects on the local economy. For instance, an increase of the impact on skills and innovation in the region could be achieved through the use of an intangible assets-based valuation (including IP) in the assessment of loan and equity financing applications.

## 6. SEAF South Balkan Fund

*Funds:* EUR 13 million

*Source:* Swiss Investment Fund for Emerging Markets (SIFEM); Netherlands Development Finance Company (FMO); Finnish Fund for Industrial Cooperation (Finnfund).

The Small Enterprise Assistance Funds (SEAF) South Balkan Fund<sup>59</sup> provides equity and quasi-equity financing, in combination with technical and managerial assistance, to South Balkan SMEs. The Fund targets SMEs established in Serbia, Montenegro, North Macedonia, and Kosovo. It expects to invest in companies across a diversified range of industries while promoting sustainable trading and investment relationships between enterprises in Southeast Europe, Europe more generally, and the broader world.

The SEAF Impact Serbia Fund invests in growth-stage SMEs in collaboration with local entrepreneurs for both market returns and social impact. Launched in 2014 in partnership with Opportunity International, the Fund aims to build upon the success of SEAF's previous regional funds, including the SEAF South Balkan Fund, to identify and invest risk capital in high growth companies.

In financing growth-stage SMEs, the SEAF allocates a portion of the fund specifically to early-stage companies.

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<sup>57</sup> See: <https://www.ebrd.com/work-with-us/women-in-business.html>

<sup>58</sup> See: <https://www.ebrd.com/starventure/overview>

<sup>59</sup> See: <https://www.seaf.com/investing/europe/seaf-south-balkan-fund/>

SEAF aims to build a portfolio that benefits from the upside potential of a substantial equity/venture debt component, generates diversified current income, and manages the risk of capital loss.

SEAF is one of the few initiatives present in the WB region that aims at making transparent, ethical, and high-impact investments by promoting high ESG standards. SEAF is also sponsoring Centres for Entrepreneurship and Executive Development (CEED), which provide training, education, peer networking, and global access to entrepreneur-backed SMEs. SEAF has a dedicated impact team working with all local fund managers to target, measure and communicate the impact that each such fund or facility seeks to achieve.

*Potential impact on skills and/or innovation:*

SEAF is the only financial institution providing equity and quasi-equity financing in the WB region to take sufficient account of the impact, as well as of ESG standards. Lessons learned from SEAF should be transferred to other programmes and initiatives in the region.

## 7. European Investment Bank (EIB) support to SMEs, skills and research

*Funds:* EUR 320 million in SMEs

*Funds:* EUR 200 million in skilled workforce

*Source:* The European Investment Bank Group

Besides supporting the reconstruction and upgrading of public infrastructure, in the last decade the EIB expanded in the Western Balkans into many new areas, such as:

- healthcare
- education
- research and development
- private sector development

The goal in impact investment pursued by the EIB is to achieve an optimal financing package in the WB, by working closely with the European Commission and blending the loans with EU grants. During the last two decades, the EIB has been financing foreign direct investments receiving particular emphasis and support to SMEs via the local partner banks.

An achievement in North Macedonia is the support of SMEs through a network of local banks, which represent 80% of total EIB lending in the country, including those active in the knowledge economy, the energy sector, and environmental protection.<sup>60</sup>

## 8. European Institute of Innovation and Technology activities in WB region

The European Institute of Innovation and Technology (EIT) aims at accelerating innovation and supporting the creation of conditions where innovation is more likely to thrive and generate breakthroughs. The Knowledge and Innovation Communities (KICs) are the operational arm of EIT. KICs function as pan-European partnerships and bring together excellent universities, research organisations, SMEs, and other innovation actors on a long-term commitment around specific important societal challenges.

KICs are delivering tangible solutions to pressing global challenges and make a substantial impact in the EU and globally. Western Balkan countries are eligible for the EIT Regional Innovation Scheme<sup>61</sup> (EIT RIS) with exception of Kosovo. The EIT RIS is designed to share good practices and experiences emerging from

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<sup>60</sup> See: <https://www.eib.org/en/press/all/2021-040-the-eib-group-boosts-financing-for-the-western-balkans-in-2020> , also see: [https://www.eib.org/attachments/country/the\\_eib\\_in\\_the\\_western\\_balkans\\_en.pdf](https://www.eib.org/attachments/country/the_eib_in_the_western_balkans_en.pdf)

<sup>61</sup> <https://eit.europa.eu/our-activities/eit-regional-innovation-scheme>

the EIT Community's activities, as well as to widen participation in KICs' activities, with an aim to help disseminate the knowledge and know-how across Europe.

