



Ex-ante Assessment Report

Summary

Financial Instruments
Employment and Social Enterprise

Operational Program "Efficient Human Resources 2014-2020"
ESIF 2014 – 2020

Summary of the Final Report

The drafting of the Ex-ante Assessment Report is funded by the Technical Assistance of the European Social Fund within the framework of the Operational Program "Efficient Human Resources 2014-2020".

The content of this publication is the sole responsibility of the author.

This Ex-ante Assessment of financial instruments in the field of employment and social enterprise within the framework of the Operational Program “Efficient Human Resources 2014-2020” was carried out between April and June 2018. The assessment established market problems and market failures in the following areas:

- 1) financing of higher education and life-long learning,
- 2) employment of persons with insufficient work experience,
- 3) financial exclusion of disadvantaged groups, and
- 4) financing of social infrastructure and social enterprise (SE) projects and entities.

Market Problems

In terms of market problems found in the area of financing higher education and life-long learning, it was found that

- the most significant financing issues are reflected primarily in end recipients not continuing their education after completing Level 3 of the National Standard Classification of Education (NSCE) and adults not choosing to receive further (lifelong) education,
- commercial financing products available on the market cannot, even remotely, address said problems, and
- financial instruments need to be implemented to remove said market problems.

In regard to the market problems of employment of persons with insufficient work experience, the ex-ante found that:

- employment of persons with work experience under two years is met with significant and structural issues,
- employers view the employment of insufficiently work-experienced persons as a major issue,
- commercial financing products available on the market cannot, even remotely, address said issues, and
- financial instruments need to be implemented to remove said market problems.

The market problems of financial exclusion of disadvantaged groups in Croatia are reflected in:

- numerous disadvantaged social groups that are at an increased risk of poverty,
- the extremely high rate of overindebtedness,
- the interrelatedness of poverty, overindebtedness and financial exclusion, in which sense the disadvantaged social groups are especially vulnerable, and
- the need to implement financial instruments to remove said market problems.

Market problems of financing social infrastructure and SE projects and entities include:

- the deficiency of reliable secondary data sources that would allow a reliable estimation of financing demand in the social entrepreneurship area, i.e. an estimation of the size of the social entrepreneurship sector in general,
- the non-existent SE-specific market financing options, i.e. very limited access to SE financing, and major financial impediments to SE development in Croatia,

- civil society entities and cooperatives represent a major SE development potential, i.e. many SE sector entities that currently do not identify as SE companies might qualify as such,
- considerable social services needs in Croatia as well as the disparity between supply of and demand for such services,
- the major EU trend in transferring social services from public to SE entities,
- the presence of the said trend in Croatia that is, regrettably, faced with a substandard SE sector, especially in the financial sense,
- the SE sector lacks the support of the SME supporting institutions network,
- the commercially available financial products cannot, even remotely, address the financial issues, and lastly
- financial instruments need to be implemented to successfully remove said market problems.

Market Failures

The lack of financing of higher education and life-long learning is caused predominantly by an incomplete market and underproduction of merit goods, including elements of exclusion and inequality, limited access to finance, and informational asymmetry.

The insufficient employment rate of persons with insufficient work experience is caused predominantly by positive externalities and transaction costs.

Financial exclusion of disadvantaged groups is caused predominantly by inequality issues, as well as elements of exclusion and inequality, and limited access to finance.

The lack of financing of SE projects and entities, and social services is caused predominantly by an incomplete market and underproduction of merit goods, as well as elements of exclusion and inequality, limited access to finance, and informational asymmetry.

Investment gap

In the context of the market problems of financing higher education and life-long learning, the Assessment identified an investment gap of EUR 1.1 billion.

In the context of the market problems of employment of persons with insufficient work experience, the Assessment identified an investment gap of EUR 325.2 million.

In the context of the market problems of financial exclusion of disadvantaged groups, the Assessment identified an investment gap of EUR 330.5 million.

In the context of the market problems of financing social infrastructure and SE projects and entities, the Assessment identified an investment gap of EUR 44.6 million.

Financial Instruments and Products

Proposed below are financial instruments and products (and the respective allocations) for the identified market problems and market failures:

- 1) loans for financing higher education and life-long learning (EUR 40 mln),
- 2) loans for financing employment of persons with insufficient work experience (EUR 30 mln),
- 3) loans to mitigate financial exclusion (EUR 20 mln),
- 4) loans for financing social infrastructure and SE projects (EUR 10 mln), and
- 5) venture capital fund for financing social infrastructure and SE projects (EUR 10 mln).

Implementation of Financial Instruments

This Ex-ante Assessment proposes a unified management structure through which HAMAG-BICRO as a body that implements the financial instrument would establish a Fund of Funds. This fund and its up to three different financial intermediaries would serve the implementation of the financial instruments/products mentioned above under 1) to 4). The financial product under 5) would be established under the management of one financial intermediary through financing from the Fund of Funds that the Assessment recommends be established by the EIF as a body that implements the financial instrument.

The Assessment established alignment of the proposed financial instruments with other forms of public intervention.