Financial instruments for education and learning

September 2022

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Abbreviations

Abbreviation	Full name
BOV	Bank of Valletta plc.
CPR	Common Provision Regulation
CVT	Continuing vocational training
EC	European Commission
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EIT	European Institute of Innovation and Technology
Erasmus+ SLGF	Erasmus+ Student Loans Guarantee Facility
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ESN	Erasmus Student Network
ESU	European Students' Union
EU	European Union
FI	Financial Instrument
FSMA	Further Studies Made Available
ISCED	International Standard Classification of Education

Abbreviation	Full name
MCGF	Mutual Counter Guarantee Fund
MDB	Malta Development Bank
MGSs	Mutual Guarantee Societies
MQF	Malta Qualifications Framework
MUR	Ministero dell'Università e della Ricerca – Ministry of University and Research
NOP	National Operational Programme
NPB	National Promotional Bank
NPI	National Promotional Institution
OP	Operational Programme
PA	Priority Axis
PPCD	Planning and Priorities Coordination Division
S&E Pilot	Skills and Education Guarantee Pilot
SDGs	Sustainable Development Goals
SLGF	Student Loan Guarantee Facility
SNSI	National Strategy for Intelligent Specialization
SPGM	Sociedade Portuguesa de Garantia Mutua
VET	Vocational Education and Training

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Introduction

Education, training, and vocational training play a key role in providing skills and enable lifelong learning. In the context of the current challenges in the labour market, supporting education and training is instrumental to address skill-mismatch. While everyone should have the opportunity to fully utilise their potential and upgrade their skills in the modern economy, shaped by green and digital transitions, the data shows that only 4 out of 10 adults in the EU take part in lifelong learning.

One of the tools – financial instruments - to address this educational gap is available with the shared management Funds and under InvestEU. Financial instruments can take the form of loans, guarantees and equity investments and serve as a complement to traditional grant financing. ESF co-financed financial instruments are increasingly taken-up by the managing authorities and several practical examples related to education and skills can be observed across the EU.

This document assesses the advantages and the challenges for managing authorities in taking-up such financial instruments and summarises the lessons learned. **The purpose of this exercise is to increase the take-up of financial instruments and encourage its scaling across the EU by learning from experience and best practices.**

To these ends, the paper is structured as follows: The first (1) chapter provides an overview of the EU policies in the education and skills sector. The following two (2&3) chapters analyse the demand and supply of finance for higher education and co-training in the EU which is combined in chapter four (4) to assess the financing gap in these policy areas. Chapter five (5) gathers practical examples of financial instruments in use across the EU. The objectives, design and set-up, implementation, output, and lessons learned are described for each of the analysed instruments.

A comprehensive summary of lessons learned is provided in chapter six (6). It highlights the diversity of the financial instruments under review, in terms of financial products, size of the instruments, size of the individual loans and eligibility scope, final recipients, geographical scope, or leverage/multiplier effect of the EU funding.

Recommendations and options for financial instruments built on the analysis of financing gaps, the stakeholders' consultation and lessons learned from the case studies are given as a conclusion to the research in chapter seven (7), and summarised below. They target managing authorities willing to support education and skills through financial instruments and entities that provide technical assistance and support.

Recommendations:

- Raise awareness on financial instruments which support education and skills;
- Managing authorities should emphasise the importance of tailor-made, broad eligibility criteria and promote partnership cooperation with providers[1] of education and skilling tools and services;
- Managing authorities should consider the combination of innovative financial instruments and grants;
- Consider different or alternative types of financial intermediaries to manage and run financial instruments;
- Managing authorities shall cover the up-skilling and re-skilling needs of firms either within existing public-backed financial instruments for start-ups and SMEs and mid-caps or within newly designed ones.

Options for financial instruments:

- Guarantee and Risk sharing loan schemes;
- Pay-by-result mechanism.

1 Universities, vocational training institutions, other education institutions and E-Learning providers.

1. Overview of the EU policies for education and skills

In July 2020, the European Council agreed to the recovery package to contrast the effects of Covid19 on EU economies and societies. Investing in education, training and the effective use of skills is crucial to support Europe's economic and social recovery and transformation and to reduce a number of challenges Europeans are currently facing[2]:

- **Green and digital transitions** are reshaping the way they live, work and interact and call for a shift in skill sets to reap their full potential;
- **Demographic change** requires Europe to draw on all its talents and diversity and generate new job opportunities in the silver and care economies;
- **The COVID-19 pandemic**, other than negatively impacting job opportunities for many, has made telework and distance learning a reality for millions of people across the EU but, at the same time, revealed the limitations of digital preparedness. The pandemic has also negatively impacted job opportunities for many;
- **Many people cannot find a job** because they do not have the right skills or work in jobs that do not match their talents. Furthermore, only 4 in 10 adults take part in learning. At the same time, 40% of **employers cannot find people** with the right skills to fill their vacancies; and few people have the skill sets and support to see setting up their own business as a realistic route;
- 20% of Europeans struggle with **reading and writing**, and even more have poor numeracy and digital skills.

Moreover, the Covid19 pandemic had substantial impacts on education and training systems in Europe, exposing over 100 million Europeans, part of the education and training community, to new and challenging realities, ways of learning, teaching and communicating. **It has transformed the labour market and the business environment and accelerated the digital transition**. The pandemic has accentuated the **digital skills gap** already existing between and within the Member States. **New inequalities** are emerging as many people do not have the required level of digital skills or are in workplaces or schools lagging behind in digitalisation.

Moreover, the pandemic has also significantly **impacted the career opportunities for many people in the EU**, especially in those sectors experiencing considerable losses in real gross value added and significant increase in unemployment in 2020. **But the crisis could also offer unpredicted opportunities to promote new economic growth trajectories with digital and green transitions.** Together with the wide deployment of artificial intelligence and robotics within the Industry 4.0 in the last decade, these transformations require an unparalleled shift in skills due to new jobs being created and other jobs changing or even disappearing.

Enhancing education and skills is therefore essential to prevent the health crisis from becoming a structural barrier to learning and skills development as well as to employment prospects and earnings. Education and skills are also indispensable to improve equality and inclusion. Member States seek cooperation at EU level in their responses to build resilient and future-looking education systems, setting the foundations of a European Education Area and the European Skills Agenda.

2 https://ec.europa.eu/social/main.jsp?catId=1146&langId=en

1.1. The European Education Area

With COM(2020) 625 Final[3], the EC presented in September 2020 a reinforced approach to ensure the achievement of a European Education Area by 2025.

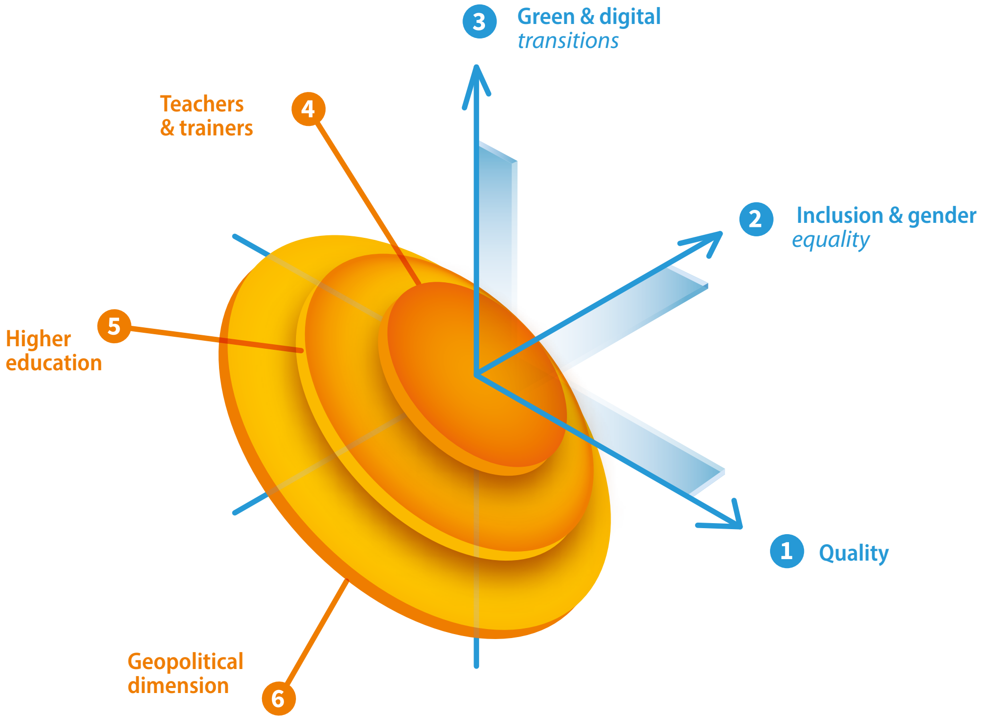
The European Education Area seeks to foster cooperation between Member States to further enrich the quality and inclusiveness of national education and training systems. It aims to develop a holistic approach to EU action in education and training to create a genuine European space of learning, which benefits all learners, teachers, and institutions. The European Education Area ties in with Next Generation EU and the long-term budget of the European Union for 2021-2027.

The EC proposed to consolidate ongoing efforts - as those under the strategic framework for European cooperation in education and training (ET 2020) - and further develop the European Education Area along six dimensions (figure 1):

- **Quality in education and training**: enhance basic and transversal skills; more mobility and cooperation opportunities; support lifelong acquisition of languages competences; develop a European perspective in education;
- **Inclusion and gender equality**: pathways to school success; 50 centres of excellence for Vocational Education and Training (VET); European approach to micro-credentials; gender-sensitive teaching;
- **Green and digital transitions**: Education for Climate Coalition; greening of education infrastructure; education for environmental sustainability; Digital Education Action Plan;
- **Teachers and trainers**: 25 Erasmus+ Teacher Academies; European guidance for national career frameworks; European Innovative Teaching Award;
- **Higher education**: European Universities full roll-out; development of a European Degree; legal status for alliances of universities; Erasmus+ Mobile App;
- **Geopolitical dimension**: Team Europe approach; strengthen cooperation with strategic global partners; expand international dimension of Erasmus+.

3 European Commission (2020), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on achieving the European Education Area by 2025, COM(2020) 625 Final.

Figure 1: The European Education Area dimensions



Source: reproduced from European Commission (2020), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions on achieving the European Education Area by 2025,COM(2020) 625 Final, p.5.

To track progress on education and training, the EC proposes a set of targets to be reached by 2030, coinciding with the Sustainable Development Goals (SDGs) timing. This provides Member States with the time needed for the introduction and implementation of the necessary policy reforms and investments, and for their impact to become visible. These targets should be based on internationally comparable data, based on individual Country aggregates and an EU weighted average, and shall be monitored disaggregated by gender. According to the the Council Resolution of February 2021 on the European Education Area and beyond (2021-2030)[4], the targets are:

- The share of low-achieving 15-year-olds in reading, mathematics and science should be less than 15% by 2030;
- The share of low-achieving eighth-graders in computer and information literacy should be less than 15% by 2030;
- At least 96% of children between 3 years old and the starting age for compulsory primary education should participate in early childhood education and care, by 2030;
- The share of early leavers from education and training should be less than 9%, by 2030;
- The share of 25-34 year-olds with tertiary educational attainment should be at least 45%, by 2030;
- The share of recent graduates from VET benefiting from exposure to work-based learning during their vocational education and training should be at least 60%, by 2025;
- At least 47% of adults aged 25-64 should have participated in learning during the last 12 months, by 2025.

Given the fundamental role of education and training for recovery and building social and economic resilience, the achievement of the European Education Area calls for an increased focus on investment in education. In the Council Resolution of February 2021, it is stressed that

4 Council of the European Union (2021) Council Resolution on a strategic framework for European cooperation in education and training towards the European Education Area and beyond (2021-2030), 2021/C 66/01.

"effective and efficient investment in education and training is a prerequisite for enhancing quality and inclusiveness of the education and training systems and improving the education outcomes, as well as for driving sustainable growth, improving wellbeing and building a more inclusive society". Intensified work on investment is needed to support the recovery from the current crisis and contribute to the green and digital transitions of the education and training sector. The EC, together with Member States, will therefore intensify work on investment, including fostering debate at appropriate high-level political fora, when relevant, such as joint exchanges between EU finance ministers and EU education ministers, as well as with other institutions, such as the EIB and the European Parliament.

1.2. The new European Skills Agenda

The new European Skills Agenda ("The new Skills Agenda") is a five-year plan for individuals and businesses to develop more and better skills[5]. The new Skills Agenda for Europe, launched by the European Commission in July 2020, builds upon the 2016 Skills Agenda[6]. The plan is to partner with all Member States and realise the right to training and lifelong learning, enshrined in its European Pillar of Social Rights[7]. The new Skills Agenda delivers on its first principle stipulating the right to quality and inclusive education, training and lifelong learning. It is also firmly anchored in the **European Green Deal**[8], new **Digital Strategy**[9], and the new **Industrial**[10] **and SME**[11] **Strategies** as skills are key to their success. Moreover, it also supports the proposal for a Council Recommendation on a **Bridge to Jobs – reinforcing the Youth Guarantee**[12]**.** The **New Circular Economy Action Plan**[13] and the **EU Biodiversity Strategy for 2030**[14] also highlight the key role of skills in the transition to a green economy. The Council Recommendation adopted on 24 November 2020[15] defines key principles for ensuring that VET is flexible, adapts swiftly to labour market needs, including changes stemming from the green and digital transitions, and provides quality learning opportunities for young people and adults. It focusses on increasing the flexibility of VET, opportunities for work-based learning and apprenticeships and quality assurance and it establishes Centres of Vocational Excellence (CoVE) to co-create "skills ecosystems" for innovation, regional development and social inclusion.

5 European Commission (2020), European Skills Agenda for Sustainable Competitiveness, Social Fairness and Resilience'.
6 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A New Skills Agenda for Europe - Working together to strengthen human capital, employability and competitiveness, COM/2016/0381 final
7 European Commission (2021) The European Pillar of Social Rights Action Plan.
8 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *The European Green Deal*, COM/2019/640 final.
9 European Commission (2018), Communication to the Commission, *European Commission Digital Strategy - A digitally transformed, user-focused and data-driven Commission*, C(2018) 7118 final.
10 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery*, COM(2021) 350 final.
11 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, An *SME Strategy for a sustainable and digital Europe*, COM(2020) 103 final.
12 European Commission (2020), *Proposal for a Council Recommendation on A Bridge to Jobs - Reinforcing the Youth Guarantee and replacing Council Recommendation of 22 April 2013 on establishing a Youth Guarantee*, COM/2020/277 final.
13 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *A new Circular Economy Action Plan For a cleaner and more competitive Europe*, COM/2020/98 final.
14 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *EU Biodiversity Strategy for 2030 Bringing nature back into our lives*, COM/2020/380 final.
15 Council Recommendation of 24 November 2020 on vocational education and training (VET) for sustainable competitiveness, social fairness and resilience 2020/C 417/01.

The new Skills Agenda aims at:

- **Strengthening sustainable competitiveness**, as set out in the European Green Deal. Skills and lifelong learning are crucial for long-term and sustainable growth, productivity and innovation, for enhancing competitiveness of businesses of all sizes, SMEs in particular, and eliminating the major obstacle identified to business investment;
- **Ensuring social fairness**, putting into practice the first principle of the European Pillar of Social Rights: access to education, training and lifelong learning for everybody, everywhere in the EU. This requires providing equal access to additional up-skilling opportunities for all people including low-qualified/skilled adults. Similarly, all territories should be covered across the whole EU;
- **Building resilience to react to crises**, based on the lessons learnt during the Covid19 pandemic. Having enough skilled workers in strategic sectors - such as health and care professionals, frontline workers in retail, transport, social or sanitation services and teachers and trainers - is crucial to ensure effective access to basic health, social or educational services for citizens in a period of crisis.

The new Skills Agenda includes 12 actions organised around four main building blocks:

- A call to join forces in a collective action, i.e. a **Pact for Skills**, mobilising business, social partners and stakeholders, to commit to working together, in particular within the EU's industrial eco-systems;
- Actions to ensure that people have the right **skills for jobs**;
- Tools and initiatives to support people in their **lifelong learning pathways**, helping people build their skills throughout life in an environment where lifelong learning is the norm;
- A framework to unlock Member States' and private investments in skills in order to identify the **financial means to foster investment in skills**.

The four objectives to be achieved by 2025 are displayed in tables 1 to 4 and figure 2. There are significant differences across EU Member States in four indicators as well as in terms of recent progress toward achieving the objectives. The objectives are detailed below.[16]

Increase the share of adults (aged 25-64) participating in learning (formal or non-formal) during a period of 12 months to 50% in 2025. Compared to other non-EU Countries, Europe falls behind its global competitors. According to the most recent data[17], in fact, less than 40% adults in the EU with some distance to their initial education (aged 25-64) participate in learning over 12 months period (in the US, it is almost 50%). This corresponds to approximately 90 million adults. Around 44%, or 103 million, would do so in 2025 if the same rate of growth as observed between 2011 and 2016 would continue. The scale of the challenge identified is enormous: around 54% of adults in the EU are in jobs at either very high risk or a substantive risk of automation. The objective that in 2025 on average at least 50% of adults should participate in learning corresponds to an estimated 120 million adults participating in learning every year.

16 European Commission (2020), Background note on the Skills Objectives.
17 Eurostat, EU Adult Education Survey.

Table 1: Participation of adults aged 25-64 in learning during the last 12 months (in %)

Current situation (2016)						Objectives for 2025	
EU27 (millions)			EU27 (%)	Three top values	Three bottom values	Target (%)	Increase with respect to total (%)
Total	Male	Female					
90	45	45	38%	59% (SE) 57% (NL) 55% (AT)	6% (RO) 12% (BG) 16% (EL)	50%	+32%

Source: European Commission (2020), 'Background note on the Skills Objectives'.

Increase the share of low-qualified adults aged 25-64, who participate in learning during a period of 12 months to 30% in 2025. According to the most recent data, this is 18% and corresponds to nearly 9 million[18].

In the EU, 52 million adults have a qualification at a lower level than upper secondary school. In some Countries, a third of the working age population has only very low levels of basic literacy and/or numeracy skills. These workers are vulnerable to labour market and the business environment changes and are at risk of social exclusion. Supporting this target group in acquiring additional skills is therefore a priority.

The Skills Agenda defines a 30% participation rate to be the objective by 2025, i.e. an estimated 14 million low qualified individuals participating in learning in 2025. This will require substantially more policy ambition that the Member States have committed to in the 2016 Council Recommendation on Upskilling Pathways[19].

Table 2: Participation of low-qualified adults 25-64 in learning during the last 12 months

Current situation (2016)						Objectives for 2025	
EU27 (millions)			EU27 (%)	Three top values	Three bottom values	Target (%)	Increase with respect to total (%)
Total	Male	Female					
9	n/a	n/a	18%	41% (HU) 40% (SE) 35% (FI)	3% (EL) 5% (PL) 6% (CZ)	30%	+67%

Source: European Commission (2020), 'Background note on the Skills Objectives'.

Increase the share of unemployed adults aged 25-64 with a recent learning experience - defined as a participation in learning during the last 4 weeks - **to 20% in 2025**. Compared to other non-EU Countries, Europe, with 11% in 2019 or 1.2 million individuals[20], falls behind its global competitors (for instance, the US is at 47%, 2012). Without specific action, the situation is expected to improve only slightly by 2025, to reach a participation rate of around 12% (if the growth rate observed over the last 5 years between 2014 and 2019 will remain the same). This would correspond to approximately 1.4 million unemployed adults.

18 Eurostat, EU Adult Education Survey.
19 Council Recommendation of 19 December 2016 on Upskilling Pathways: New Opportunities for Adults (2016/C 484/01).
20 Eurostat, EU Labour Force Survey.

In the EU in 2019, some 12 million adults aged 25-64 were unemployed. The pandemic has led to considerable increase in unemployment. Further education and training can equip jobseekers with the skills to find employment, thus can prevent unemployment from becoming entrenched and long-term. The new Skills Agenda defines a 20% participation rate to be the objective by 2025, i.e. 2.3 million unemployed adults with a recent learning experience.

Table 3: Share of unemployed adults aged 25-64 with a recent learning experience

Current situation (2019)						Objectives for 2025	
EU27 (millions)			EU27 (%)	Three top values	Three bottom values	Target (%)	Increase with respect to total (%)
Total	Male	Female					
1.2	0.5	0.7	11%	46% (SE) 29% (DK) 27% (LU)	1% (SK) 2% (BG) 2% (RO)	20%	+82%

Source: European Commission (2020), 'Background note on the Skills Objectives'.

Increase the share of adults aged 16-74 with at least basic digital skills to 70% in 2025. Currently, 56% of individuals aged between 16 and 74 (184 million people) were reported to have at least basic digital skills[21]. Assuming that the growth rate continues at the same pattern since 2015 (2%), progress would be limited to reaching 59% with at least basic digital skills in 2025.

90% of jobs already require some kind of digital ability, and participation in society increasingly requires basic digital skills. However, in 2019, 44% of the EU27 population aged 16-74 lacked basic digital skills. There is therefore a need for digital skills at all levels including advanced skills for ICT professionals.

The new Skills Agenda objective is that by 2025, 70% of the 16-74 year olds (or 230 million people) should have at least basic digital skills, representing an increase of an estimated 48 million people until 2025.