EIT Hubs - KICs engage local organisations to serve as EIT Hubs in the respective EIT RIS countries and regions. The Western Balkans host a number of EIT Hubs established under the framework of the EIT RIS: EIT InnoEnergy, EIT Food Hubs, EIT Climate-KIC Hub, Climate Innovation Hub, EIT Raw Materials Hub Adria2, and EIT Urban Mobility. There are currently 10 partner organizations from three WB countries participating as many EIT KICs. Some of the EIT communities in the WB include: Future Cities of South East Europe Initiative, EIT Digital in Western Balkans, etc.

In total, the Western Balkan countries have received more than half a million EUR of EIT RIS funding. The biggest recipient is Serbia, which absorbed about 95% of total funds. In 2018 there were 50 Start-up teams taking part in the EIT RIS business support activities, and 25 in 2019.

Some examples of EIT activities with high social impact are:

- "Pioneers into practice" programme, which aims at connecting climate change organizations and professionals to learn practical skills in systems innovation. In 2018, eighteen Serbian pioneers, four international pioneers, and five host companies participated in this initiative.
- "Highway" is the acceleration programme of the KICs, focused on providing support on four key dimensions: product, market, people, and finance. During 2019, Hub Serbia has been actively scouting for start-ups that could be a part of Highway. Five proposals from Serbia have been received and evaluated. One proposal ("Optimus Power", submitted by SmartCat, for the development of a software improving HVAC systems efficiency) was positively assessed and has accessed the Highway programme.

*Potential impact on skills and/or innovation:*

The EIT initiatives in the WB region are supporting innovation, knowledge sharing, and partnerships while trying to provide solutions to specific important societal challenges. These initiatives can have large impact on the societies, economies and people's lives in WB region. However, there is a need to increase the overall financing, as well as to allocate it more evenly across the region (given the current predominant focus on Serbia).

## Annex III

### List of interviewees

Besides complementing their existing knowledge with literature, the authors of the present report conducted a number of talks, interviews, consultations, and exchanges with experts and officials from the following services and organisations:

Interviews with experts/officials from the following services and organisations:	Directorates/ Units/ Departments where relevant	Topics discussed
European services  Commission	DG Economic and Financial Affairs (ECFIN), Directorate L, InvestEU, and financial institutions	Social Impact Investment, Social outcome contracts (SOCs), Outcomes funds
	DG Education, Youth, Sport and Culture (EAC), Unit A1, Strategy and Investments	InvestEU, social window, education and skills, partnering with EIB Group
	DG Financial Stability, Financial Services and Capital Markets Union (FISMA), Unit B.2. Sustainable Finance	Sustainable Finance, Platform on sustainable finance, EU Taxonomy of sustainable activities and social issues
	DG Employment, Social Affairs and Inclusion (EMPL), Unit G3, Social and Inclusive Entrepreneurship; Unit B.2. Skills Agenda	Support to social enterprises, impact driven enterprises, finance and financial instruments for training and upskilling, Invest.EU
	DG Neighbourhood and Enlargement Negotiations (DG NEAR), Unit D.5 Western Balkans Regional Programmes, Economic Investment Plan	Western Balkans Enterprise Development & Innovation Facility (WB EDIF), Guarantee Facilities, Technical Assistance, Capacity Building actions
	DG Regional and Urban Policy (REGIO), DIR. I Administrative Capacity Building and Programmes Implementation	Connecting Structural funds and innovation objectives, the role of ERDF in supporting the innovation ecosystem and skills
	DG Internal Market, Industry, Entrepreneurship and SMEs (GROW), Unit C.1 Access to Finance	InvestEU: Chairing the SME window and providing the GROW contribution to the other policy windows, SME finance instruments and policy

European Investment Fund	Impact investment - equity	Equity funding for social impact and skills, company indicators and methodology
Alicante University		Skills creation, building soft skills, Technology Transfer Offices, mentorship, Knowledge performance indicators
European Bank for Reconstruction and Development (EBRD)	Economic Inclusion Department and Economics Department	Inclusive skills development, role of companies, equality of opportunity, impact assessment.
Regional Cooperation Council	Human Capital Development Department and Economic and Digital Connectivity Department	Common Regional Market, Economic and Investment Plan for the Western Balkans, Digital Agenda for the Western Balkans

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