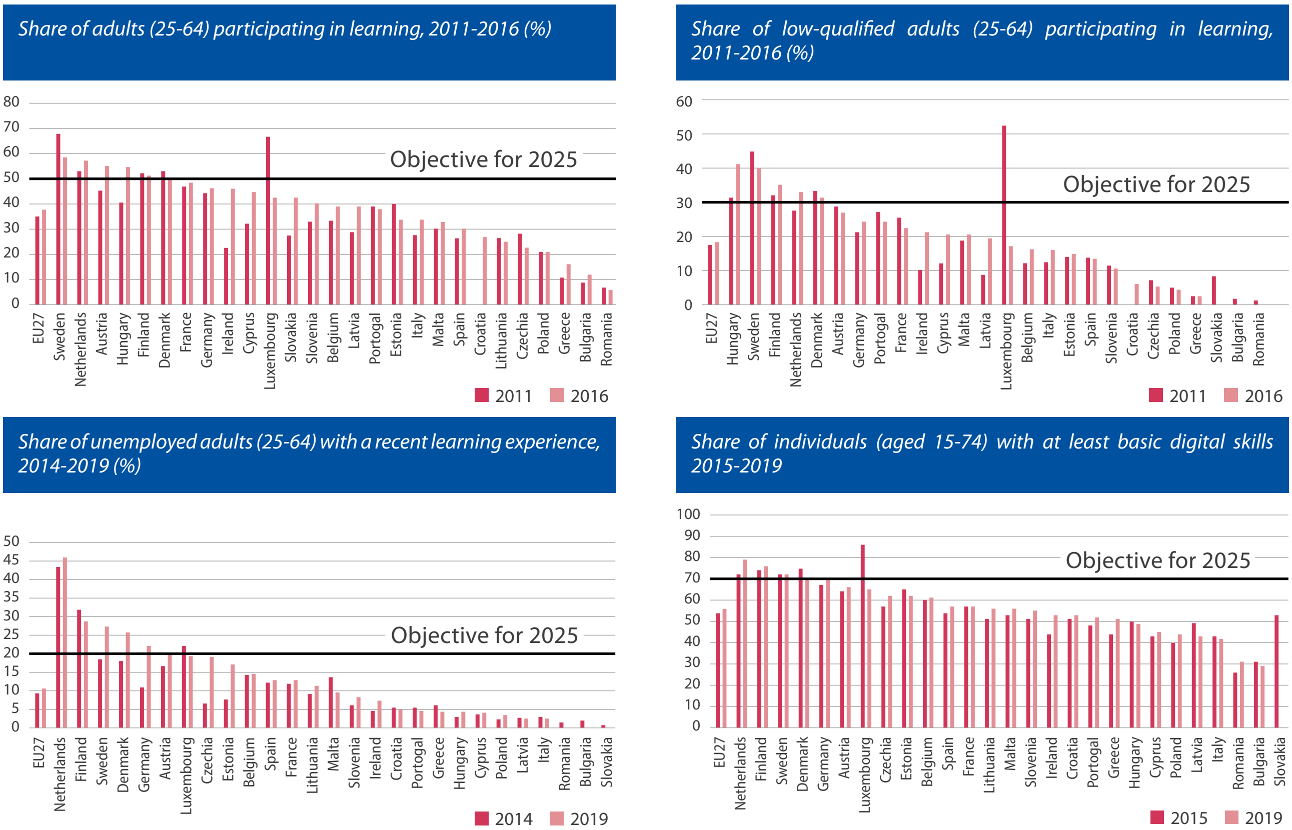
Table 4: Share of adults aged 16-74 having at least basic digital skills

Current situation (2019)						Objectives for 2025	
EU27 (millions)			EU27 (%)	Three top values	Three bottom values	Target (%)	Increase with respect to total (%)
Total	Male	Female					
184	94	90	56%	79% (NL) 76% (FI) 72% (SE)	29% (BG) 31% (RO) 42% (IT)	70%	+25%

Source: European Commission (2020), 'Background note on the Skills Objectives'.

21 Eurostat, EU Community survey on ICT usage in households and by individuals.

Figure 2: Skills Agenda for Europe key objectives: current situation across EU Member States



Source: reproduced from European Commission (2020), 'Background note on the Skills Objectives'.

2. Demand side analysis

This section describes the expenses of students in higher education in the EU and their main components. It also illustrates the provision of continuing vocational training by enterprises as well as their investment in training of employees. These provide insight into efforts by enterprises to develop new or better job-related skills among their employees.

2.1. Higher education

In the EU-27 there were **17.5 million students in the tertiary education system** in 2018, of which 60% were studying for bachelor's degrees and master's degrees attracting another 30%. Short-cycle tertiary education concerned less than 7% of students, with the highest proportion in France and Spain at around 20%. Doctorates accounted for less than 4% of the student population, with Germany having by far the highest number of such students (200 000 students) over twice as much than in any of the other EU-27 Member States.

Acquiring a higher education entails substantial investment and students may need to bear at least part of the costs. These costs do not only entail tuition fees, but also include enrolment, administration, bench fees, examination fees, as well as accommodation, transport and everyday living expenses. Study related and living expenses differ across Countries, as well as across fields of studies, and individual universities (location and rank).

The different components of **students' expenses** show that these **are mainly allocated to living costs and only to a much more limited extent to study related costs**[22]. On average, living costs and study related costs account for 89% and 11% of student total monthly expenses respectively across EUROSTUDENT Countries (see Figure 3). The share of living costs is particularly large – at least 95% – in Finland, Sweden, Denmark, Estonia and Germany and relatively low in the Netherlands and Ireland, where it does not exceed 79%.

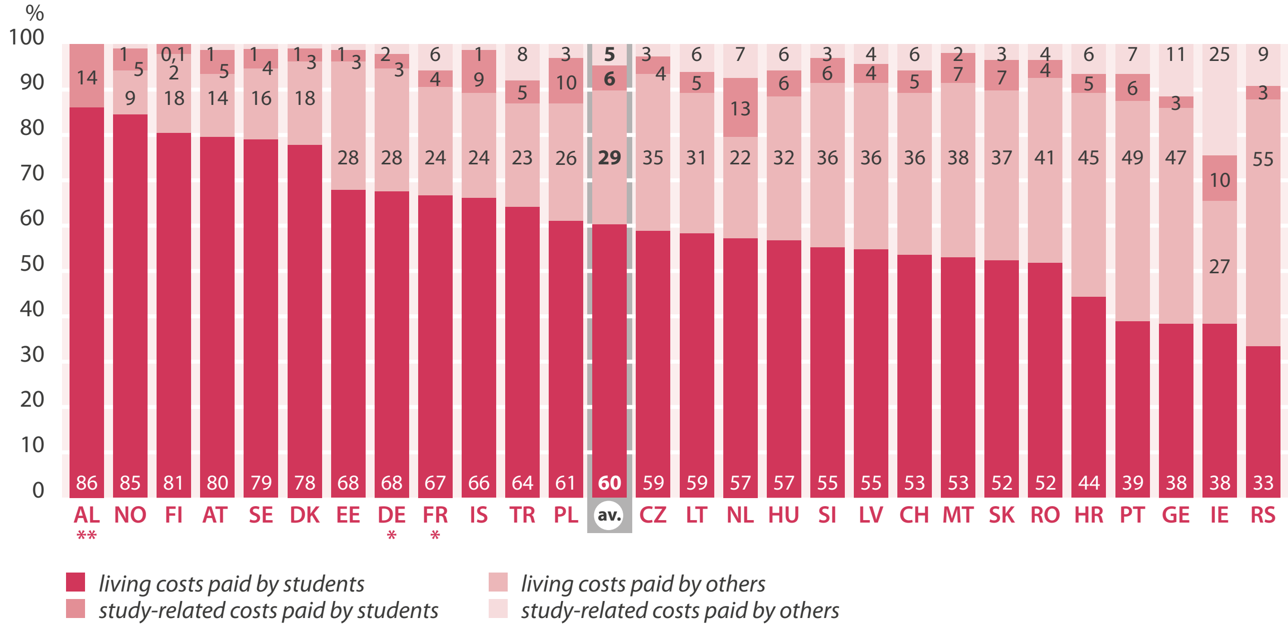
Accommodation and food are the most important expenditure items for students not living with parents, accounting for over 50% of their total expenses. On average, these allocate more than a third of their total monthly expenses to accommodation, with higher amounts spent by students living in capital cities in a large majority of Countries.

Almost 25% of students in EUROSTUDENT Countries **are affected by accommodation cost overburden**, meaning they spend at least 40% of their income on accommodation. The situation is more difficult in Denmark, Finland and Germany (more than a third of all students are overburdened), while being less problematic in Latvia, Lithuania and Malta (up to 10% of all students). On average, the share of students with accommodation cost overburden is especially high among students living alone (36% on average). Accommodation cost overburden affects these students to a larger extent than single person households of the total population (23%).

22 EUROSTUDENT (2018), Social and Economic Conditions of Student Life in Europe, EUROSTUDENT VI 2016-2018 | Synopsis of Indicators. EUROSTUDENT is a network of researchers, data collectors, representatives of national ministries, and other stakeholders who have joined forces to examine the social and economic conditions of student life in higher education systems in Europe. EUROSTUDENT VI indicators are based on survey responses of more than 320,000 students. The EUROSTUDENT target group includes all students who are – at the time of observation (usually: semester) – enrolled in any national study programme regarded to be higher education in a Country. Usually, that corresponds to ISCED levels 5, 6, and 7. There were 28 participating Countries in EUROSTUDENT VI, of which 21 EU Member States, as well as Balkans and Neighbourhood Countries.

Figure 3: Composition of students' expenses by type and payer

Living costs and study-related costs as share of students' total monthly expenses (in %)



***Data source:** EUROSTUDENT VI, F.41 & F.120.* ***No data:** IT; living and study-related costs paid by others: AL.*
***EUROSTUDENT question (s):** 3.4 What are your average expenses for the following items during the current lecture period?*
***Note(s):** Interpretation aid: In Turkey, students' total monthly expenses consist of the following: 64 % living costs paid by students, 23 % living costs paid by students' parents/partner/others, 5 % study-related costs paid by students, and 8 % study- related costs paid by students' parents/partner/ others.*
***Deviations from EUROSTUDENT conventions:** AL, DE, FR.*
***Deviations from EUROSTUDENT standard target group:** AL, DE, IE, IT, LV, RS.*

Source: EUROSTUDENT (2018)

In addition to living costs, students also have to bear study related costs. These are especially high, as a share of students' total expenses, in Ireland (35%) and the Netherlands (20%), while being rather low in Germany, Sweden, Estonia, Denmark and Finland (up to 5%). On average, across EUROSTUDENT Countries, **fees tend to be the largest expenditure among study-related costs** (8%), followed by learning materials (2%). Students' fee-related expenses reflect the different policies adopted in the EU Member States.

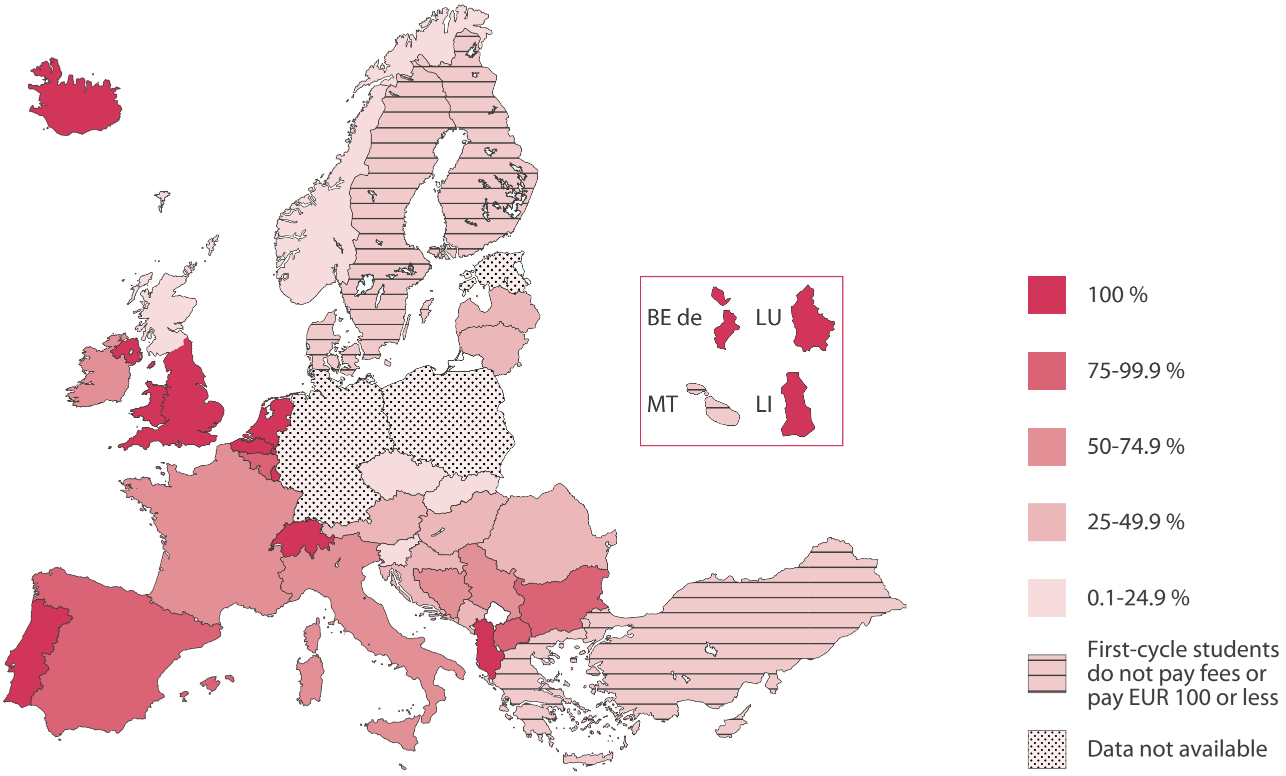
Fee policies in European higher education system

Although in principle, students may be required to bear part of the costs involved in funding higher education studies, the **proportion of fee-payer students differs greatly across European higher education systems**[23] (see Figure 4). In the majority of higher education systems, there are some students who pay fees, while others do not, the exact proportion depending on the specific national policies and existence of private education institutions. However, students pay no fees or, on the opposite, these are paid by all students in several other European Countries. In Countries where only some students pay fees, national systems may require that all students pay fees with exceptions, usually based on socio-economic conditions but also to attract students to certain education programmes. In other systems, only certain categories of students are required to pay, based on, for instance, insufficient academic performance or the specific type of higher education institutions.

23 The analysis refers to first-cycle full-time home students unless otherwise specified.

University fees in Europe vary considerably. In this regard, the majority of higher education systems have most common annual fees that are above EUR 100[24], being **relatively high in Ireland, Spain, Italy, Hungary and the Netherlands** (EUR 1 001- 3 000). Interestingly, the Countries where the most common fees for students are above EUR 100 are also mostly Countries where all or the majority of students pay fees[25].

Figure 4: Share of first-cycle full-time home students paying annual fees above EUR 100, 2019/20[26]



Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures.

Given the amount paid by most students, national systems normally differentiate fees based on various criteria. Among these, the most common imply different fees based on the specific education programmes or fields of study, the type of host institution, whether the programmes are offered in national or foreign language. Fees are also differentiated based on the socio-economic background of students or their educational performance. In the case of need-based differentiation, fee reductions and exemptions usually reach a very small proportion of students. However, in a few education systems - Belgium (French Community), Spain, Ireland, France and Italy - an important share of the students' population is concerned, with between 14% and 40% exempt from paying fees, depending on the education system.

24 These fees apply to most students progressing normally in their studies. Additionally, it should be noted that fees for international students are commonly higher than for nationals.

25 This includes EU Member States: Belgium, Bulgaria, Ireland, Spain, France, Italy, Luxembourg, and the Netherlands.

26 Part-time students are more likely to pay fees than full-timers. Additionally, it should be noted that percentage calculation in some of the systems use partially different methods, for instance in terms of coverage or the reference year. Country-specific notes are not reported here.

2.2. Skills

Continuing vocational education and training is a key component of lifelong learning and employment policies in the European Union (see section 1). It is **undertaken after initial education and training**, or after entry into working life, **for job-related objectives**. Continuing vocational education and training can support adults with obtaining knowledge or learning new skills that can improve their opportunities for career advancement and promotion thus reinforcing their employability. Likewise, by facilitating the adaptation of workers to changing patterns of production and work organisation, it plays a crucial role in a knowledge- and innovation-based economy.

Against this background, the **continuing vocational training (CVT) survey** provides detailed and comprehensive data on what can be considered as the main component of adult education and training. It focuses on the **job-related and employer-sponsored** component of adult education and training, thus adding essential insight to the information on adult education and training participation from the EU labour force survey (see Box 2 for details on the methodology). Interestingly, the CVT survey not only collects information on the provision of training by enterprises but also on any reasons that prevent the delivery of (further) training.

Indicators building on the CVT survey data[27] allow to investigate developments in employer sponsored CVT provision over time and across enterprise size classes, along some key dimensions of analysis:

- **incidence**: enterprises providing any type of CVT as percent of all enterprises surveyed;
- **participation**: participants in CVT courses as percentage of employed persons in all enterprises surveyed;
- **intensity**: number of hours spent in CVT courses per 1 000 hours worked by persons employed in all enterprises surveyed;
- **expenditure**: enterprises' total monetary expenditure on CVT courses as percentage of total labour costs of all enterprises surveyed.

27 See Cedefop (2019), Continuing vocational training in EU enterprises: developments and challenges ahead. Luxembourg: Publications Office. Cedefop research paper; No 73.

CVT survey methodology

Implemented under the coordination of Eurostat, the CVT survey is the reference source for statistical data on CVT in enterprises in the European Union. The survey covers **enterprises with at least ten persons employed**[28], operating across the majority of the private business economy[29]. The CVT survey focuses on a much smaller share of the adult population than the adult education survey and the labour force survey i.e., the other key sources for monitoring progress in adult learning in the European Union. Indeed, while the CVT survey **only covers the employed**, the other two surveys also cover the unemployed and economically inactive persons.

CVT survey data refers to training activities occurred in a given **calendar year** - the latest wave using 2015 as reference period. That is a much longer period than the labour force survey, which focuses on participation to learning by individuals within the previous four weeks.

Within the survey, CVT is defined[30] as the set of training measures or activities which have, as their primary objectives, the acquisition of new competences or the development and improvement of existing ones, and which **must be sponsored at least partly by the enterprises** for their employees. Finance can be direct or indirect e.g., use of paid work time for training or financing of training equipment. Training must be **planned in advance** and must be organised or supported with the special **goal of learning**. Random learning as well as activities of initial vocational training, such as apprenticeships[31], are excluded.

In addition to CVT courses, the survey covers other forms of CVT such as planned training through guided on-the-job training, job rotation, participation (instruction received) in conferences, workshops, trade fairs and lectures, participation in learning or quality circles and self-directed learning.

The costs of CVT courses for enterprises cover **direct costs**, **participants' labour costs** and the **net contribution to collective training funding arrangements**. Importantly the latter variable is calculated as the cost of contributions that enterprises pay to collective funding schemes through government and intermediary organisations minus subsidies and other financial assistance from collective funding schemes, government and other sources.

The CVT survey data makes it possible to calculate the **total monetary expenditure** of enterprises on CVT. This provides a more accurate measure of investment in CVT courses by enterprises, as it only comprises direct costs and the net contribution to training funds.

Based on such analytical framework, the most recent wave of the CVT survey, covering training activities occurred in 2015, shows that:

- almost three of every four enterprises in the European Union[32] provided training (73%) to their staff over a one - calendar - year period;
- four of ten persons employed participated in CVT courses;
- six hours were dedicated to course training out of 1 000 hours worked on average - or about one hour of every 160 hours worked;
- total monetary expenditure for CVT courses was at 0.9% of total labour cost of all enterprises.

28 Those with an apprenticeship or training contract are not considered as persons employed, thus deviating from the definition of persons employed used for structural business statistics.

29 Enterprises in agriculture, forestry and fishing, public administration, education, health and social work, activities of households as well as extra-territorial organisations and bodies - as classified in the statistical classification of economic activities in the European Community (NACE) - are excluded. Neither the adult education survey nor the labour force survey has such sector restrictions.

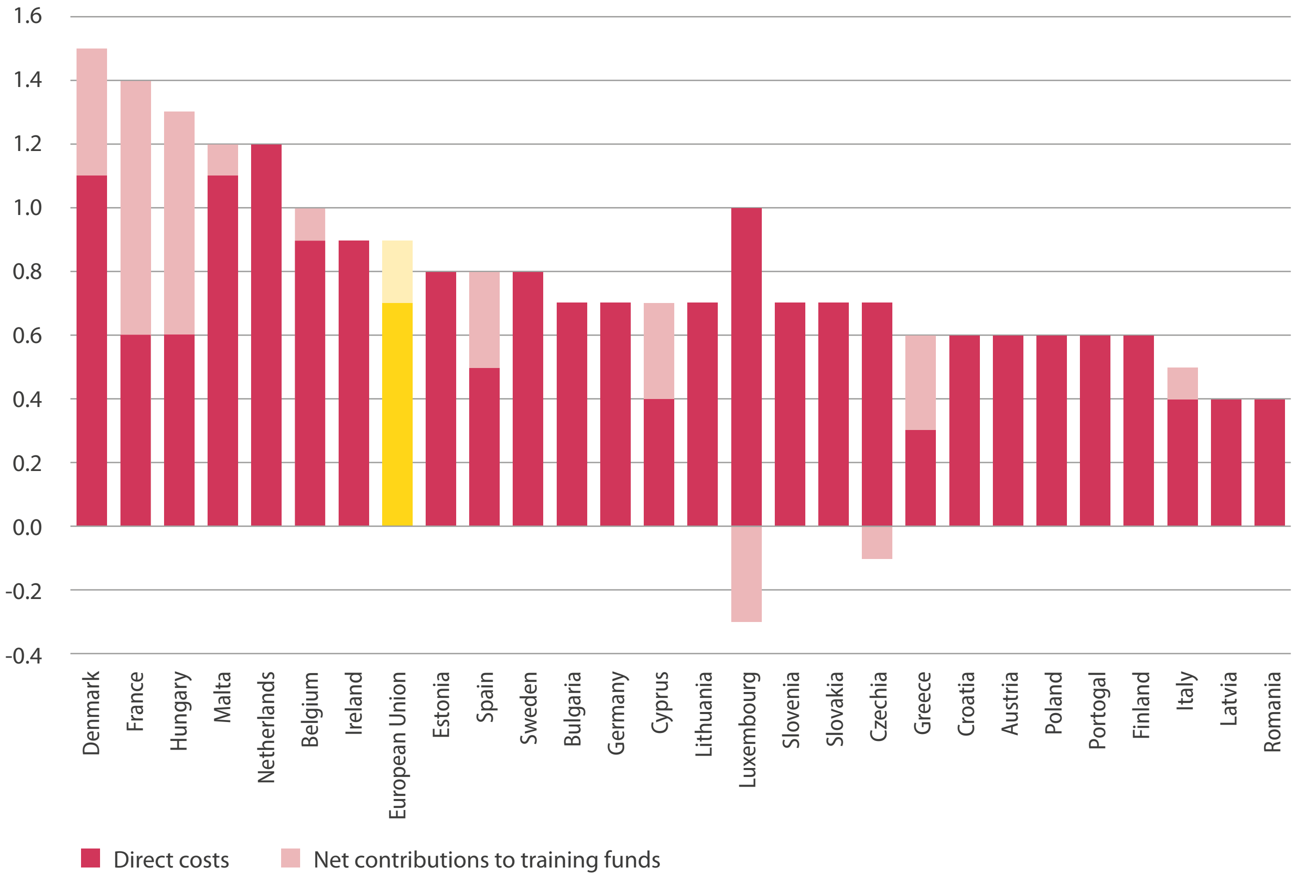
30 Eurostat (2016), CVTS 5 manual – Version 1.2

31 For a recent study describing apprenticeship costs to employers, see Cedefop (2020), Financing apprenticeships in the EU.

32 This refers to the - then - 28 European Union Member States.

Considerable differences can be noted across the EU Member States. In particular, monetary expenditure is not less than 1.2% of total labour costs of all enterprises surveyed in Denmark, France Hungary, Malta and the Netherlands, while at the same time not exceeding 0.5% in Italy, Latvia and Romania.

Figure 5: Total monetary expenditure for CVT in the EU Member States (% of total labour cost of all enterprises)



Source: own elaboration of Eurostat data (trng_cvt_16s)

The CVT survey also identifies **a considerable training gap across enterprise size** and especially between large and small enterprises as at the EU level:

- almost all large enterprises (95%) provided training but only about two of every three small enterprises did so;
- almost half of staff (48%) participated in CVT courses in large enterprises as opposed to only 30% in small enterprises;
- time devoted to training was over seven and four - of 1 000 - hours in large and small enterprises respectively;
- total monetary expenditure on CVT courses was at 1.0% of total labour cost in large enterprise which compares to 0.8% in small enterprises.

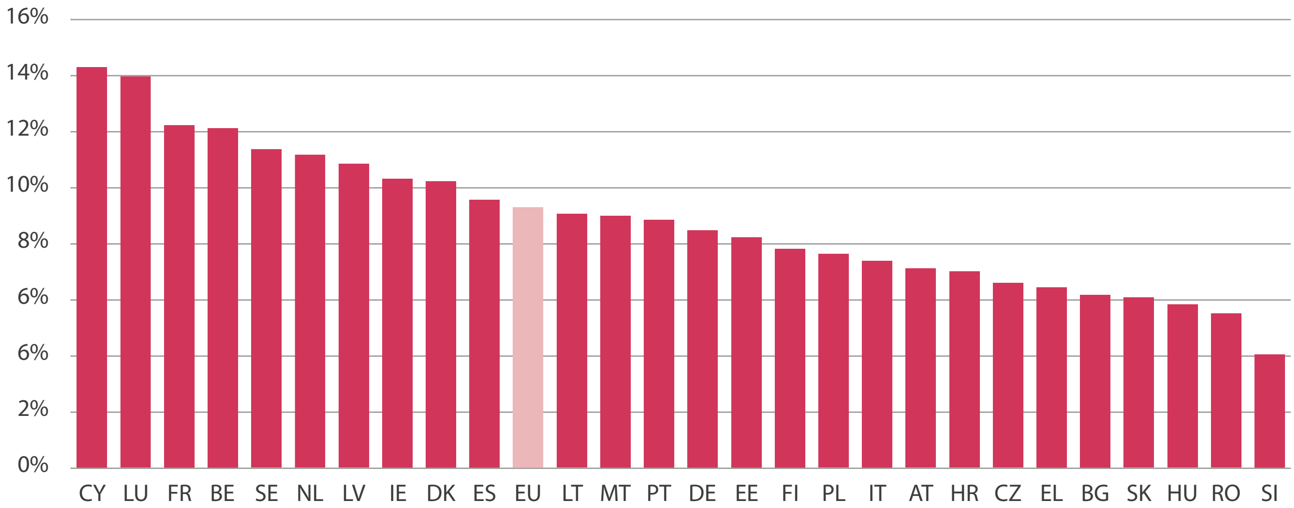
Importantly, **the percentage of enterprises using CVT to pursue job specific skills was by far the highest** when compared to other skills. This reflects a focus of training activities on those skills that are the most difficult to acquire through recruiting. About 20% of enterprises provided training to develop/upgrade ICT skills of their personnel, with large differences across Member States – from less than 10% in Bulgaria and Romania to over 25% in Denmark, Germany, Luxembourg, Slovenia and Sweden.

Furthermore, analysis of the European skills and jobs survey data[33] indicates that **employees in automation-prone jobs are significantly less likely to be provided any type of training on their job**, on- or off-the-job, non-formal or informal[34]. This is particularly worrying, given that progressive automation in the current economic context increases the needs for re-training.

Looking at the share of enterprises investing in training shows that smaller enterprises - 5 to 49 employees - are less likely to invest in training[35]. Likewise, enterprises in the information and technology sector show the lowest propensity to invest in training. Enterprise investment in training also shows substantial differences across Member States, with **West and North European enterprises providing more training** than South European and CESEE enterprises[36]. **A lower share of enterprises invests in training in regions with higher automation risk**, suggesting that fewer opportunities are available for people in the most exposed locations to update their skills. Eventually, this also makes the creation of new jobs necessitating skills complementary to technology less likely[37].

Looking at investment focus[38], **training constitutes a relatively small share of the total investment** by enterprises (9%). There are significant differences across sectors, with the share of investment in training of services and construction enterprises being twice as large as that in manufacturing i.e., 12 and 6% respectively in 2019. Investment in training is also more important for microenterprises (12%) than for large companies (8%). There are as well large differences across EU Member States (see Figure 13), with share of investment spent on training being lower in Central and Eastern Europe[39], reflecting greater focus on tangible assets in this area.

Figure 6: Average share of investment in training across EU Member States



Source: Own elaboration based on EIBIS data

33 See www.cedefop.europa.eu/en/events-and-projects/projects/european-skills-and-jobs-survey-esjs
34 Pouliakas, K., (2018), Automation Risk in the EU Labour Market: a Skill-needs Approach, CEDEFOP.
35 The proportion of enterprises investing in training can be different from the percentage of enterprises providing training based on the CVT survey, for instance due to the latter considering only formal CVT. However, analysis for 2015 has shown that the two variables are broadly comparable. See Brunello, G., Wruuck, P. (2020), Employer provided training in Europe: Determinants and obstacles, EIB Working Paper 2020/03.
36 Brunello, G., Wruuck, P. (2020), Employer provided training in Europe: Determinants and obstacles, EIB Working Paper 2020/03.
37 EIB (2019), EIB Investment Report 2019/2020: Accelerating Europe's transformation.
38 EIB (2020), EIB Group survey on investment and investment finance 2020. This is an employer survey implemented annually from 2016 where EU enterprises report both on their total investment and its composition, including the training of its workforce, and on the presence of barriers to investment, due for instance to business and labour market regulations or to the presence of financial constraints.
39 EIB (2021), Investment report 2020/2021: Building a smart and green Europe in the COVID-19 era.

Enterprises are facing major challenges in the years to come, which implies that **training will be ever more needed for the workforce to acquire the skills required**. Digitisation and automation is already underway as **half of the enterprises** (51%) across the EU report having partially implemented digital technologies. In parallel, 12% have fully implemented their business around such technologies. Employee's training can be expected to benefit from this trend, as enterprises invest in their workforce training for better productivity and adapting their skills to technological change. There is once more a **distinction between investment in the digital by enterprise size and location**. While 50% of SMEs have at least partially invested in technology (52%), the proportion rises to three out of four in the case of large enterprises[40]. This observation also diverges from one European Country to another, with a trend towards investment in digital for Northern and Western Countries more important than for Southern and Eastern European Countries.

In parallel and linked to the **transition to a low-carbon economy**, enterprises have an interest in surrounding themselves with competent employees on the subject. In this respect, **60% of enterprises consider the lack of availability of employees with the right skills as a barrier to the transition**. In this respect, ensuring competent and well-trained employees stands therefore as an essential instrument for meeting future economic requirements.

In the shorter term, the **Covid 19 pandemic caused a drop in investments by enterprises**, which have fallen considerably. Among EU enterprises, 45% reported that the health crisis has had a negative impact on their investments. About a third (35%) of enterprises with investment plans report that they intend to **abandon or reduce their investments**. Some enterprises, **especially manufacturers and SMEs are more affected** and expect to reduce their investments[41]. This evolution may logically affect the provision of training and consequently have a significant impact on the skills of employees as the economy recovers.

Moreover, if the Covid 19 crisis has affected all of Europe, the distribution is unbalanced. Enterprises in Luxembourg, Romania and Ireland in particular are more willing to invest further. On the contrary, enterprises in Croatia, Austria, Malta and the Czech Republic intend to reduce their future investment. Despite its strategic role for enterprises, investments in training could also be reduced where this is not considered a primary concern.

In addition to the current difficulties facing investment, a **lack of skilled staff remains a major barrier to invest in the future**. After the uncertainty about the future, which is considered as the most important barrier to investment (81%), the availability of skilled staff comes as the second most relevant concern, with almost three of every four enterprises reporting it as an obstacle. Difficulties with the availability of skilled workers are **common to all sectors and business sizes** (Figure 7). However, **limited availability of skills is more frequently a concern for enterprises that are exporting and innovating**, thus potentially holding back enterprises that are relatively competitive and more dynamic[42]. Additionally, **knowledge gaps limit the adoption by enterprises of digital solutions**, especially in the case of larger-scale, transformational projects[43].

40 EIB Group survey on investment and investment finance 2020
41 EIB Group survey on investment and investment finance 2020.
42 EIB (2018), Investing in Europe's future: the role of education and skills.
43 See for example EIB (2019), The digitalisation of small and medium-sized enterprises in Portugal: Models for financing digital projects, Summary Report.

Figure 7: Long term barriers to investment by sector and size

	Demand for products/services	Availability of skilled staff	Energy costs	Digital infrastructure	Labour regulations	Business regulations	Transport infrastructure	Availability of finance	Uncertainty about the future
Manufacturing	55	75	61	45	63	65	43	48	85
Construction	41	79	52	40	66	65	37	46	77
Services	49	70	54	42	63	66	39	49	80
Infrastructure	48	73	53	39	62	63	39	48	79
SME	51	76	56	43	62	65	40	50	82
Large	49	71	56	42	63	65	40	46	81

Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Reported shares combine 'minor' and 'major' obstacles into one category

Source: EIB Group survey on investment and investment finance 2020

2.3. Overview of the challenges of the European Green Deal

Responding to challenges from climate change and environmental-related risks is becoming ever more urgent with each passing year. For this reason, the **European Green Deal** has been set out by the European Commission to put the EU economy and society on a more sustainable path[44]. The European Green Deal is a growth strategy to transform the EU into a fair and prosperous society, with a resource-efficient and competitive economy where economic growth is decoupled from resource use. It also aims to preserve the EU's natural capital and protect the health and well-being of EU citizens.

The transition to a green economy inevitably brings about **changes in sectors and occupations and, therefore, in workforce skills and competences**. It inevitably causes job losses in certain sectors (for instance, carbon- and resource-intensive industries), but this is expected to be more than offset by **new job opportunities**. This shift will reshape skill needs for the creation of green jobs to come, but also involves structural changes and a transformation in existing jobs.

Concerning the **energy sector** alone, the impact of a green transition will have important consequences on the world labour market. The 6 million jobs lost will be offset by the creation of **24 million new jobs** by 2030[45]. This will be possible thanks to sustainable practices including, among others, increased use of soft and electric mobility, changes in the energy mix and innovative construction practices. Since the first studies conducted on the subject in 2012 by IRENA, the renewable energy sector has been **growing constantly in terms of job creation worldwide**[46]**.**

44 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal, COM (2019) 640 final.

45 See the study conducted by the World Employment Social Outlook 2018: Greening with jobs.

46 IRENA is the International Renewable Energy Agency, an intergovernmental organization supporting Countries toward the transition in sustainable energy. Considering 2017 and 2018, 700 000 jobs were created in renewable energy sector according to the Annual Review 2019 by IRENA. Whereas 10.3 million workers were employed in 2017, the figure rose to 11 million in 2018 according to Renewable Energy and Jobs – Annual Review 2019 by IRENA.

Focusing on the European Union[47], the sector of sustainable energy creating the majority of jobs is **solid biomass**, with 368 000 jobs in 2019-20. In recent years, biomass has benefited from policy support, but 50% of the jobs in this sector are concentrated in 6 Countries (Germany, France, Spain, Italy, Portugal, and Finland). The **wind energy industry** is the EU's strength in the field of renewable energy[48]. A 2021 IRENA study considers the number of jobs in the wind energy sector to be around 259 500 in the EU. For offshore wind sector, the EU's capacity reached 19 gigawatts between 2016 and 2017. The leaders in the sector are Germany, Denmark and the Netherlands. Concerning the latter, its energy capacity quadrupled in 2016 to reach 700 megawatts, while employment capacity doubled to reach 21 500 jobs. The biofuel sector employed around 200 000 people in 2016.

Concerning the other sectors, they are globally suffering from Asian competition[49], starting with the **solar photovoltaic sector**. In 2019, out of the ten main photovoltaic module manufacturers, seven were Chinese, one Chinese-Canadian, one Korean and one American. China, the leading producer of photovoltaic equipment and largest installation market, accounts some 2.3 million jobs, followed by United States (231 000 jobs) and Japan (220 000 jobs). According to the IRENA study, Europe is estimated at 239 000 in 2020, of which 194 000 are in EU Member States. The EU needs to position itself on the new generation of photovoltaic with innovative and more efficient technologies to regain control on the sector.

Waste management is also a major challenge, but on the other hand potentially also provider of broaden opportunities. In 2020, 48% of household waste generated in the EU is recycled or composted, although management varies widely from Country to Country. Richer Countries have better management but produce more waste per capita[50]. In the North West (Austria, Germany, Belgium, Netherlands, Denmark, Sweden, Finland) incineration and recycling are favoured. In the East and South, however, landfilling, still a very common practice, is as harmful to health as to the environment. In Malta, Greece, Cyprus (much for tourism) and Romania, 80% of waste is landfilled. In Croatia, Latvia, Slovakia and Bulgaria, 60% is landfilled, and in Spain, Hungary, the Czech Republic and Portugal, it concerns more than 50% of the waste. Logically, waste management represents a tremendous opportunity concerning job creation. According to Cedefop's 2021 European Green Deal skills forecast scenario[51], **the European Green Deal will create additional 960 500 jobs in water supply, sewerage, waste management & remediation activities in the EU by 2030**. This employment creation will not only benefit high-skilled occupation, but also skilled and elementary occupations.

European Countries will face new opportunities to meet their commitments to move to a low-carbon economy by creating maximum potential employment. This will require a **massive deployment of measures to equip people with the relevant skills**. This support is necessary to allow a fair and equitable transition between Countries and sectors so as not to create inequalities and delays. In this respect, the reassignment of workers must be facilitated, and decent work must be guaranteed. Moreover, local solutions should be encouraged to respond to the needs of the local population. In order to best support the green transition, professional skills will be required in many areas. The **economic, legal, commercial, administrative and technical sectors**, among others, will be crucial for the future generation of workers. To reduce the environmental impact of their activities and apply the standards in force, traditional companies are increasingly relying on

47 The latest study about the EU dates from 2021, see IRENA Renewable Energy and Jobs – Annual Review 2021.

48 Of the 10 Countries with the largest wind farms, half are European. In 2017, the Countries with the largest wind farms were Germany, France and Belgium.

49 Asian market is still the leader in the sector of the renewable energy. In 2020, it gathers 63% of the total employment of the sector according to IRENA report.

50 To illustrate, the municipal waste generated per person in 2020 ranges from 282 kg in Romania to 845 kg in Denmark.

51 Cedefop (2021). The green employment and skills transformation: insights from a European Green Deal skills forecast scenario.

managers, energy efficiency engineers and carbon assessment experts. However, the skills group with the largest expected employment gain will be the group of skilled occupations, which are those that usually require vocational education and training. The **Council Recommendation on vocational education and training for sustainable competitiveness, social fairness, and resilience** recognises VET's role as a driver for innovation and growth, preparing learners for the digital and green transitions and occupations in high demand. As such, it is essential to support this change through measures that develop the right skills for these new jobs that will be created in response to a new demand.

It is also necessary to pay attention to the **distribution of gender in the professions of the ecological transition**. The transition professions concentrate many technical sectors such as energy or building which are mainly dominated by men. Today, women represent 35% of employees in the energy sector. In the rest of the sectors considered as 'green', the distribution reflects the figures of the labour market in general. While women occupy 46% of administrative positions, they represent only 28% of technical positions and 32% of managerial ones. The challenges to be met in this sector are important, and actions should be encouraged such as **flexibility in the workplace, mentorship and training, support for parenting, fair and transparent processes, equal pay and targets for diversity**. It is therefore important to **integrate a gender perspective into aid policies and the design of programmes**, as the GWNET[52] has recently done in the energy sector by **empowering women** through interdisciplinary networking, advocacy, training, coaching and mentoring, and services related to projects and financing. Encouraging the integration of women in this promising sector would help to solve the lack of integration of women in the general labour market. It is also important to already raise women's awareness about job opportunities in green jobs, as done for example in the *Girls Go Circular Project*[53].

In parallel, the **Green Employment Initiative**[54] has been supported since 2014 by the European Commission in order to support this green transition by leveraging it for job creation. This must be based on secured labour market transactions in addition to **partnership-based initiatives**. These policies should support the **EU Action Plan for the Circular Economy**[55], the **Green Action Plan for SMEs**[56] and the **European Digital Strategy**[57]. As part of a process to strengthen sustainable growth and employment, this integrated approach places the promotion of sustainable employment at the heart of the initiative.

Furthermore, a skilled workforce is crucial to **recover from the COVID 19 crisis and to move towards a green and digital transition**. In terms of financing, funds will be made available through the Green Deal and the Just Transition Mechanism over the 2021-2027 period, particularly to mitigate the socio-economic impact of the transition and leave no one behind.

52 The Global Women's Network for the Energy Transition is a non-profit organization founded to promote equality toward the green transition.

53 The Girls Go Circular Project aims to equip 40 000 schoolgirls aged 14-19 across Europe with digital and entrepreneurial skills by 2027 through an online learning programme about the circular economy.

54 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Green Employment Initiative: Tapping Into The Job Creation Potential Of The Green Economy*, COM(2014) 446 final.

55 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A new Circular Economy Action Plan For a cleaner and more competitive Europe, COM(2020) 98 final.

56 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Green Action Plan For SMEs Enabling SMEs to turn environmental challenges into business opportunities, COM(2014) 0440 final.

57 European Commission (2018), Communication to the Commission, *European Commission Digital Strategy - A digitally transformed, user-focused and data-driven Commission*, COM(2018) 7118 final.

Support should be **prioritised for workers dependent on the fossil fuel value chain**. The **Just Transition Fund** should be strengthened to support the retraining of these workers and a reorientation of companies including start-ups, SMEs and incubators, to create innovative economic opportunities. At the same time, declining sectors will be supported by the **European Social Fund+** to enable a shift towards sustainable growth sectors and adapt to a new economic model. The **Erasmus+** programme is also a lever to be exploited to disseminate adapted training. It is important to encourage learning experiences abroad to raise awareness on new solutions for a sustainable economy. This allows learners to acquire technical and transversal skills that all European Countries will need. In Southern Tuscany, the Green S&C project meets the demand of local businesses for ecological knowledge, providing a good example of such approach.

2.4. Digital Transition for education and learning: key challenges and the new Plan

The pandemic has revealed a number of challenges concerning the digital capacities of education and training institutions, teacher training and overall levels of digital skills and competences. It has led to the amplification of a number of existing challenges and inequalities between those who have access to digital technologies and those who do not, including individuals from disadvantaged backgrounds.

Moreover, it has accelerated an existing trend towards online and hybrid learning. There are new, disruptive models for the provision of education and skills services and innovative ways for students, teachers and educators to organise their teaching and learning activities and to interact in a more personal and flexible manner online.

To better understand challenges and new digital trends, from July to September 2020, the Commission launched an open public consultation[58] to collect views and experiences of all citizens, institutions and organisations from the public and private sectors on the impact of COVID-19 on education and training. This also investigated the related switch to distance and online learning and their vision for the future of digital education in Europe. The public consultation highlighted that:

- almost 60% of respondents had not used distance and online learning before the crisis;
- 95% consider that the COVID-19 pandemic marks a turning point for how technology is used in education and training;
- respondents expressed that online learning resources and content need to be more relevant, interactive and easy-to-use and not depend on the financial resources of a town or municipality;
- over 60% felt that they had improved their digital skills during the crisis, with more than 50% of respondents wanting to build upon them.

The pandemic has therefore demonstrated that having an education and training system which is fit for the digital age is essential. Traditional providers of education and skills, including public universities, vocational training schools, might in fact need to develop on-line applications (apps) and content replacing traditional books and syllabuses. Students will be required to pay a fee and/or an on-line subscription, etc.

58 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12453-Digital-education-action-plan-update-_en

Managing authorities could have an interest in the use of innovative financial instruments supporting those developments. There can be a confluence of interest between authorities, providers of education and skills and developers of apps and context for the provision of affordable services to students and workers in need of up/re-skilling. To support a sustainable and effective adaptation of the education and training systems of EU Member States to the digital age and the new post-pandemic challenges, the Commission launched in September 2020 the Digital Education Action Plan (2021-2027)[59], a renewed policy initiative built on the first Digital Education Action Plan (2018- 2020). The new Plan is based on two priority aeras: 1. Fostering the development of a high-performing digital education ecosystem; and 2. Enhancing digital skills and competences for the digital transformation; and it:

- offers a long-term strategic vision for high-quality, inclusive and accessible European digital education;
- addresses the challenges and opportunities of the COVID-19 pandemic, which has led to the unprecedented use of technology for education and training purposes;
- seeks stronger cooperation at the EU level on digital education and underscores the importance of working together across sectors to bring education into the digital age;
- presents opportunities, including improved quality and quantity of teaching concerning digital technologies, support for the digitalisation of teaching methods and pedagogies and the provision of infrastructure required for inclusive and resilient remote learning.

59 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Digital Education Action Plan 2021-2027 Resetting education and training for the digital age, COM/2020/624 final.

3. Supply side analysis (Public and private financing sources supporting education and skills)

This section describes the income components of students in higher education, including public support and private sector initiatives. It also illustrates the financing instruments that are available to unlock private investments contributing to the achievement of the European Skills Agenda objectives.

3.1. Higher education

3.1.1 Students' income

Student income reflects differences in the composition of their income sources. These typically include family or partner resources, own earnings and public support[60]. **Private resources are by far the most important source of student funding**, accounting for over 80% of their income on average across EUROSTUDENT Countries. Almost half of this comes from students' families or partners and another third from gainful employment. The importance of family or partner resources is further confirmed by the fact that, on average across all Countries, this represents over half of the total monthly income for about four every five students. Consequently, **students who rate their parents as being financially not at all well-off are disproportionately often concerned by serious or very serious financial difficulties**. In about a 25% of Countries, including Georgia, Poland, Hungary, Slovenia, and Croatia, more than 60% of students whose parents seem to be financially not well-off have (very) serious financial problems. The proportion is comparatively less high in Finland, Luxembourg, and Germany, where the share of those students with (very) serious money worries ranges from 17% to 44%.

Besides private sources of income, **public support provides more than a tenth of student income on cross-Country average**[61]. While four in ten students are recipients of public support across the EUROSTUDENT Countries on average, that share ranges widely across EU Member States, from one every ten students in Italy, and nine every ten in Denmark. On average, public support accounts for about 40% of the total monthly income of the recipient students, ranging from 67% in Sweden to 11% in the Czech Republic. In some Countries, both the share of students receiving public support and the income share of this source are below average, including in Lithuania, Slovakia, Croatia and Portugal.

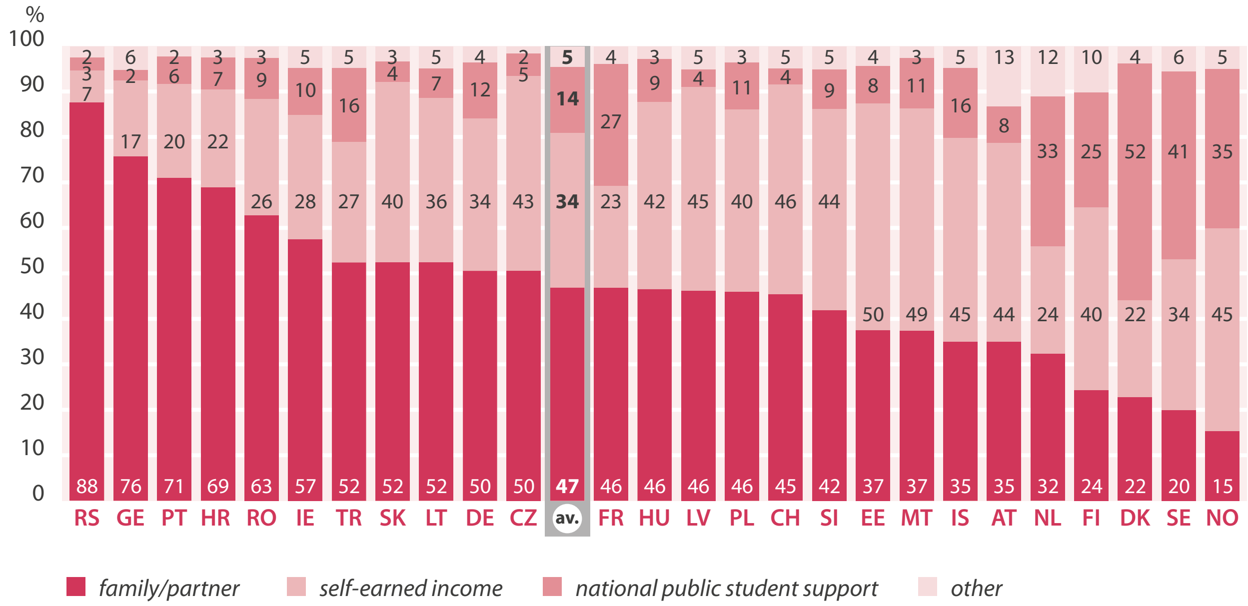
Looking across the different student income sources also reveals wide differences across EUROSTUDENT Countries (Figure 4). While **provisions from the family or partner** are the main source of student income in most Countries, **self-earned income** provides the highest share of income in some others, including in some EU Member States (Slovenia, Estonia, Malta, Austria and Finland). **Public support** provides more than half of students' total income in Denmark and a large part of it also in the Netherlands, Sweden and France.

60 Sometimes employers can also invest in training students and pay for their studies. See Gvetadze, S. (2014), Financing the Mobility of Students in European Higher Education, EIF Research & Market Analysis, Working Paper 2014/21.

61 This does not cover all public contributions to student funding as some public support such as housing benefits are classified by EUROSTUDENT under the category "Other", which makes up a residual 5% of students' monthly income in total. In addition, the student family or partner may have received public support that in turn may be passed on to the students.

Figure 8: Composition of students' funding

Based on total monthly income including transfers in kind. Source of funding (in % marco perspective)



Data source: *EUROSTUDENT VI, G.20b.* ***No data:*** *AL, IT.*
EUROSTUDENT question (s): *3.3 What is the average monthly amount at your disposal from the following sources during the current lecture period?, 3.4 What are your average expenses for the following items during the current lecture period?*
Note (s): *The category "other" includes in this case also income from sources from outside the respective survey country. Transfers in kind are expenses of parents/partner/or others in favour of the students.*
Deviations from EUROSTUDENT conventions: *CH, CZ.*
Deviations from EUROSTUDENT standard target group: *AL, DE, IE, IT, LV, RS.*

Source: EUROSTUDENT (2018)

3.1.2 Students' financial support

Public support is an important tool for national policies to facilitate access to higher education and improve progression and completion rates. Across the EUROSTUDENT Countries, **41% of all students receive national public student support**. Importantly, national public funding includes both non-repayable (typically grants or scholarships) and repayable (*e.g.*, loan) support to help students cover (part of) the expenses for study costs - for instance books and tuition fees - and living costs - such as accommodation, travel, food. Additionally, students can also benefit from other more general public funding which is not specifically designed for them, such as child benefits or housing allowances.

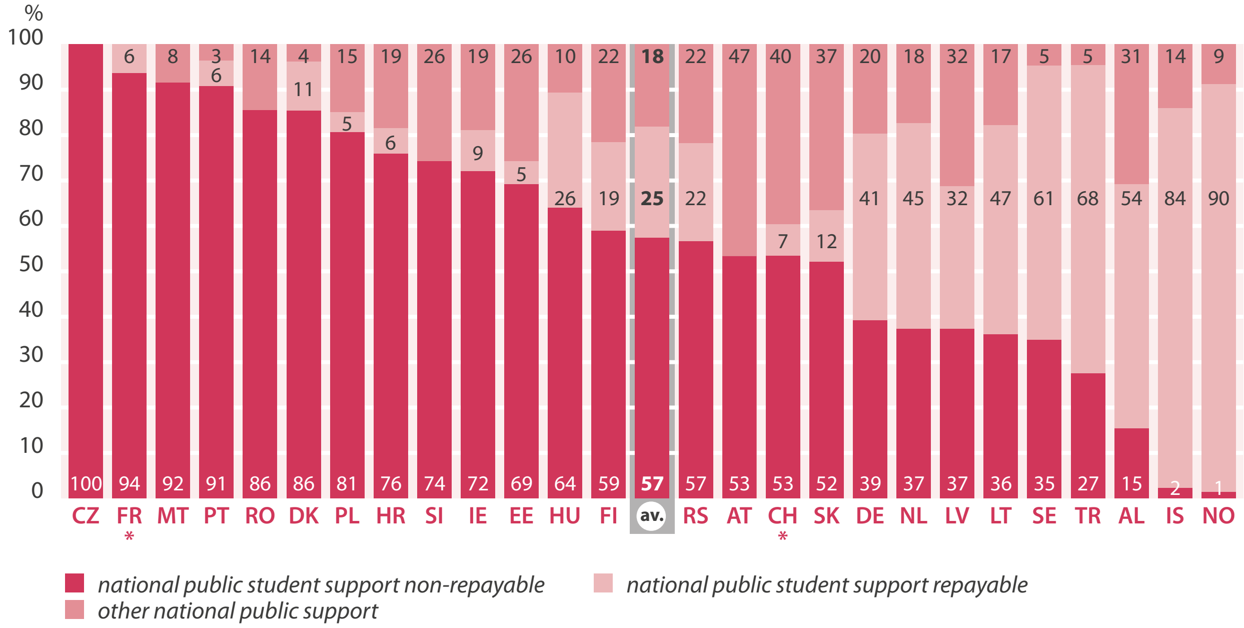
In the case of direct grants, students acquire financial aid from the public budget which does not need to be repaid. On the other hand, loans need to be paid back, often when they graduate or start employment. When the loan is public, the government bears part of the costs, for example, through reduced interest rates (which hence represents a grant-financial instrument combination). This support can take the form of a government guarantee to private financial institutions, where these loans are guaranteed or insured by the government against the risk of default and loss.

Based on this classification, it appears that **in most EUROSTUDENT Countries, over a half of national public funding comes as non-repayable support**. This is by far the most important form of support in many EU Member States and especially in the Czech Republic, France, Malta and Portugal, where it accounts for over 90% of all national public support. On the contrary, public support is mostly repayable in Sweden, as well as providing the highest share of national public support also in Germany, the Netherlands and Lithuania.

More general public support[62] is especially significant in Slovenia, Estonia, Austria, Slovakia and Latvia, where it provides over a fourth of all national funding – and almost a half of that in Austria.

Figure 9: Composition of national public support

Support items as share of all national public support - based on students' average monthly disposable income
Shares (in %, marco perspective)



***Data source:** EUROSTUDENT VI, G.23.* ***No data:** GE, IT.*
***EUROSTUDENT question (s):** 3.3 What is the average monthly amount at your disposal from the following sources during the current lecture period?*
***Note (s):** Interpretation aid: On average, national public support paid to students in Hungary consists of 64 % non-repayable support, 26 % repayable support, and 10 % other national public support. In the Czech Republic, non-repayable national public student support includes housing allowance and child benefit exclusively geared towards students.*
***Deviations from EUROSTUDENT conventions:** CH, FR.*
***Deviations from EUROSTUDENT standard target group:** AL, DE, IE, IT, LV, RS.*

Source: EUROSTUDENT (2018)

A broader picture of EU Member States shows that all higher education systems provide public financial support through **grants** or **loans**[63]. Grant support is provided to students[64] in all the EU while about two thirds provide publicly subsidised loan[65] (Figure 10). While EU Member States generally conceive grants and publicly subsidised loans as separate mans of student support, these are provided in combination in Germany and Luxembourg.

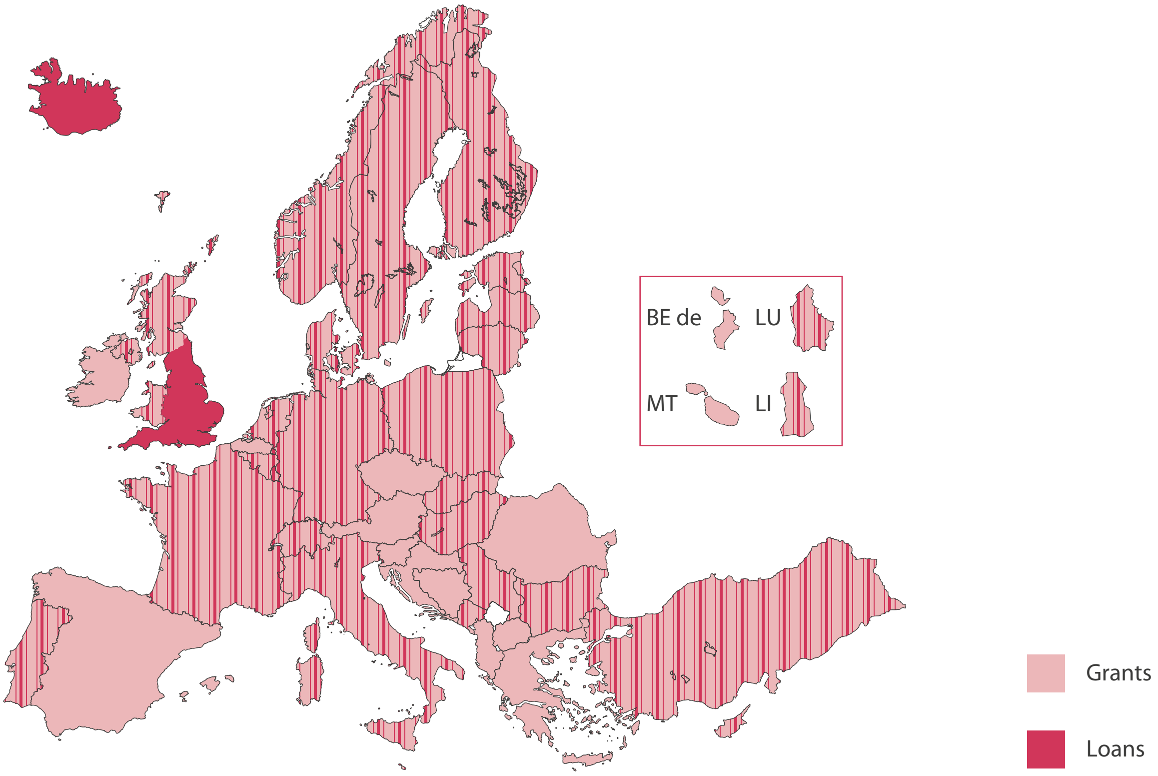
62 This refers to repayable and non-repayable public support that is not specifically designed for students but also available to them, such as child benefits or housing allowances.

63 Public support to students' families through allowances or tax incentives (so called indirect support) is not covered by this section. However, in some Countries such as Czechia, Germany, Hungary, Malta, Austria, Poland and Slovakia, parents can benefit from tax relief/benefits or a family allowance. The amount of tax deduction is linked to the number of dependent children in the household and the students' age. In some instances, this support is linked to the parent's income only, as only lower-income families are eligible to receive tax benefits or will have higher amounts reimbursed to them.

64 Short-, second cycle and part-time students are provided direct financial support to a lesser extent in some higher education systems.

65 This only considers loans guaranteed by the government against the risk of default and loss.

Figure 10: Direct public financial support to first-cycle full-time home students, 2020/21



Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures

3.1.3 Non-repayable public support

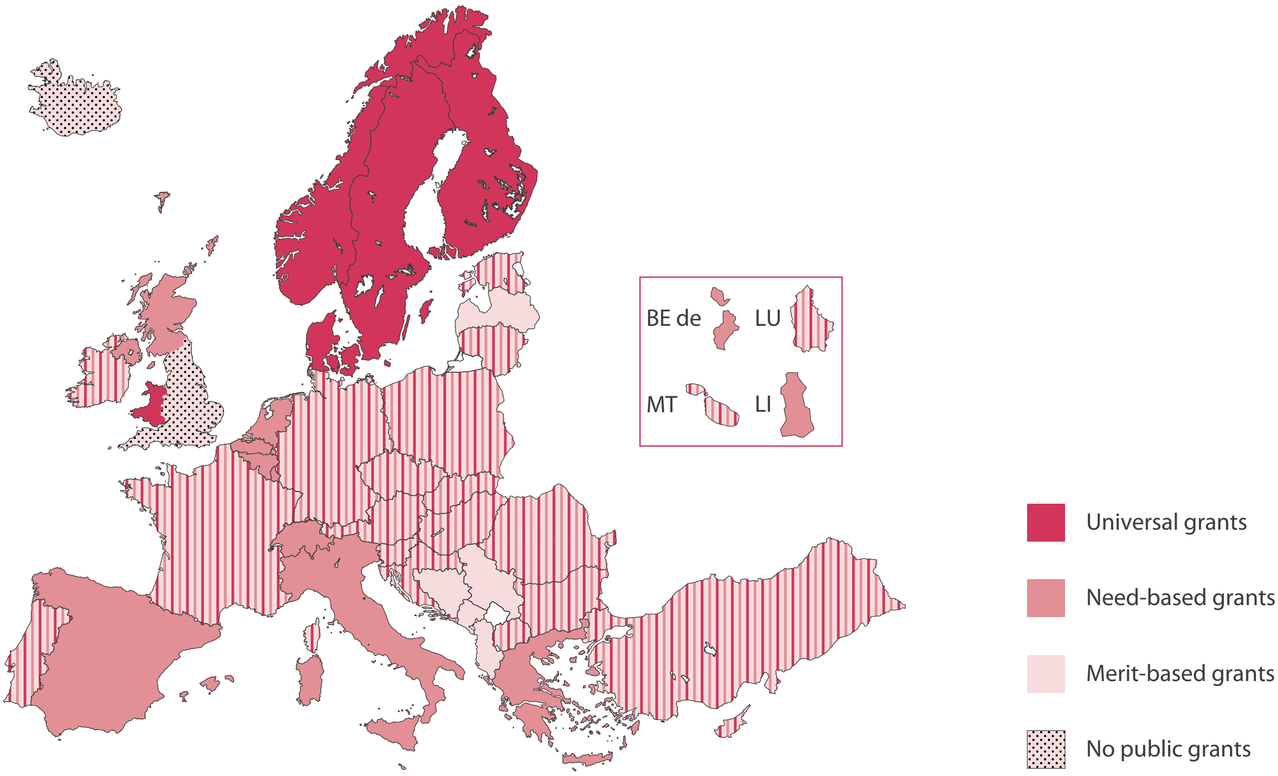
The responsibility for the administration of grants varies across Countries, some do so through government entities, others through intermediate agencies and/or higher education institutions, or a combination of both institutions and government authorities.

In terms of type of grants, while some do not target any specific student category – so called **universal grants** – are provided in a few EU Member States - Denmark, Luxembourg, Malta, Finland, Sweden – **access is generally restricted based on needs**[66] **or merit**. In particular, grants are most commonly provided based on needs[67] in the other Member States, while the two approaches are often combined within individual higher education systems. Besides, grants are sometimes awarded based on other criteria, such as to students enrolling into certain fields of study or programmes *e.g.*, in Bulgaria, Estonia and Hungary.

66 Universal grants also include means-tested components in some Countries.

67 Need-based grant eligibility is typically based on parental income. It should be noted that, while access to this type of grants mainly depends on the socio-economic background of students, sufficient progress in studies is also often required.

Figure 11: Main types of public grants to first-cycle full-time home students, 2020/2021



Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures

As concerns **universal grants**, these are often provided to support students to match them to any available opportunities, and by way of promoting geographic mobility. This may also benefit students who are socio-economically disadvantaged and who may underestimate the net benefits of higher education. This support is promoted **to attract a wider audience from all backgrounds**[68], as it does not just benefit one type of student. This approach is implemented in **Denmark, Luxembourg, Malta, Finland, Sweden and Norway**. An example of the use of this type of grant may be seen in Malta. All short-and-first-cycle full-time students (Maltese/EU/EEA/EFTA) are eligible for a student maintenance grant, the amount depending on the study field, with 'high priority courses' determined by the authorities. In Luxembourg, all students can benefit from a basic grant per academic year, without any conditions. Grants in **Denmark, Finland and Sweden** are in principle also open to all students, but they consider students' financial situation i.e., the grant is not awarded or is reduced if the student has another source of personal income above a specified amount. In these three Countries, the amount of the grant for those who receive it also depends on age, living conditions or completion of a certain number of ECTS[69].

68 OECD (2020), Resourcing Higher Education: Challenges, Choices and Consequences.

69 European Commission/EACEA/Eurydice, 2020. National Student Fee and Support Systems in European Higher Education – 2020/2 1. Eurydice – Facts and Figures. Luxembourg: Publications Office of the European Union.

Grants based on needs typically **target socially or socio-economically disadvantaged students**, who may face difficulties to acquire the financial resources needed to further their education and may be under-represented in higher education. The most frequent criteria for eligibility and allocation is parental income[70]. This can, for instance, be seen in **Austria**, where students receive financial support, mostly in the form of grants or scholarships, from the **Austrian Study Grant Authority**, based on various factors such as income, marital status and commuting distance[71].

Another main type of support provided relies primarily on rewarding academic success, which results in the provision of public grants to the best performing students. These are known as merit-based grants and are available in around half of the education systems across Europe[72]. They may cover both tuition and living costs, or any one of them depending on the Country. Eligibility may be restricted to a specific status, such as a full-time mode of study, or that the students are in their first cycle of studies. It may also be related to the completion of enough ECTS, or the duration of studies. Depending on the support system, there may also be age limits in place. A younger age limit shows that the target market is first time students accessing higher education. Higher or no age limits show that the support system may be aimed towards a more mature student body or that it is designed to promote lifelong learning, including upskilling of a more mature/adult population.

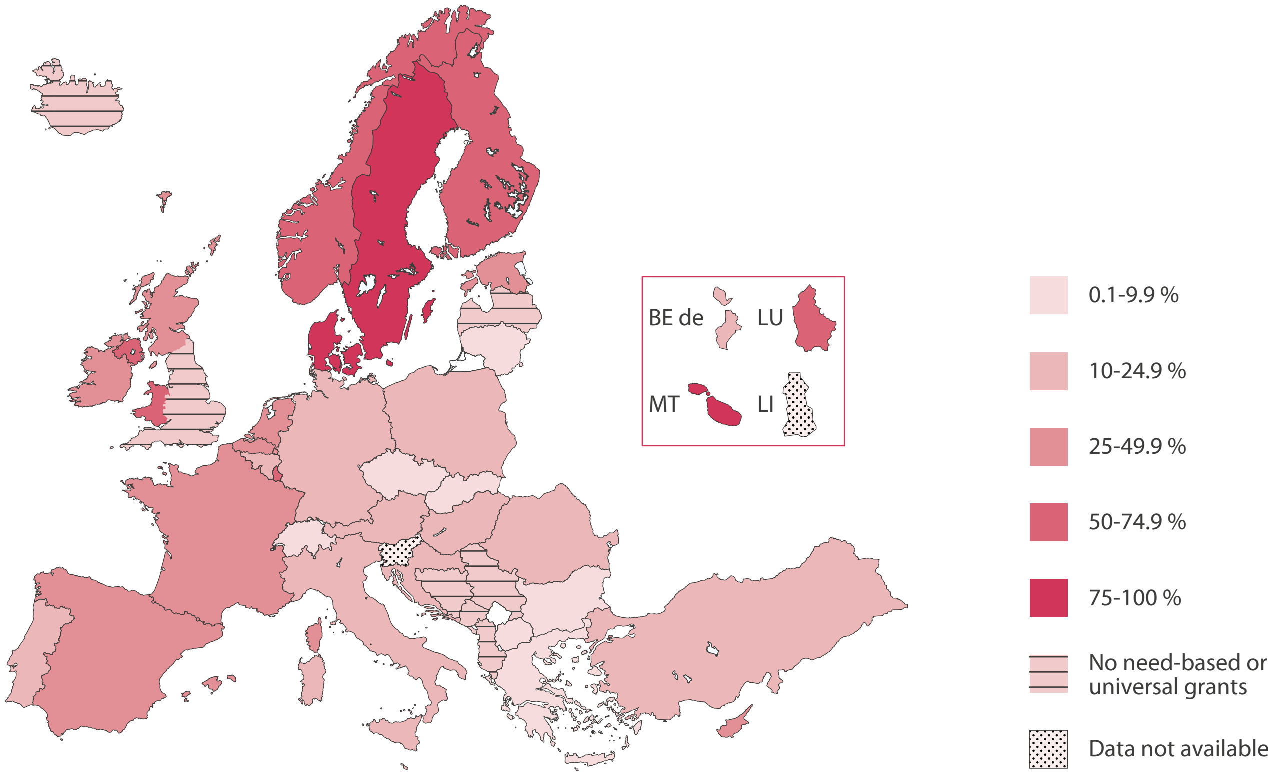
Importantly, also based on the approach used to allocate grants, **the proportion of grant beneficiaries varies widely across national systems** (Figure 12). As can be expected, a high proportion of students is reached under higher education systems providing universal grants - the highest being in Malta (95%), Denmark (92%) and Sweden (88%). While in most higher education systems providing need-based grants, less than 25% of students benefit from this support, the proportion is below 10% in some of them - Bulgaria, Czech Republic, Greece, Lithuania and Slovakia. As concerns merit-based grants, these are also most commonly awarded only to a small proportion of students - less than 10%. However, among EU Member States, a larger share of students is reached in Lithuania, Hungary, Poland and Slovakia.

70 European Commission/EACEA/Eurydice, 2020. National Student Fee and Support Systems in European Higher Education – 2020/2 1. Eurydice – Facts and Figures. Luxembourg: Publications Office of the European Union.

71 Non-Austrian citizens may also qualify for such grants, if they fulfil certain conditions. See Deloitte and EIF (2016), Market Study on the Erasmus+ Master Student Loan Guarantee Facility

72 European Commission/EACEA/Eurydice, 2020. National Student Fee and Support Systems in European Higher Education – 2020/2 1. Eurydice – Facts and Figures. Luxembourg: Publications Office of the European Union.

Figure 12: Percentage of first-cycle full-time home students receiving universal or need-based grants, 2019/20[73]



BE fr	BE de	BE nl	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT
17.2	14.4	36.3	9.2	1.0	92.2	12.3	25.0	41.8	1.0	30.6	34.0	13.3	14.0	28.5	⊗	1.9	63.6	18.7	95.0	31.0	16.0
PL	**PT**	**RO**	**SI**	**SK**	**FI**	**SE**	**UK-ENG**	**UK-WLS**	**UK-NIR**	**UK-SCT**	**AL**	**BA**	**CH**	**IS**	**LI**	**ME**	**MK**	**NO**	**RS**	**TR**	
13.8	21.8	16.3	:	9.3	50.9	88.0	⊗	71.0	53.2	31.9	⊗	⊗	6.7	⊗	:	⊗	3.7	50.2	⊗	21.0	

⊗ No need-based or universal grants

Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures

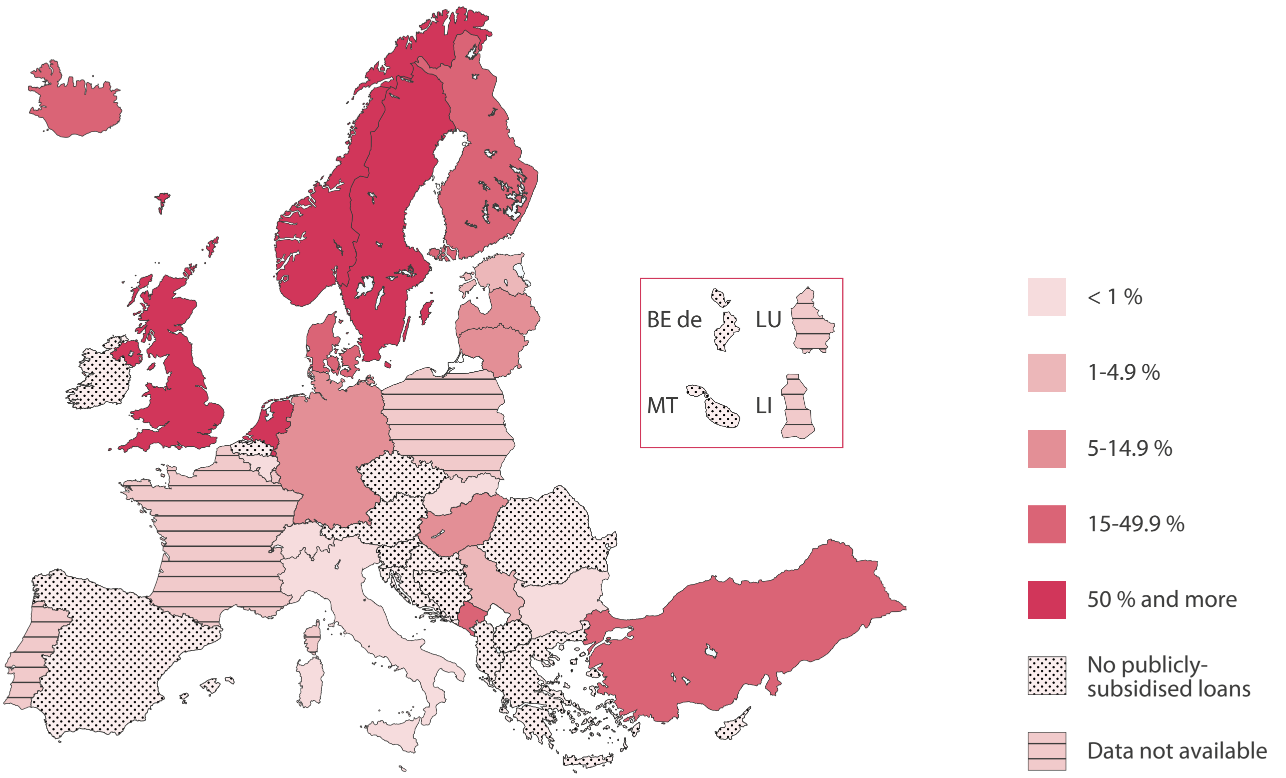
Amounts of students' grants also vary widely across national higher education systems. These are most commonly **below EUR 1 000** in some EU Member States i.e., Belgium (German-speaking community), Bulgaria, Estonia, Hungary, Portugal. The most common annual amount ranges between EUR 1 001 and EUR 3 000 in Belgium (French and Flemish Communities), Czech Republic, Spain, Croatia, Cyprus, Luxembourg, Malta, Poland, Romania, Slovakia, Finland and between EUR 3 001 and EUR 5 000 in Ireland, Greece, Italy, the Netherlands, Sweden. The highest annual grant amount that most students receive is in Denmark, Germany, Austria, all **above EUR 5 000**.

73 If a Country has both universal and need-based grants, universal grants are presented. In addition, percentage calculation includes consideration of Country specificities for some of the higher education systems, which are not reported here.

3.1.4 Repayable support

With regard to **publicly supported loans**, these are **provided in most Countries** to help students pre-finance their study and, sometimes, living costs. However, **the proportion of students covered is typically small** and below 1% in Belgium – French Community, Bulgaria, Italy and Slovakia (Figure 13). Among the EU Member States, the proportion of loan beneficiaries is the highest in Sweden (55%) and the Netherlands (54%).

Figure 13: Percentage of first cycle full-time home students taking out publicly subsidised loans, 2019/20[74]



BE fr	BE de	BE nl	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT
1.0	⊗	⊗	0.3	⊗	19.3	12.3	4.0	⊗	⊗	⊗	:	⊗	0.13	⊗	6.0	6.0	:	5.8	⊗	54.0	⊗
PL	**PT**	**RO**	**SI**	**SK**	**FI**	**SE**	**UK-ENG**	**UK-WLS**	**UK-NIR**	**UK-SCT**	**AL**	**BA**	**CH**	**IS**	**LI**	**ME**	**MK**	**NO**	**RS**	**TR**	
:	:	⊗	⊗	0.9	49.0	55.0	94.0	96.2	94.5	68.8	⊗	⊗	0.8	33.0	:	15.0	⊗	65.5	1.3	21.0	

⊗ No publicly-subsidised loans

Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures

Lending mechanisms (from both the public and private sector) either **alone** or in **combination with grant assistance** help students to pay for fees, living costs or both. The challenge here is for students who do not have any collateral to pay back the financial assistance received and are therefore deemed to be a risk for the lender. The absence of such loan assistance leads to a large-scale underinvestment in education. **Publicly supported loan-based financing** helps achieve an efficient level of investment in human capital. The involvement of **private funding** for students happens mostly through private banks and financial institutions which tend to provide loans and support which is very often also supported in/directly by the government (and as will be seen further below, in various instances, also by the EU through various centralised and national financial instruments).

74 Percentage calculation requires consideration of Country specificities for some of the higher education systems, which are not reported here.

Mortgage-type loan schemes for higher education are widespread in Europe and are also preferred over **income-contingent schemes**. In this case, student loans are very often heavily subsidised by the state with governments usually providing a grace period, a subsidy to compensate for the costs of the loan, and an interest rate subsidy[75].

Through these public and private funding 'loan' models, students typically start repaying their loan after they graduate, acquire a job, and start earning a stable income. In recent years, **private sector loans and support** have also grown in importance in student support systems as the amount of public support available through grants and direct financial support is very often insufficient to meet the increase in student demand and the investment needed in higher education[76].

Aside from the different national authorities and private sector financial institutions, individual websites and portals, students are able to secure additional information on specific financial assistance and other support offered by the private sector across the different EU Member States through EU-sponsored and other search engines and online portals such as **Postgrad**[77], **European Funding Guide**[78] and **Study Portals**[79]. Our desk research has shown that there is no all-encompassing recent report or portal outlining the range of private sector support available to higher education students across the EU i.e., in the same way as the EUROSTUDENT and Eurydice reports outline the supply of public support offered in the different Member States. Support is also given by various organisations, including student bodies, youth groups and professional organisations and interest groups, both at a national and pan-European level. Some of the said organisations are the **Erasmus Student Network** (ESN)[80], the **European Students Union** (ESU)[81], the **European Youth Forum**[82]and the **European University Foundation**[83].

Although there exists no repository/compendium/list of all the support offered to students across the EU, it is pertinent to note some of the Country specific private sector instances of support to students at higher education level across Europe. This emanated from the various interviews and desktop research carried out to prepare this report.

75 LSE (2009): EAC-2009-5253-000-001- Feasibility study on student lending
76 European Commission/EACEA/Eurydice, 2020. National Student Fee and Support Systems in European Higher Education – 2020/2 1. Eurydice – Facts and Figures. Luxembourg: Publications Office of the European Union
77 Funding your Postgraduate Studies | Funding | Postgrad.com
78 Find money for your education among 12,320 scholarships, grants and awards | EFG - European Funding Guide (european-funding-guide.eu)
79 Find Scholarships to Finance Your Study - ScholarshipPortal
80 Erasmus Student Network (esn.org)
81 European Students' Union - Fighting for students' rights since 1982 (esu-online.org)
82 European Youth Forum
83 EUF | European University Foundation (uni-foundation.eu)

To mention some examples, in higher education, **Hungary** has two standard products aimed at higher education which are completely state owned and financed by **the Hungarian Development Bank** and the **EIB**. These are the **Maintenance Loan**, which is a free use loan for anything needed during studies like accommodation, traveling, etc. and the so-called **Fee loan**, which can only be used for University tuition fees. These loans are not disbursed to the individual, but directly to the institution. Temporary COVID-linked loan add-on products giving students access to additional funds (up to EUR 1 500) have also been created. With 98% of students requesting the maximum loan limit, increasing the amounts available is likely.

In France, French or EEA residents are also eligible to obtain a **low interest loan from a commercial bank of up to EUR 15 000** repayable on a delayed basis. These loans are offered by a number of commercial banks with the French State offering a guarantee of 70% of the loan. As a result, no parental guarantees are required. **Credit Agricole** do not participate in the scheme but offer other types of student loan facilities where parental guarantees are required[84].

In Austria a small selection of banks offer student accounts, which students can use to take out loans with **attractive interest rates** and repayment schemes. Public and private loans available require only **limited guarantees** from the borrowers. These lenders generally do not request for collateral and public lenders usually grant loans without the need for a co-signor.

In **Italy,** many private sector student loans are available for students enrolled in Italian universities with commercial banks, typically cooperating with individual universities to offer favourable loan conditions to students. The **most common criteria for loans** are **nationality**, **residence,** and **age**. About one third of the available schemes verify parental or learner income/ assets or any outstanding debts. Some loans are only available to full time students who follow officially approved programmes. **BNL Italia, UBI Banca, UniCredit** and **Intesa San Paolo** all offer **specialised student loans**, where customers can borrow up to EUR 60 000 with favourable repayment methods following graduation, including a grace period of between 2 and 4 years where the loan is frozen and students are not required to commence repayment. Although these loans are attributed on a **merit-basis**, each university determines its own criteria (in conjunction with the banks). This means that these conditions are quite heterogeneous across different Italian Universities. Most loans do not require a certain **academic standard**; however, in **Italy, the Netherlands and Sweden,** some loan assistance do have a merit-based component[85].

3.1.5 Combined support

Publicly and privately supported **combinations of grants and loans/loan guarantees i.e., blended support** are another way of trying to meet the increased demand (and untapped potential) for financial and other assistance. These instruments benefit many European students and open previously unavailable higher education possibilities to them. This has resulted in some innovative financial instruments across the EU, which are **blending public and private sources of financing and support**. This type of blended financial instrument is also being supported by the EU through the ESF.

The EU has declared its objective to increase the use of financial instruments across the EU throughout the new EU funding programming period. Three of these innovative ESF funded instruments in different Member States (**Malta, Italy and Portugal**) have been researched and discussed in various interviews carried out in the preparation of this report. At least one other Country, **Hungary,** has already expressed its intention to roll out similar (combined loan and grant) products for students. It is expected that this interest will increase further as the success of existing schemes to date becomes apparent. The ESF funded financial instruments are:

84 Financial Support for French University Students Bourses CNOUS (french-property.com)
85 Deloitte and EIF: Market Study on the Erasmus+ Master Student Loan Guarantee Facility (2016)

- In **Malta,** the **Further Studies Made Available (FSMA**) scheme, which was launched in 2020, encompasses both grants and loan/ loan guarantee elements in an innovative manner. Through this support, students' reliance on family's finances to finance their education is reduced or eliminated as a result of the scheme's **attractive repayment conditions**. Financial support of up to EUR 100 000 allows students to follow higher education courses in Malta and especially in other Countries which were previously out of the financial reach of a number of students. Since the loan can be repaid after graduating and after starting employment, this scheme is also particularly attractive for socio-economically disadvantaged students;
- **In Italy,** the **Student Support Fund of Funds** provides funding of up to EUR 50 000, interest free and without any personal or third-party guarantee obligation. In addition to covering tuition fees, funding support can also be used to cover other study-related costs[86];
- Through the **Mutual Guarantee Student Loan in Portugal,** students can receive a guaranteed fixed amount per month to cover study and living costs – including tuition, rent, food, transportation, etc. - up to a limit, which may vary from EUR 1 000 to EUR 5 000 per course year. Through this scheme, students will only pay interest on what they received[87].

3.1.6 EU support

Aside from the financing and support offered to improve **pan-European skills** (which is outlined in the next section), and the Country specific financial support instruments (mentioned in **Section 3.1.2**), there are other pan-European EU supported sources of financing and assistance support aimed at supporting students at Master level. In a similar way to nationally funded schemes, this assistance is also provided either through direct grant support, or through a mix of grant and loan support.

As **student loans** are relatively risky because of uncertainty on future graduate incomes or employment status, these EU financed tools aim to **lower the risk for students** as well as for any participating **financial intermediaries,** through the EU guarantee provided by the EIF[88]. Having a publicly-funded guarantor reduces payment default risks on the financial institutions which allocate the loans. EU financed support offered to students include the **Erasmus Mundus Joint Master Degree support programme, the Erasmus+ Master Loan Scheme** and **the EFSI Skills and Education Guarantee Pilot (SEGP) Scheme.**

Currently, students from across the world may apply for support under the **Erasmus Mundus Joint Master Degree**. To be eligible the student must have obtained a first higher education degree or be in the final year of studies and graduate before the Master degree commences. The **Erasmus Mundus Joint Master Degree** are high-level integrated study programmes at Master level, that take place internationally as a result of partnerships formed between higher education institutions from different Countries worldwide. The students are selected based on merit; therefore, students are rewarded **based on academic success**. This scholarship covers programme and travel costs as well as everyday expenses. **Programmes must be between one and two years long** and must take place in at least 2 different Countries (different from the Country of residence)[89].

86 StudioSì – Il futuro parte da qui (studiosiponricerca-mur.it)
87 Mutual Guarantee Student Loan - Millenniumbcp
88 European Commission DG EAC - Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018 (2019)
89 Erasmus Mundus Joint Masters scholarships | Erasmus+ (europa.eu)

Students may also apply for the **Erasmus+ Master Loan Scheme** which is an EU initiative managed and implemented by the EIF, on behalf of DG Education and Culture through the **Student Loan Guarantee Facility** (SLGF), which supports student's access to debt financing guaranteed by the EU. This scheme aims to increase mobility to undertake a Master level course, making it more accessible regardless the socio-economic background of the students. This is done through a publicly guaranteed loan or tuition referral for the whole duration of the course abroad at a higher education institute established in an Erasmus+ Programme Country[90]. The programme aims to be as inclusive as possible and focuses on:

- Equal access – no collateral needed from parents or students;
- Better-than-market terms and conditions - lower loan interest rate compared to market, no repayment during the study period, one-year grace period, one additional year of payment holiday upon request, minimum maturity of loan of six years after the end of the master's degree;
- Graduates having up to two years to find work before beginning repayment.

Prospective students may receive a loan of up to **EUR 12 000 for a 1-year Master** or up to **EUR 18 000 for a 2-year Master**. Students can apply for financing abroad from participating financial institutions and education providers selected by EIF. The EU guarantee can cover 90% of the losses incurred on an individual loan with a cap of 18% on the guaranteed portfolio. The financial intermediary needs to retain in-house at least 10% of the risk linked to an individual transaction[91]. This does not only incentivise students to leverage on such instrument, but also financial intermediaries. Financial intermediaries selected under the Erasmus+ SLGF and offering this support included:

- Nuevo MicroBank (outgoing & incoming students from/to **Spain**);
- Emil Banca Credito Cooperativo (established in the **Emilia Romagna** region in **Italy** - outgoing students from Italy);
- QNB Finansbank (outgoing students from **Turkey**);
- FINS, part of Educativa Group (outgoing students from **Romania**);
- PBZ - Privredna Banka Zagreb (outgoing students from **Croatia**);
- BPCE Sa, part of the BPCE Group (outgoing & incoming students from/to **France**);
- Future Finance Loan Corporation (outgoing & incoming students from/to **Ireland**);
- University of Luxembourg (incoming students into **Luxembourg** only);
- University of Cyprus (incoming students into **the Republic of Cyprus** only).

90 European Commission (DG EAC) Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018 Erasmus+ Master Loan Scheme - Publications Office of the EU (europa.eu)

91 Combined evaluation of Erasmus+ and predecessor programmes: Final Report – Evaluation of the Student Loan Guarantee Facility (Volume 2) (2017) Prepared by ICF for DG EAC, European Commission.

Students from other Programme Countries may apply to study in **Spain** for a Master Degree course. The **University of Luxembourg** and the **University of Cyprus** were providing fee deferral schemes for incoming students from all other Programme Countries to study for a Master at these universities. These universities are offering in-kind services (tuition, housing, etc.) which can be repaid after graduation. For financing **guaranteed** by EU no collateral other than a personal guarantee from the student can be requested. This removes the need for parents to be the financial guarantors, and hence reduces reliance on family income, thereby opening up the course to **students from all backgrounds.**[92,93]

Moreover, a number of EU Member States intend to use the **Recovery and Resilience Facility** to improve access to higher education. Among others, **France** will offer 100 000 students the possibility to benefit from state-guaranteed student loans[94]; **Slovakia**[96] intends to provide scholarships for higher education to domestic and international students; **Spain**[95] also intends to increase scholarships, while also reducing public fees for access to higher education; other Member States plan to increase the stock of affordable student housing, such as in **Cyprus**, **Portugal** and **Romania**[96].

The majority of national loans feature no or very low interest rates. For instance, in the **Finnish national loan scheme,** which is comparable to the design of the SLGF (commercial banks receive a guarantee from the Finnish state, covering the loans they provide to eligible students), the interest rate varies between banks, but usually does not exceed 1% per annum. **Denmark, Hungary** and in certain cases, **Italy,** offer student loans with interest rates around 1% per annum under their national schemes. In contrast, under the SLGF, only the **Caisse d'Epargne in France** has an interest rate of 0.9% per annum. Annual interest rates of other banks currently participating in the SLGF go up to 7.5% in the **UK,** or to 21.27% in **Turkey**.

A feature that sets apart some national student loans from the SLGF is the possibility to partially **convert the loan into a grant, when meeting certain preconditions**. In **Germany** students' debt is capped at EUR 10 000 – the borrowed sum exceeding such amount is awarded as a grant. If a debtor manages to repay the remaining amount shortly after graduation, up to 50% of it can be converted into non-repayable support. Similarly, students in the **Netherlands** have their entire student debt converted into a grant if they finish their studies within 10 years[97].

The latest centralised pan-European financial instrument is **the EFSI Skills and Education Pilot (SEGP), with a budget of EUR 50 million,** supporting students and lifelong learners at large. This initiative targets the expansion of investments in the educational sector, training and skills. The SEGP is managed by the EIF and implemented through selected financial intermediaries, targeting several groups of final recipients with new debt financing (*e.g.* loans, deferral of payments, income sharing agreements, etc.).

92 Erasmus+ Master Degree Loans | Erasmus+ (europa.eu)

93 Erasmus+ Master Loan Guarantee Facility (eif.org)

94 European Commission (2021), Recovery and Resilience Scoreboard - Thematic Analysis - Education, Decembrer 2021.

95 Gobierno de España (2021), Plan de Recuperación, Transformacio y Resiliencia, 16 June 2021.

96 European University Association (2021), NextGenerationEU: What do National Recovery and Resilience Plans hold for universities? - Briefing, October 2021.

97 Combined evaluation of Erasmus+ and predecessor programmes: Final Report – Evaluation of the Student Loan Guarantee Facility (Volume 2) (2017) Prepared by ICF for DG EAC, European Commission.

The **SEGP** is an EU guarantee initiative, supported by **EFSI.** Students and learners from all socio-economic backgrounds can benefit from it without relying on any financial assistance, as repayment schedules are quite long, and interest rates are more favourable when compared to commercial loans. This facility was launched during the COVID-19 pandemic so as to support students during and after the crisis - to make sure that Europe can develop and stay up to date on global technological developments, drive the economy forward and accelerate economic recovery. The guarantee rate of the SEGP is **80%. The cap rate is set at expected loss level and** up to the maximum of at **25%.** The maximum financing amount for students and leaners covered by SEGP is **EUR 30 000** and may be used for tuition fees, living expenses, accommodation fees, transportations expenses, textbooks and other related expenses to an Eligible Educational Programmes (*e.g.* **Bachelor, Master, PhD, Digital skills** trainings etc.). Financial intermediaries are expected to attract more students to benefit and work on closing the skills and education finance gap.[98]

These schemes enable more students to benefit from a **mobility experience** (however, mobility is not a prerequisite to access the SEPG), on the grounds that mobility tends to improve employment career prospects. Students do not need to rely on their families to be their guarantor, therefore students from all backgrounds can apply, benefitting from favourable interest rates and borrowing conditions, compared to commercial loans.

One of the main **impact** findings of previous evaluations of the existing European higher education support schemes was that taking up these EU guaranteed loans and support contributed to **social inclusion and enhanced social mobility,** with graduates having access to better job opportunities, improved employment/career prospects. Indeed, most beneficiaries participating in these evaluation exercises expressed positive expectations of finding employment after their studies, and the follow-up interviews show that the loans provided generally does support young people find employment[99].

3.1.7 Private sector CSR initiatives and scholarships

Another source of direct support emanates from the private sector. In such instances, the private sector is also supportive of higher education programmes by providing support to educational entities and to individual students as part of their CSR and other efforts. To cite just one (international) example, the Santander Bank Group have developed one of the largest scholarships programmes in the world promoted by a private company: Santander Scholarships. In 2020 alone, more than 48 800 Santander Scholarships and 400 different scholarship programmes were given to drive students' digital connectivity, facilitate young people's access to higher education and promote academic mobility nationally and internationally. The bank also has partnerships with various universities in different Countries, to offer scholarships to prospective students[100].

98 Skills & Education Guarantee Pilot (eif.org)
99 European Commission DG EAC - Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018 (2019)
100 Support for higher education | Our approach | Santander Bank

3.2. Skills

To implement the actions promoted by the European Skills Agenda and achieve its objectives requires significant investment in skills. The EU programmes and the Next Generation EU include unprecedented financial resources to support a sustainable recovery and investment in skills.

Table 5: Main EU 2021-2027 programmes/funds for skills

EU programme/Fund		Type of support	Objectives / supported activities (regarding skills)
Direct management	European Globalisation Adjustment Fund (for displaced workers)	Grants + applications through national authorities	Supports national active labour market policy measures in coordinated packages that may include reskilling and upskilling of workers at risk of losing their job due to globalisation.
	Erasmus +	Grants	Supports the educational, professional and personal development of people in the fields of education and training, youth and sport, contributing to sustainable growth, quality jobs and social cohesion, to driving innovation and to strengthening European identity and active citizenship.
	Digital Europe Programme	Procurement, grants and prizes	Supports the development of advanced digital skills in order to design and delivery of high-quality, long-term training and courses, including blended learning, for students and for the workforce, in particular in SMEs and in the public sector; Also supports high-quality on-the-job training and work placements for students, including traineeships, and the workforce, in particular in SMEs and in the public sector, especially with regard to high performance and cloud computing, big data analytics, cybersecurity, distributed ledger technologies, quantum technologies, robotics and artificial intelligence.
Through F.Ints.*	InvestEU	Repayable finance including debt and equity finance	The fund has a social investment and skills policy window, which comprises microfinance, social enterprise finance, social economy and measures to promote, gender equality, skills (demand and supply), education, training and related services.
Shared management	ESF+	Grants, financial instruments	Supports the policies of Member States to ensure equal opportunities, equal access to the labour market, fair and quality working conditions, social protection and inclusion, in particular focussing on quality and inclusive education and training, lifelong learning, investment in children and young people and access to basic services.
	Recovery and Resilience Facility	Grants, financial instruments	Foresees support to promote education and skills, including digital skills, upskilling, reskilling and requalification of the active labour force. The implementation of this support depends on what is programmed on the national recovery and resilience plans.
	REACT-EU	Additional resources	Provides additional resources to support actions financed through the European Social Fund and the European Regional Development fund that are linked to promoting crisis repair in the context of the COVID-19 pandemic and preparing a green, digital and resilient recovery of the economy.

EU programme/Fund		Type of support	Objectives / supported activities (regarding skills)
Shared management	ERDF	Grants, financial instruments	Supports the improvement of equal access to inclusive and quality services in education, training and lifelong learning through developing accessible infrastructure, including by fostering resilience for distance and on-line education and training. Also supports training, life-long learning, reskilling and education activities.
	Just Transition Fund	Grants	Supports activities of upskilling and reskilling of workers and jobseekers. These activities must be directly linked to the objective of enabling regions and people to address the social, employment, economic and environmental impacts of the transition towards the Union's 2030 targets for energy and climate and a climate-neutral economy of the Union by 2050.

**Resources available through financial institutions and intermediaries*

Throughout the 2021-2027 period, several EU tools can be mobilised to help people gain better or new skills. The **European Social Fund Plus**, with a budget of EUR 88 billion, remains a fundamental funding source for national upskilling and reskilling activities. Promoting accurate skills is one of the first tools of the ESF+ to improve access to employment. Also, especially with the contemporary challenges, one priority of the ESF+ remains to boost the adaptability of workers through new skills. In addition, with a budget of EUR 26.2 billion, **Erasmus+** will contribute to skills development and fund some of the actions such as the European Universities, the Centres of Vocational Excellence and the Blueprints for sectoral cooperation on skills. As we have seen in the previous section, Erasmus holds great opportunities to share knowledge and inspire students to get involved in the future challenges. Moreover, Erasmus+ can support a substantial increase in physical and virtual learning mobility across the EU which opens up new learning opportunities that may not be accessible at home.

Horizon Europe will play a key role in the recovery, notably the twin transitions, industry and SMEs, but also by supporting universities, researchers and underpinning brain circulation and mobility. Among others, Horizon Europe will provide over EUR 6 billion for doctoral education and postdoctoral training of researchers under the Marie Skłodowska-Curie Actions.

The new **Digital Europe Programme** will invest in the development of academic offer in digital areas, as well as specialised training opportunities in fields like data, cybersecurity and artificial intelligence, to address the current shortages of these professionals. This constitutes a response to the major emerging challenges of digital and green transitions. The aim is to focus on SMEs to ensure balanced economic and social recovery. The programme is divided into 5 sections (supercomputing, artificial intelligence, cybersecurity, advanced digital skills and ensuring the wide use of digital technologies across the economy and society) with a total budget of EUR 7.5 billion. An estimated EUR 580 million will be devoted to advanced digital skills, as digital mastery is a key issue in the digital transition.

Other resources can directly support up- and reskilling the European workforce. Member States' investments in 'high social impact infrastructure' for education and training, including digital infrastructure, can be further supported by the European Regional Development Fund and by **InvestEU.** This programme, following on the previous successful experience of EFSI, promotes employment, green growth, recovery and well-being across the EU through 4 windows (SMEs, Social Investment and Skills, Research and innovation, sustainable infrastructure). Leveraging the EU financial partners' resources and the crowds in public and private investment, the whole InvestEU (all 4 windows combined) is expected to mobilise a total of EUR 650 billion in investments. The Social Investment and Skills window alone, with a guarantee budget of EUR 4 billion, should mobilise EUR 50 billion to support, amongst others, investments in critical infrastructure in the area of education and training.

In the context of the green transition, the EC identified investment in skills for a green transition as a priority for all 27 Member States in the use of the **Just Transition Fund** and its proposed total budget of EUR 40 billion. This fund is a central lever to support the territories most affected by the transition to carbon neutrality, the goal being to give them **tailored support**. The public sector loan facility, under the **Just Transition Mechanism**, expected to mobilise between EUR 25 and 30 billion, can also invest in skills. This programme aims to accompany localities towards a carbon neutral economy by ensuring social justice. The aim is to reduce the socio-economic impact of the upcoming climate crisis. The ceiling of the **European Globalisation Adjustment Fund** has been proposed to be doubled to support upskilling for workers and the self-employed who are made redundant in mass industrial restructuring. With a total budget of EUR 1.6 billion, the current focus is on workers who have lost their jobs due to the Covid-19 pandemic or the climate transition. Other programmes, such as the **Modernisation Fund** will also fund up- and reskilling programmes to help workers in regions and sectors affected by the green transition. This fund aims to finance programmes exclusively to tackle the climate crisis in the 10 lower-income EU Member States (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia). The fund is intended to help them make the transition by modernising their energy systems and improving their energy efficiency. Over a period from 2021 to 2030, the fund amounts to 643 million.

Moreover, the **Next Generation EU** allocates significant resources as part of a major budgetary initiative to tackle the economic and social consequences of the crisis to support and unlock investment in human capital, promoting gender equality and inclusiveness. Member States are encouraged to use EU financial resources to implement national schemes for the re- and upskilling of the workforce.

Furthermore, **REACT-EU**, financed by Next Generation EU endows cohesion policy funding with EUR 50.6 billion for 2021-27. This funding has evolved dramatically and is now the largest single policy grant instrument in the EU budget. It continues to support the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus and provides leverage for a long-term recovery plan. It is therefore now focusing on recovery from the health crisis and preparing for a future low-carbon economy. This will allow the European Social Fund to direct additional funding towards skilling opportunities accompanying the green and digital transitions.

Moreover, despite the resources specifically for skills investment cannot yet be estimated, the **Recovery and Resilience Facility** provides Member States with ample opportunity to fund upskilling and reskilling initiatives, with the appropriate reforms in place. Powered by EUR 672.5 billion in grants (EUR 312.5 billion) and loans (EUR 360 billion), it provides Member States with ample opportunities to fund up- and reskilling actions. The EC proposal for Country specific recommendations in 2020 focused on the immediate measures to mitigate the socio-economic impact of the pandemic and identified skills, education and training as a short-term priority for 22 Member States. The national recovery and resilience plans that Member States prepared to access funding from this Facility should reflect skills as a priority for the programming. Each recovery and resilience plan should include 37% for climate and 20% for digital transition.

The operations that can be supported with the future EU budget to deliver on the Skills Agenda, including on the Pact for Skills, in particular by making use of the resources of the Next Generation EU, may include:

- Investment in inter-company training centres;
- Full roll-out of upscaled Blueprints for sectoral cooperation on skills at national and regional levels;
- Development and operation of skills forecasting systems, providing information on upskilling and reskilling needs on a national/regional and sectoral level;

- Development and implementation of National Skills Strategies;
- Implementing VET and apprenticeships reforms;
- Direct subsidies for apprentices in SMEs;
- Investments in digital learning equipment and technologies;
- Incentives for the development of digital learning content and core curricula modules in line with labour market needs, focusing on digital and green skills;
- Design and delivery of short courses to reskill workers towards emerging jobs and new skills requirements;
- Design and delivery of master courses to train digital experts in advanced digital skill;
- Regional and local entrepreneurial skills hubs to support start-ups, entrepreneurial employees and innovators;
- Investment in the quality, equity and labour market relevance of education and training systems;
- Investment in community adult learning centres;
- Set-up, experimentation and operation of a scheme to provide individual learning accounts;
- Incentives to support participation in training, *e.g.* study loans/grants for adults, financing of training leaves, training allowances for the unemployed;
- Support training programmes to accompany short-time work schemes protecting employees and self-employed against the risk of unemployment.

EU funds and programmes can act as a catalyst, but investment in skills needs to be financed by other public and private investments. Therefore, the EC intends to carry out a number of actions to support public and private investment in skills and human capital. For this purpose, under the Skills Agenda, **Action 12** is foreseen to i**mprove the enabling framework to unlock Member States' and private investments in skills**. To incentivise investment in skills, the EC will:

- Pursue the question of how fiscal frameworks can contribute to building more resilient societies, supporting reforms and investment in human capital and skills as part of the ongoing public debate initiated by the Commission's review of economic governance;
- Seek to enhance reporting on human capital by large companies, including on the skills development of employees. Furthermore, the EC will also study other ways of increasing transparency of companies' expenditure on human capital, for example by presenting them more visibly in their accounts;
- Work on statistics on public and private investment in adult skills together with national statistical offices, including by developing 'satellite accounts' to improve transparency of reporting on skills in national accounts and budgets;
- Assess innovative financing mechanisms that can trigger additional investments in skills.

Concerning the last point, the proposed enhanced InvestEU foresees the possibility to finance skills and education and training activities, including through social outcome contracting pilots as a way of leveraging private investment for social goals. Together with the EIB Group and other implementing partners, the EC will, therefore, explore the potential of various kinds of social outcome contract schemes, for example, social impact bonds[101], to boost investment in skills.

101 A social impact bond is an innovative financing mechanism in which governments enter into agreements with social service providers, such as social enterprises or non-profit organisations, and with investors that pay for the delivery of pre-defined social outcomes, for example on skills. The objective is to finance social services. In particular those focused on innovative solutions to social challenges or prevention measures. Through this mechanism, the government or an intermediary raises funds from private-sector investors, charities or foundations. These funds are distributed to service providers to cover their operating costs. If the measurable outcomes agreed upfront are achieved, the government proceeds with payments to the intermediary organisation or directly to the investors.

4. Financing gap

4.1. Higher education

Higher education costs related to study and living expenses vary substantially across the EU, as do the socio-economic conditions of the students. In addition, various other factors influence students' willingness and ability to access higher education and progress on their studies[102]. Therefore, a full estimation of the financing gap in the EU would require an in-depth analysis of the situation in each of the Member States, which is beyond the scope of this study. Nonetheless, desk research carried out under this could provide valuable insight on the extent of the financing gap, addressing both young people not in tertiary education as well as students.

In this regard, EU statistical data shows **financial reasons are important for young people not accessing or completing tertiary education**. In the EU, over 1.6 million young people from 15 to 34 years old with medium educational attainment reported they never started tertiary education for financial reasons in 2016, while an additional 200 000 started but never completed tertiary education for the same motivation[103]. Such difficulties with starting or completing tertiary education also imply a loss of potential as people entering the labour market with lower qualifications find it more difficult to find a job[104].

Financial conditions may also have an impact on other educational outcomes. In particular, dependency on self-earned income makes paid work take a larger share of students' time budget[105], so it might be more difficult for these students to find sufficient time to pursue their studies. As more hours are spent on paid work, **lower academic attainments, or a longer time to graduate** become more likely, as identified in the literature[106].

102 See, for example, European Commission (2015), Dropout and Completion in Higher Education in Europe.

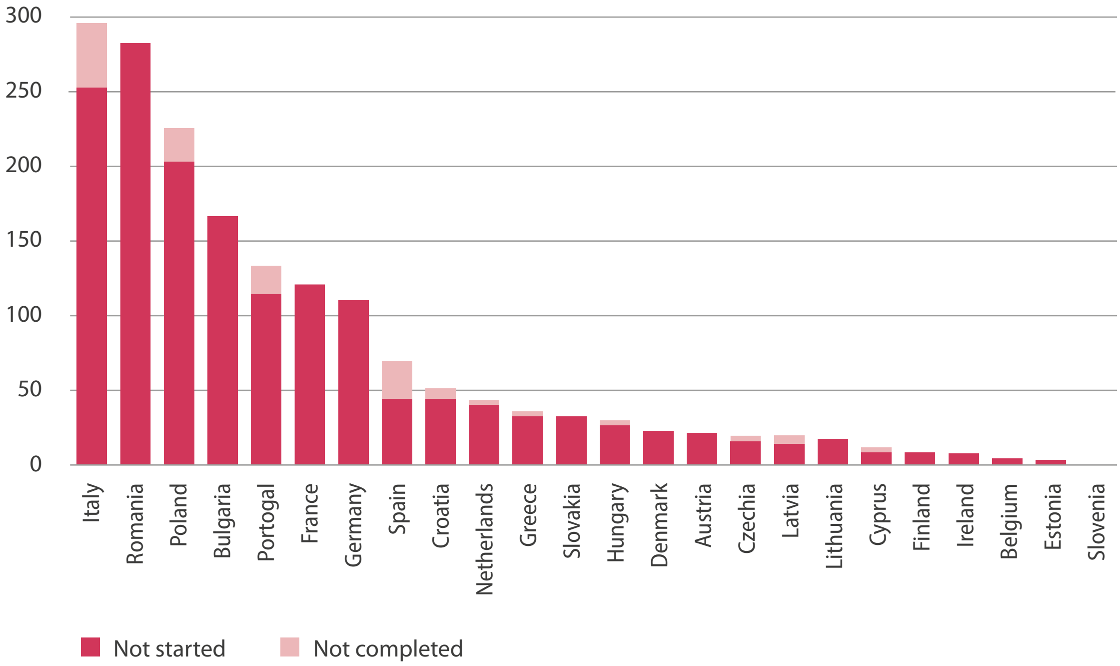
103 EUROSTAT (2016), European Labour Force Survey ad hoc module on young people on the labour market. Figures are based on LFSO_16YMGNEDNS and LFSO_16YMGNEDNC for the 27 EU Member States. Data are not available for Luxembourg, Malta and Sweden. Additionally, data on the population who started but never completed tertiary education has low reliability for a number of Member States.

104 In 2020, unemployment rate in the EU was 5.5% for the population aged 25-64 with upper secondary and post-secondary non-tertiary education (levels 3 and 4) and 4.4% for those with tertiary education (levels 5-8). Lithuania, Greece and Spain reported the largest difference in unemployment rates between the two educational attainment levels (at least 5%).

105 EUROSTUDENT (2018), Social and Economic Conditions of Student Life in Europe, EUROSTUDENT VI 2016-2018 | Synopsis of Indicators. According to EUROSTUDENT methodology, students are considered dependent on self-earned income if this provides over half of their total income.

106 As concerns time to degree see for instance Theune, K. (2015), The working status of students and time to degree at German universities, Higher Education, 70(4), 725-752.

Figure 14: Population with medium educational attainment who did not start or complete tertiary education for financial reasons (2016, thousand persons)



Source: own elaboration based on EUROSTAT

In addition, looking at the students' population in Europe reveals that **financial hardship is not uncommon**. In particular, recent data from EUROSTUDENT[107] Countries[108] suggests that, on average[109], **25% of students was experiencing either serious or very serious financial difficulties** in 2019. Among EU Member States, financial hardship affects a larger proportion of students in Malta (30%), Ireland (29%) and Poland (28%). This also entails an equity issue, as **the majority of students experiencing (very) serious financial difficulties also report that their parents are not at all financially well-off**.

One reason for students' financial difficulties can be insufficient income.[110] In this respect, EUROSTUDENT data confirms that **students with financial difficulties have lower incomes** compared to their peers without financial difficulties in the vast majority of Countries.[111] EUROSTUDENT also finds important differences in student income not only across but also within Countries. Among EU Member States, Portugal, Malta, Lithuania and France all show a quite unbalanced student income distribution.[112] Looking at expenditure, it could be expected that financial difficulties arise mainly from the need to cover living expenses, as these represent by far the most important costs incurred by students. However, fee and support policies adopted in higher in education systems may also play a role, contributing to different needs across the EU Member States (see Box 3).

Looking at students' difficulties over the last decade shows that **financial problems have been reduced in the vast majority of the European Countries**. Financial problems have been reduced especially in Ireland, Norway, Denmark, Croatia, Slovenia and Lithuania. Conversely, the proportion of students with (very) serious financial difficulties has increased in Malta, Germany, the Czech Republic and the Netherlands.

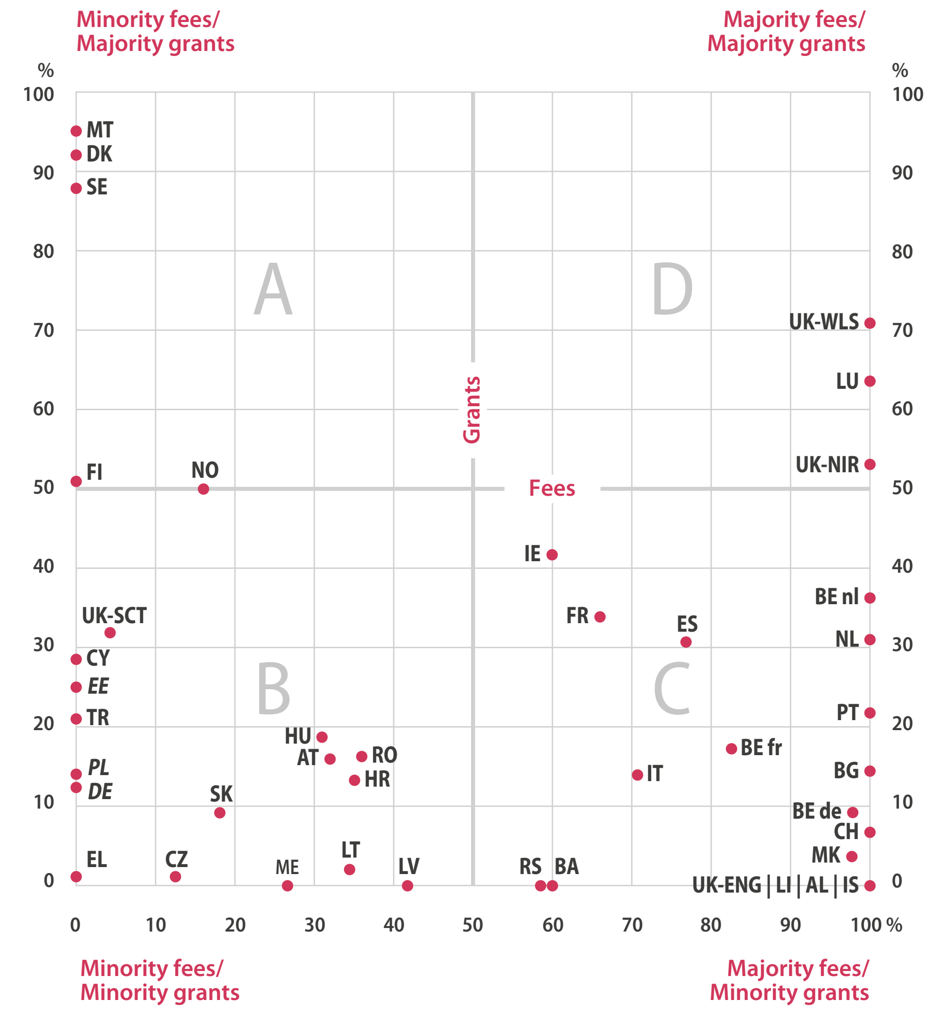
107 EUROSTUDENT (2020), The social dimension of student life in the European Higher Education Area in 2019 – Selected indicators from EUROSTUDENT VII (preliminary data based on national surveys conducted in 2019).
108 The 26 participating Countries include 20 EU Member States.
109 Unweighted means across Countries with available data.
110 For instance, see Belloc, F., Maruotti, A., Petrella, L. (2010), University drop-out: An Italian experience, Higher Education, 60(2), 127-138.
111 EUROSTUDENT (2018), Social and Economic Conditions of Student Life in Europe, EUROSTUDENT VI 2016-2018 | Synopsis of Indicators.
112 Measured as the difference between the 20% of students with the highest and lowest income level and the median income of students in the respective Country.

Fees and public support interaction in European higher education systems

Analysis of the social and economic conditions of student life provides a comprehensive view of students' financial needs and the role of public support in addressing them. This can be complemented by looking at the key features of the higher education fee and public support systems to provide indications on the varying study-related financing needs of students.

In this regard, Figure 15 illustrates the proportion of both fee-payers students as well as students benefiting from public support in the form of grants i.e., the most common form of support.

Figure 15: Percentage of students paying annual fees above EUR 100 and percentage of beneficiaries of grants among first-cycle full-time home students, 2019/20[113]



Countries and values in *italics*: see Country-specific notes

	BE fr	BE de	BE nl	BG	CZ	DK	*DE*	*EE*	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT
Grants	17	14	36	9	1	92	12	25	42	1	31	34	13	14	29	N/A	2	64	19	95	31	16
Fees	83	100	99	93	13	0	*0*	*0*	60	0	77	66	35	71	0	42	34	100	31	0	100	32

	PL	PT	RO	SI	SK	FI	SE	UK-ENG	UK-WLS	UK-NIR	UK-SCT	AL	BA	CH	IS	LI	ME	MK	NO	RS	TR
Grants	14	22	16	:	9	51	88	0	71	53	32	0	0	7	0	:	0	4	50	0	21
Fees	*0*	100	36	9	18	0	0	100	100	100	4	100	60	100	100	100	27	98	16	59	0

Source: European Commission/EACEA/Eurydice. National Student Fee and Support Systems in European Higher Education. Eurydice – Facts and Figures

113 The figure considers only universal and need-based grants. Percentage calculation requires consideration of Country specificities for some of the higher education systems, which are not reported here.

Based on joint consideration of student fee and financial support through universal and need-based grants, different policy approaches can be identified, where under national higher education systems there is[114]:

- **a low share of fee-payers and a high proportion of grant beneficiaries** (quadrant A). This policy approach, used in Denmark, Finland, Sweden and Malta, implies a significant public investment to support student participation in higher education;
- **a low percentage of both fee-payers and grant beneficiaries** (quadrant B). This policy approach can be further differentiated in two separate clusters. The first group includes EU Member States with a low share of or no fee-payers, in Greece, Cyprus, Czech Republic, Slovakia, Germany, Estonia and Poland. Within this group, grant support is provided to a share of the student population ranging from 1% (Czech Republic) to 29% (Cyprus). In the second group, a higher percentage of students - between 30% and 50% - pay fees in a second group of Countries, comprising Croatia, Austria, Latvia, Lithuania, Hungary and Romania, where up to 20% of students are grant beneficiaries;
- **a high share of fee-payers and a low percentage of grant beneficiaries** (quadrant C). Fees are paid either by all or by most students under these higher education systems, where less than a third of students receive a need-based grants in all Countries except Belgium - Flemish Community, Ireland and France;
- **a high percentage of both fee-payers and grant beneficiaries** (quadrant D). Among EU Member States, this policy approach is only used in Luxembourg, where all students pay fees and most receive a basic grant.

In principle, **a higher proportion of students could be expected to be able to cover their study-relates costs** in those higher education systems which are further to the left of a hypothetical straight line connecting the bottom-left and up-right opposite corners - these are to be found in quadrants A and B. However, this can only provide a partial picture as it does not yet consider the fee and grant support amounts involved in each Country, nor the student living costs and the financing provided through loans or other public support.

4.2. Skills

Overall, **20% of enterprises in the EU report not to have invested enough in training**[115]. This includes both enterprises that did not provide training as well as those who perceive they should have invested more. Several motivations contribute to the decision of enterprises in the former group. A key one is that enterprises perceive **their staff qualifications, skills and competences as appropriate given their current needs, in most cases**. In particular, 80% of enterprises indicate this to be a reason for not providing training, with a clear majority even among large enterprises (69%). **Employers also frequently prefer to recruit new workforce** with the required skills rather than training their current staff. This is the case for over half of the enterprises in the EU not providing training and even more common in the large enterprises – 71%. **High workload and a lack of time for staff to participate are other important motivations** not to provide training as well as the importance of **initial vocational training as an alternative** to CVT – about 33% of enterprises and 25% of enterprises, respectively.

114 It should be noted that tax benefits or family allowances paid to students' parents are more common in educations systems where grants are provided to only a minority of students (quadrants B and C).

115 EIB (2018), EIB Investment Report 2018/2019: Retooling Europe's economy - Key findings.

Looking at financial reasons, **high costs of CVT courses also represent a significant obstacle** to the training activities of firms, with about one of four enterprises indicating this as a reason not to provide training[116]. High costs of CVT was a far more serious concern in Lithuania (60% of enterprises reporting it as reason for not doing any training) than in the Czech Republic (10%). Interestingly, specific obstacles such as time and **costs appear even more significant as factors limiting the provision of further training** – these motivations being mentioned by 44% and 34% of training enterprises in the EU, respectively[117].

Economic theory also provides motivations for possible underinvestment in training, as enterprises that bear training costs **have no certainty to enjoy the related benefits**. Impediments to investments which are very often considered include high staff turnover rates, employee poaching, or the threat that the trained worker might take advantage of these acquired skills to leave elsewhere. So-called **hold-up problem** is also cited as an obstacle, as newly trained employees are entitled to claim new conditions and wages after having benefited from the training.

Despite the expected benefits, **financing constraints could also hinder investment in training**, when access to external funding becomes problematic or excessively expensive. While there is a large empirical literature on the effects of financing constraints on investment decisions, these have so far received limited attention in the literature as a potential factor limiting training provision.

Nonetheless, a recent analysis[118] finds that such **financing constraints can reduce training investment by EU enterprises**. Using a representative sample of enterprises operating in the EU, the analysis finds that a 10% increase of financing constraints - as measured by a specifically developed index - reduces investment in training - as share of fixed assets - by 2.9 to 4.5% on average and investment in training per employee by 1.8 to 2.5%.

A related study[119] shows the effect of financing constraints on investment in training is larger among enterprises located in Southern Europe, possibly due to higher reliance on external finance, as well as for firms that are domestically owned rather than subsidiaries of other firms. Importantly, the analysis also concludes that **financing constraints**, while important, **can only partly explain the observed divergences in training investment across EU economies**. Such differences are likely to be driven also by different economic institutions, industrial structure, the extent of innovation activities and the relative supply of skills.

116 A smaller proportion of employers indicate that other factors and obstacles contributed to their decision not to provide training.

117 Other reasons indicated by enterprises not to provide further training show a similar pattern as for those not providing training. However, a considerably lower proportion considers their staff qualifications, skills, and competences as appropriate (52%).

118 Brunello, G., Gereben, A., Weiss, C., Wruuck P. (2020), Financing constraints and employers' investment in training, EIB Economics Department, Working Paper 2020/05. The analysis estimates the effects of a financing constraints index on training investment (as share of fixed assets) for a sample of more than seven thousand firms operating in one of the 28 EU Member States for the period 2015-17. It combines firm-level data on investment in training and self-reported financing constraints drawn from three waves of the EIBIS survey with accounting data from the Bureau van Dijk ORBIS database.

119 Brunello, G., Gereben, Á., Weiss, C., Wruuck, P. (2020), Financing Constraints and Employee Training, Poster Session of the 2nd Bank of Italy Human Capital workshop, 26 October 2020.

5. Financial instruments for education and skills across the EU

This section aims to provide a detailed description of the existing experiences of financial instruments for education and skills operating in the EU. More specifically, 4 case studies have been developed:

- ESF co-financed schemes with a national relevance
  - Guarantee scheme for students – Portugal;
  - MIUR StudioSì – Italy;
  - Further Studies Made Affordable (FSMA) – Malta;
- EU-wide facilities managed by the EIF
  - The Erasmus+ Master Loan Guarantee Facility (centralised instrument) and Skills and Education Guarantee Pilot under EFSI (centralised instrument).

5.1. Guarantee scheme for students – Portugal

5.1.1 Summary

This case study focuses on the Student Loans with Mutual Guarantee in Portugal. The loan scheme supports higher education students in Portugal. Higher education students enrolled in professional superior technical specialisation courses (ISCED 5), undergraduate courses (ISCED 6), master level courses (ISCED 7) and doctoral level courses (ISCED 8) are eligible for the loan (students enrolled in higher education institutions in Lisbon, the region of Algarve, and the islands (Azores and Madeira) are excluded). The main objective of the scheme is to increase access to higher education, targeting those students who are normally excluded from accessing higher education due to their socio-economic status. The loan scheme, therefore, contributes to achieving the EU-level target of 40% of the cohort of 30–34-year-olds in higher education.

The main aim of this case study is to provide an overview of the loan scheme, present the challenges encountered during the design and implementation of the scheme, and draw lessons learnt which could be used in future similar lessons learnt.

The EUR 85 million loan scheme is backed by a guarantee composed of ESF resources (EUR 10 million) and Portuguese national budget (EUR 3.8 million). EUR 70.9 million come from the sources of financial intermediaries. The ESF leverage is estimated at 8.5. The scheme is managed by the Human Capital Operational Programme Portugal and coordinated by Banco Português de Fomento since 2020 (before it was coordinated by "Sociedade Portuguesa de Garantia Mutua (SPGM)"). The scheme started in 2015 and is expected to run until 2023. From the start of the programme till 31 December 2020, the loan scheme has supported 1 193 students.

There have been several challenges encountered in the design and implementation of the loan scheme, namely:

- Absence of legislation at a national and international level applicable to this type of financial instrument;
- Few national or international benchmarks;
- Most financial instruments supported from the ESF target microenterprises and/or SMEs;
- Difficulties to find appropriate intermediaries at national level due to the loan scheme being perceived as risky by financial intermediaries;
- Geographical availability of the loans;

Although some of them, such as the absence of an appropriate legislative framework, have been successfully overcome, others remain to be addressed, particularly the difficulty in finding the appropriate number of financial intermediaries. The case study, therefore, offers several lessons learnt for the future.

Student Loans with Mutual Guarantee in Portugal

THE FINANCIAL INSTRUMENT

Funding source
Human Capital Operational Programme Portugal (ESF and Portuguese national budget)

Type of financial products
Loan with mutual guarantee

Financial size
EUR 10.3 million from ESF and EUR 3.8 million from national public sources (EUR 14.1 million in total) levering to EUR 85 million

Thematic focus
Higher education

Geographical focus
Portugal. Students enrolled in higher education institutions in Lisbon, the region of Algarve, and the islands (Azores and Madeira) are excluded

Timing
From 2015 – ongoing (planned until 2023)

Partners involved
The Human Capital Operational Programme of Portugal, acting as the managing authority
Banco Português de Fomento, acting as the coordination body for financial intermediaries
Caixa General de Depositos, Millenium bcp and EuroBic as financial intermediaries

ACHIEVEMENTS

Absorption rate
Not known

EU leverage
8.5 times

Main achievements (so far)
Since the start of the programme until 31 December 2020, the loan scheme has supported 1 193 students

5.1.2 Objectives

The financial instrument is implemented in Portugal with the objective of creating greater access to higher education levels, particularly for those excluded due to their socio-economic status. Practically all higher education students in Portugal pay tuition fees, whose amounts are fixed by higher education institutions within limits determined at the national level (EUR 495 - 697 per academic year) for Bachelor study programmes. For tuition fees on Master study programmes, there are no national-level limits in place, and the fees are in full discretion of higher education institutions[120]. Accommodation, food and transportation costs naturally differ across Portugal. However, student halls generally cost between EUR 150 and EUR 250 per month, a studio/one bedroom flat costs between EUR 200 and EUR 800 per month, shared accommodation between EUR 100 and EUR 550 per month, food between EUR 150 and EUR 200 per month and EUR 25 is spent on a monthly average for a season public transport ticket[121].

120 Eurydice (2021) National Student Fee and Support Systems in European Higher Education 2020/21.
121 Dana Vioreanu (2021) Tuition Fees and Living Costs for International Students in Portugal.

Providing finance for diploma and post-diploma levels was expected to increase access to higher education, resulting in an increase in the employment level. As such, the instrument, therefore, aims to guarantee that students without financial means can still have access to higher education.

The current financial instrument is a follow-up on a similar model of loans successfully operating between 2007 and 2012. In 2014, a public debate started about the need to increase access to higher education in Portugal. This led to discussions about a new student loan scheme, with a similar criteria as before, because many students do not have the necessary financial means to access higher education in Portugal. A loan scheme was deemed important and complimentary to grants, which are considered to have very restricted rules. This financial instrument, therefore, came to fulfil a market gap.

The private banking sector in Portugal also provides financial instruments to students. However, these do not have guarantees from the state: therefore the commercial banks demand personal and parental guarantees, which makes it more difficult for students from unfavourable socio-economic background to apply for loans. Furthermore, loans offered by commercial banks generally come with higher interest rates.

5.1.3 Design and set up

The financial instrument builds on a similar predecessor scheme. Yet, the managing authority came across a number of challenges during the setup of the scheme, the absence of legislation at a national and international level applicable to this type of financial instrument being probably the most significant. Each euro invested from ESF/Portuguese national budget is converted into six euros of financing available to target beneficiaries.

Preceding events

For the ex-ante assessment, the office of the Human Capital Operational Programme of Portugal, acting as the managing authority for this financial instrument, updated an ex-ante assessment for the previous student loan scheme, and no bespoke ex-ante assessment was conducted for this financial instrument. They, therefore, built on the Ex-ante Evaluation of Financial Instruments for Innovation and Social Entrepreneurship, for Micro Entrepreneurship and the Creation of Own Employment and for Loans to Higher Education Students (Lot 2) conducted in 2015. This was then submitted to the Agency for Development and Cohesion for approval. It was difficult to assess the financial instrument by comparative means because no similar programme was in place at that time. By the end of 2015, the ex-ante assessment had been completed.

Funding and governance

The table below provides an overview of the funding sources. Each euro invested from ESF/ Portuguese national budget is converted into six euros of financing available to target beneficiaries (EUR 8.5 if only ESF funding is considered).

Table 6: Funding sources overview

Funding sources	
ESF	EUR 10.3 million
Public national (Portuguese state budget + Foundation for Science and Technology)	EUR 3.8 million
Private sources	EUR 70.9 million
Total	**EUR 85 million**

Communication and awareness

The managing authority launched a communication campaign at the beginning of the instrument implementation. In 2019, it organised a series of events for higher education students where the instrument was presented. As the interviewees believed, face-to-face events targeting students directly were very effective in boosting applications.

However, the managing authority is aware of several cases where students who applied for a loan through this instrument did not realise that they will still need to pay it back, and who believed that the state would pay the loan if students decided not to. This suggests that there are still some gaps in financial literacy and in understanding implications of borrowing money.

5.1.4 Implementation

At first, the managing authority considered an injection of capital directly into a student loan fund, but in the end they opted for a counter-guarantee scheme, with financial intermediaries monitoring the process. The third and final step was to decide which entity would coordinate the process.

The managing authority followed the legal framework and signed a contract with "Sociedade Portuguesa de Garantia Mutua (SPGM)" so that SPGM became the implementing body in October 2018, later replaced by Banco Português de Fomento, in 2020. This meant that a competitive process of selecting an implementing body was avoided. The whole process took almost two years. Table below provides an overview of the timeline leading to the set up of the financial instrument.

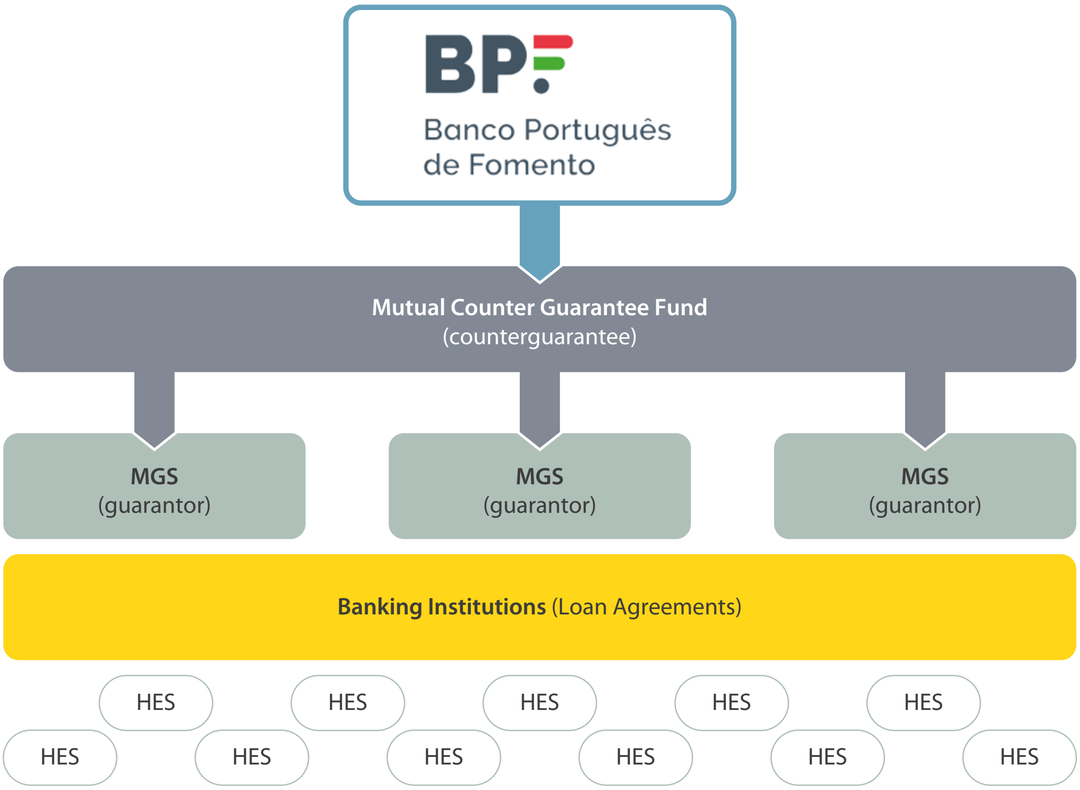
Table 7: Overview of the timeline leading to the set up of the Student Loans with Mutual Guarantee in Portugal

Time period	Action taken
December 2015	Ex-ante assessment
October 2018	Selection of the implementing body
October 2018	Funding agreements signed
October 2019	First investments

SPGM is a body governed by public law with the status of an anonymous commercial company. The Portuguese State holds all SPGM's capital. SPGM is a managing entity of the "Mutual Counter Guarantee Fund (MCGF)" of Portugal. The mission of the MCGF is to support national micro, small and medium enterprises, providing them with all the guarantees required for the development of the activity, making access to financing and compliance with contractual responsibilities easier, at competitive price and term conditions. MCGF also provides the counter-guarantee to guarantees provided by "Mutual Guarantee Societies (MGSs)". The MGSs are institutions which are mainly privately owned (SPGM holds a small number of shares in four of them). MGSs have a regional and/or multi-sectorial focus. The main activity is to provide guarantees to special credit lines, such as university student loans. The figure below illustrates the mutual guarantees system.

Banco Português de Fomento, also known as Banco de Fomento is a Portuguese state-owned development bank created in 2020. The bank was established as a result of a merger of the Development Finance Institution (IFD) and PME Investimentos into the existing SPGM. The operations initiated by the IFD, PME Investimentos and SPGM have continued so that the long-term stability could be ensured.

Figure 16: Overview of the high/level management of the Students loans with Mutual Guarantee in Portugal



Note: HES – higher education students.
Source: EIB presentation on ESF Financial instruments: student loans. The Portuguese experience[122]

There are three financial intermediaries involved in the loan scheme:

- Caixa General de Depositos;
- Millenium bcp;
- EuroBic.

From the start of the programme to 31 December 2020, the loan scheme has supported 1 193 students.

Financial products and terms

The loan amount varies between EUR 1 000 and EUR 5 000 per year, with the maximum amount of EUR 30 000 per student. Each awarded loan is guaranteed from the Mutual Counter Guarantee Fund (MCGF) of Portugal. The interest rate on this financial instrument is defined as EURIBOR swap rate with a spread of 1.250% and with further discounts for socio-economically disadvantaged students, i.e. students who are eligible for national need-based grants (the amount of these grants depends on tuition fee levels and vary between EUR 872 and EUR 5 524 per year. In 2019/20, 21.8% of first-cycle and 16% of second-cycle students received a need-based grant[123].

122 Available at: https://www.fi-compass.eu/sites/default/files/publications/ESF%20Financial%20instruments_student%20loans_The%20Portuguese%20experience.pdf

123 Eurydice (2021) *National Student Fee and Support Systems in European Higher Education 2020/21.*

The target recipients of this financial instrument are students in Portuguese public and private higher education institutions enrolled in courses corresponding to the following ISCED[124] levels:

- Professional superior technical specialisation courses (ISCED 5);
- Undergraduate courses (ISCED 6);
- Master level courses (ISCED 7);
- Doctoral level courses (ISCED 8).

The loan is disbursed monthly. The loan tenure is one to ten years, depending on the duration of the higher education course. Students can benefit from a grace period of two years (after credit utilisation) after which the capital repayment period starts. There is no prepayment fee payable before the start of the repayment period.

Each awarded loan is guaranteed from the Mutual Counter Guarantee Fund (MCGF) of Portugal. There is an 80% guarantee limit on each loan. At the same time, there is a cap rate of 15% of the total loan amount (i.e. the sum of all individual loans provided to students in a given period). Target beneficiaries (students) are not required to provide any additional endorsement or warranty except for loans over EUR 15 000, a promissory note may be required.

The interest rate on this financial instrument is defined as EURIBOR swap rate with a spread of 1.250%. The final interest rate is reduced by 25bps for socio-economically disadvantaged students. This is evidenced by a scholarship award.

Demand/Final Recipients/Project Types

According to the data from the managing authority, from the start of the programme to 31 December 2021, the programme has supported 1 306 students, corresponding to an ESF contracted value of EUR 2 358 863, of which EUR 1 230 806 were disbursed to the students.

Breakdown data, available as 31 December 2020, show that around 67% are undergraduate students, 17% are studying in an integrated master's study programme (bachelor + master), 10% are master's students, 1.5% are doctoral students and the remaining 4.5% are enrolled in other training courses at the university level. On average, each student receives EUR 12 177.64.

In terms of location, around 50% of students are from Porto. Overall, only 5-10% of students are considered to be socio-economically disadvantaged (i.e. they are not eligible for the need-based student grant), below the managing authority's target of 20%.

The following final recipients are not eligible under the financial instrument:

- Students are not eligible for the loan if their parents already benefit from another type of loan (this is in order to prevent the use of the student to reimburse other loans);
- The loan can be awarded only to students enrolled in the courses approved by Banco de Fomento / SPGM. This means that when a higher education institution opens a new course, it has to submit an updated list to Banco de Fomento / SPGM, which assess the request.

Nevertheless, if a student fails to get the guaranteed loan, they can apply for a "regular" student loan (a commercial product). With a regular student loan, they can add other people as guarantors (such as a godfather or an aunt) and they can get the loan they need.

124 ISCED – International Standard Classification of Education, more information available online at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_(ISCED)

The managing authority confirm that parents' debt should not be taken into account when assessing whether a student should get a loan with mutual guarantee. However, the financial intermediaries hold some risk if students do not pay the loan and that is why they ended up analysing the credit record of students' parents.

There are provisions built into the design of the financial instruments which provide additional protection to students. Such as the option of renegotiation of payments between the student and the bank.

Furthermore, due to the ESF rules, the loan scheme (in its set up described above) is not available for students enrolled at a higher education institution in Lisbon, the region of Algarve, and the islands (Azores and Madeira). Nevertheless, some 40% of all Portuguese students study in Lisbon. This means that although these students are eligible for the loans and they can apply for them, the guarantee is provided via the national budget. As a result, the loans in Lisbon, Algarve and in the islands had to be financed predominantly from the state budget, putting an unprecedented pressure on the state budget.

Appraisal process

In addition to assessing the credit records of applicants' parents (which is the most frequent reasons for loan rejection) and the eligibility of higher education courses mentioned above, there are several other aspects to be considered on the applicant's appraisal process.

Students do not have to contact their university during the application process (they only have to provide a proof of their study). A financial intermediary (a commercial bank) is the only point of contact for the loan for students.

There are several situations where there is currently not clear guidance or feedback to the financial intermediaries, such as on:

- **Death of the loan recipient**. It has happened in the past and the parents needed to pay the credit;
- **Modifying the loan once it has been disbursed**. It is not possible to change the request / loan structure once it has been approved. For example, there are some situations when the student decides that they will not need as much money as they thought initially, however, it is not possible to stop the funding at that stage / amend the application;
- **Changing the disbursement schedule**. The total amount per year is EUR 5 000 (up to EUR 30 000 per student) and this amount is paid in monthly transfers (EUR 416.66). Sometimes students need to buy some equipment (for example, a laptop) and are not able to do this straight away because they will not receive the money immediately.

5.1.5 Output

Result/Output Indicators

The financial instrument is set to contribute positively to achieving the EU-level target (in Portugal) of at least 40% of 30–34-year-old people completing third level education.

According to the interviewees, it is too soon to measure this as the loan scheme has not been in operation for long enough.

Performance Indicators

The managing authority has several performance indicators in place which cover areas, such as the distribution of loans by gender, level of education and region. Banco de Fomento / SPGM conducts monthly reporting and provides summary data from all financial intermediaries to the managing authority.

It is a goal of the managing authority that at least 20% of the student loan holders should have been awarded a means-tested student grant from the Portuguese government as well (the grants are awarded only to those students who can prove that they are socio-economically disadvantaged). Currently, the share of the loan holders who have been awarded a student grant is only 5-10%. According to the managing authority, this measure aims to ensure that students with grants will not be refused from the loans. It is a target set in the contract between the managing authority and the Banco de Fomento / SPGM, and, therefore, applies to the financial intermediaries as well.

The managing authority considers the take up to be very good (this was in the period prior to the COVID-19 pandemic), with 1 193 loans have been provided as of 31 December 2020). The proportion of rejected applications was seen as very little (no specific number was provided).

It is too soon to speak about loan default levels / any issues related to loan repayment. This is because many loan holders still have not reached the end of their grace period. However, from the 5 000 student loans provided through the predecessor loan scheme, the percentage of defaults was less than 10%. Therefore, all interviewees believed that defaults will not represent a major issue in the future, even when the effects of the COVID-19 pandemic are taken into account.

COVID implications

As a result of the COVID-19 pandemic, there has been a decrease in the number of applications. One of the reasons might be that some universities are now operating partially or fully virtually. This means that students can stay at home and study rather than move to another city, lowering their expenses and, therefore, the need for a loan.

However, it is too soon to assess the long-term implications of the COVID-19 pandemic on the financial instrument.

5.1.6 Lessons learned

Main challenges

There were several challenges that the managing authority had to face during the set up of the scheme:

- **Absence of legislation at a national and international level applicable to this type of financial instrument**. The loan scheme was designed and implemented in the absence of an adequate supporting legal framework. As a result, there were several legal issues encountered during the set up of the loan scheme. These issues were seen as very significant by the interviewees and, as they agreed, a lot of resilience and time were required in order to overcome these;
- **Few national or international benchmarks.** When the loan scheme was being designed, there were only few experiences of financial instruments for student loans, of which no decentralised financial instrument was operating a guarantee scheme. Therefore, there were not many examples to learn from, and so this loan scheme was considered a pioneer;
- **Most financial instruments supported by the ESF target microenterprises and/or SMEs**. As a result, Portugal had only little experience with a loan scheme targeting higher education students;
- **Difficulties in finding appropriate intermediaries at national level**. This was coupled with the fact that financial intermediaries perceived the loan scheme as riskier, compared to their own commercial products. Commercial banks required the option to demand additional collateral from students to cover the part of the loan that is not guaranteed by the financial instrument. However, this was not allowed, therefore there were a sub-optimal number of intermediaries offering these loans;

- **Geographical availability of the loans**. The loans are only available in disadvantaged regions of Portugal. Nevertheless, a significant proportion of students study in Lisbon, which means that they are not eligible for the loans. However, students enrolled in higher education institutions in Lisbon often come from (and their families live in) other regions of Portugal which are eligible for the loans.

Main success factors

The role of the managing authority proved to be crucial for the success of the financial instrument. There were a number of challenges linked to the set up of the scheme, which required sustained effort and resilience from the managing authority.

Furthermore, the fact that students who apply for the loan do not have to provide any additional guarantee makes the financial instrument more accessible for students who are socio-economically disadvantaged.

Future outlook

There are a couple of points that could feed into the design of similar future financial instruments:

- The nature of higher education is changing. Traditionally, higher education was characterised by longer formal courses. However, higher education has become more flexible and shorter, less formally defined courses, have been introduced. Students in these courses are currently not eligible for the loans with mutual guarantee, and therefore future financial instruments for students should reflect the changing landscape of higher education provision;
- There are still groups of students who are not eligible for this financial instrument, such as students with parents who are in debt and students in higher education courses which are not officially recognised by Banco de Fomento / SPGM. These are currently seen as too risky, and therefore, cannot be beneficiaries of the loan scheme. This sometimes leads to students not being able to study at all for financial reasons. If loans were officially combined with need-based and means-tested student grants, these students would be able to access higher education;
- The legal issues linked to setting up the financial instruments were seen as very significant and a lot of resilience was required. On the other hand, the effort invested has led to a development of a successful prototype model of student loans in Portugal, there are, therefore, expectations that any future loan scheme could be put in place more quickly. Further simplification of rules in the future would be welcome in order to make the process smoother although this would probably have to take place at the European level;
- Commercial banks currently do not find the financial instrument very attractive because of the regulated interest rate and the inability to ask for additional guarantees from the students (leading to increased risks for the banks). The data shows that a future student loan scheme should be made more attractive for commercial banks (*e.g.* by raising the guarantee cap rate to levels between 20% and 25% from the current 15% level), or students loans should be provided by the public sector in their entirety (in which case provision of student loans would become one of the missions of the state);
- There are still several situations in students' lives which are not yet fully covered by the rules of the financial instrument. For example, in case of a death of the student, it is not clear what happens afterwards with the loan. It may be recommended to add a life insurance policy to the financial instrument requirements in order to avoid this type of situations.

5.2. StudioSì – Italy

5.2.1 Summary

This case study illustrates a Student Support Fund of Funds set-up by the Italian Ministry of University and Research (MUR)[125] in 2018 to provide finance, in the form of loans, for students attending university and master programmes in Italy or other Countries.

The financial instrument, named *StudioSì*, is managed through a fund of funds by the European Investment Bank (EIB), and mainly focuses on students from the eight regions of Southern Italy (Campania, Calabria, Puglia, Sicilia, Basilicata, Sardegna, Abruzzo and Molise, i.e. target regions). Up to 25% of the resources may be allocated to students from other regions who decide to study in the target regions.

The ex-ante assessment, finalised in October 2018, has evidenced that the supply of financial support for students in Italy is significantly below the potential demand. Concerning the target regions, which display remarkable differences with the rest of Italy (for instance, in terms of tertiary education qualifications and percentage of graduates who work), the ex-ante assessment has estimated an annual financing gap in the range of EUR 45 - EUR 122 million per year. This corresponds to about EUR 225 – EUR 610 million for the 2019-2023 investment period.

The financial instrument is therefore expected to contribute to lessen the financing gap in the target regions and to cover the lack of financial products in Italy suited to students financing needs in terms of required guarantees, flexibility and methods of access.

The financial instrument was set-up with EUR 100 million from the MUR using European Social Fund (ESF) resources under the National Operational Programme (NOP) Research and Innovation 2014-2020[126]. The loans, disbursed through two financial intermediaries, cover students training costs on education issues (university, master degrees and specialization courses) mainly related to the strategic areas outlined in the National Strategy for Intelligent Specialization ("SNSI")[127].

Other than covering tuition fees, the loans can cover up to EUR 10 thousand per year for the costs of living. The maximum amount per loan is EUR 50 thousand. The disbursement of the loan tranches is conditioned on students' results in their study career. The loans ensure to final recipients a disbursement in the absence of guarantees, a maximum pre-amortization period equal to the duration of the study course increased up to two years, a 20 years repayment period, and a zero-interest rate.

StudioSì is expected to support up to 3 500 final recipients by 2023. At a June 2021 around 1 200 loans have been signed for a total of EUR 30 million.

125 Up to the beginning of 2020 the MUR included also the Ministry of Education (i.e. MIUR, Ministry of Education, Research and University).

126 The NOP mobilizes EUR one billion and 189 million, of which approximately EUR 926 million from the European Regional Development Fund (ERDF) and the ESF and approximately 263 million euros of national co-financing.

127 https://www.agenziacoesione.gov.it/s3-smart-specialisation-strategy/strategia-nazionale-di-specializzazione-intelligente/

5.2.2 Objectives

Student Support Fund of Funds, Italy
THE FINANCIAL INSTRUMENT
Funding source ESF, NOP Research and Innovation 2014–2020
Type of financial products Loan
Financial size EUR 100 million from ESF resources
Thematic focus Investing in education and human capital
Timing From 2019 to 2023
Partners involved Ministero dell'Università e della Ricerca (MUR): Managing authority European Investment Bank (EIB): fund of funds manager Intesa San Paolo and Gruppo Bancario Cooperativo Iccrea: financial intermediaries
ACHIEVEMENTS
Absorption rate 30% (as at June 2021)
EU leverage[128] No leverage effect
Leverage of public resources[129] No leverage effect
Main achievements Around 1 200 loans signed with final recipients totalling nearly EUR 30 million (as of June 2021).

The Student Support Fund of Funds provides support related to the priority Axis I 'Investments in human capital' of the NOP Research and Innovation 2014-2020. More specifically, the NOP (amended in July 2018 with reference to Axis I) details the eligibility criteria for Action I.3, which also includes the access to the financial instrument support. Action I.3 is divided into two lines of activity:

- Line dedicated to students from target regions to support their training costs in issues related to the strategic areas outlined in the SNSI at institutions in Italy or abroad;
- Line dedicated to students from other regions to support their training costs in the same issues at institutions based in the target regions of the programme. In any case, the amount earmarked for financing this activity may not exceed 25% of the total amount earmarked for Action 1.3.

128 EU leverage is calculated as the total amount of finance to eligible final recipients, divided by the total amount of ESIF allocation to the financial instrument. It does not include the reuse of resources returned to the instrument.

129 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, divided by the total amount of public resources allocated to the financial instrument. It does not include the reuse of resources returned to the instrument.

Students from the South of Italy are therefore targeted in priority, but the financial instrument also contributes to encourage students from other regions to come to the target regions. The NOP's objective is to reduce the existing financial gap for students in the regions of the South of Italy and improve student access to university degrees. More specifically, the financial instrument is expected to:

- Reduce the financial gap, by financing students unable to access the credit market due to their family income situation;
- Improve the conditions of existing loans by improving conditions for borrowers and consequently reducing the risk of over-indebtedness;
- Reach and provide support even to students who are in an "intermediate" income situation (i.e. too high to be eligible for a scholarship, but too low to be able to study full-time), thus reducing the risk of dropping out and delay;
- Be complementary to existing support programs such as scholarships, which typically do not cover all student costs.

The financial instrument is expected to support 3 500 students by 2023.

5.2.3 Design and set up

The offer of funding for students in the target regions was insufficient to meet existing and potential demand, as evidenced in the consistent financing gap estimated by the ex-ante assessment. As a result, the managing authority decided to intervene in the market with measures to support students and their study career.

Preceding events

Italy ranks among the last Countries in the OECD area in terms of the percentage of adults holding a tertiary qualification and does not have particularly high graduate population growth rates. Moreover, the tertiary degree is required for a small share (16.7%) of the non-seasonal jobs as companies mainly hire workers with a secondary degree (41.4%). Italy is therefore one of the few Countries in the OECD area where young people with a secondary education degree are more likely to be employed than those with a tertiary degree[130].

There are also significant differences between the target regions and the rest of Italy. For instance, between 2006 and 2016, the share of the Italian population with a tertiary education qualification in the age group 30 - 34 has grown by about 40% in the target regions, against the 50% at national level and 55% in the Central regions (i.e. Tuscany, Umbria, Marche and Lazio). Moreover, 57% of students residing in the target regions are enrolled in a degree course in the region of residence, compared to 74% of students residing in the Northern regions. Finally, among the residents of the South the percentage of graduates who find employment within four years is approximately 53%, against the national average of 73% and 78% in the Northern regions.

Given this context, the managing authority requested in May 2018 an ex-ante assessment for the use of financial instrument to support students in tertiary education in the target regions. This has analysed the supply and demand of finance, underling that public support for students in Italy is mainly represented by scholarships and, to a lesser extent, loans (the Fondo per lo Studio - Fund for the Study - and the agreements that public universities enter into with financial intermediaries

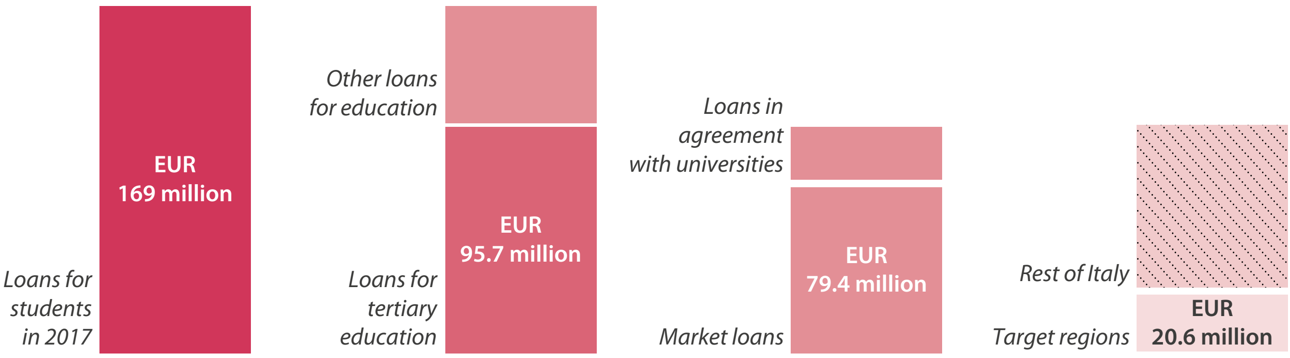
130 Moreover, the rate of continuation of university studies through enrolment in a second level degree course decreased significantly between 2006 and 2016, from 63.8% to 53.6% of three-year graduates who continue their studies.

in order to provide loans to students)[131]. Overall, the total value of the scholarships provided by the Agenzia per il Diritto allo Studio Universitario (Agency for the Right to University Education) for the period 2012 - 2016 amounted to EUR 2 264 million, much higher than the amount of the public resources allocated for the loans[132].

Moreover, there is a lack of public resources at regional level. Only Sardegna, in fact, has activated a financial instrument (Master&Back Programme) since 2006. However, the amount of these resources allocated significantly decreased from EUR 170 million in the 2007-2013 programming period to EUR 7 million in the following period.

Looking at the private market, it was estimated that the credit for students corresponded to only 0.7% (around EUR 169 million) of the total personal loan market (nearly EUR 26 billion) in 2017. This amount included also the loans requested for different levels of education (kindergarten, primary, secondary and high school). About 56.6% of the loans disbursed (i.e. EUR 95.7 million) were requested for the financing of university education courses (including three-year courses)[133]. Of these, 21.4% was provided to students of single-cycle or specialist degree courses or masters residing in the target regions, for an amount of approximately EUR 20.6 million in 2017. This amount therefore represented the demand for loans for tertiary study financing (excluding three-year degrees) by students residing in the target regions met by the market on an annual basis. This amount, however, is not sufficient to cover the yearly demand for credit, estimated in a range between EUR 66 and 143 million. The ex-ante assessment concluded that the annual financing gap was therefore in the range of EUR 45 and 122 million per year in the target regions. This corresponds to about EUR 225 – 610 million for the 2019-2023 investment period.

Figure 17: Private loans for students in Italy, 2017



Source: reproduced from EIB and PwC (2018), Valutazione ex-ante PON Ricerca & Innovazione - Studio a supporto della valutazione ex-ante dello strumento finanziario per sostenere gli studenti nell'istruzione terziaria.

131 The first has a financial endowment equal to EUR 30 million and could provide around 60 000 loans per year. However, the actual use has so far been lower, with approximately 1.600 loans guaranteed between 2011 and 2017, equal to approximately EUR 15 million, of which 1.6 in 2017. The public funds allocated to guarantee the loans under the agreement for the period 2012-2016 amounted to approximately EUR 10.5 million.

132 Scholarships in Italy are financed through the Fondo Integrativo Statale (FIS - Additional National Fund), a regional tax, and the contribution of at least additional 40% to the FIS contribution. There has been a significant increase in these resources over the years. In particular, the budget from the FIS increased from around EUR 149.2 million in 2013 to EUR 234.2 million euros for the academic year 2016/2018, with an increase of 57%. This growth has allowed an increase in the degree of coverage of scholarships. The percentage of eligible students who actually received the scholarship rose from 76.5% of the academic year 2013/2014 to 95.7% in 2016/2017.

133 These included the loans granted by credit institutions in agreement with 18 Italian universities, mainly private (loans granted under agreements with private universities represented 86% of the total loans granted in agreement with universities in 2016).

The ex-ante assessment was finalized and published in October 2018. Before the launch of the financial instrument, the managing authority also conducted a survey through questionnaires and interviews with more than 10 000 students. According to it, more than 90% of respondents indicated a high degree of satisfaction with a potential financial instrument. One month after the ex-ante assessment was completed, the MUR (managing authority) signed the funding agreement with the EIB (fund of funds manager).

Funding and governance

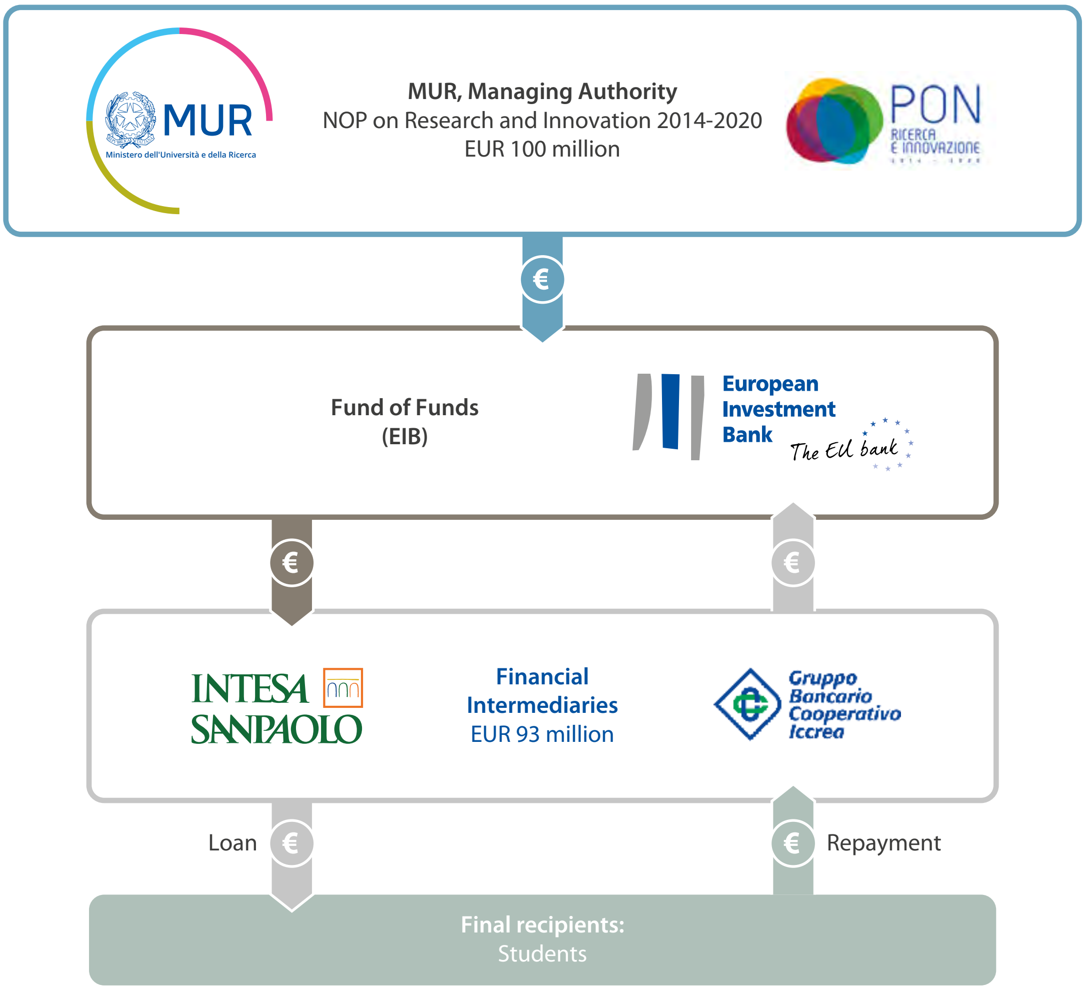
The MUR allocated EUR 100 million to the fund of funds, which was established as a separate block of finance within the EIB. The amount managed by each financial intermediary is EUR 46.5 million, so the budget available for final recipients is EUR 93 million. The remaining EUR 7 million was for fees and management costs. Actually (November 2021) there is no leverage effect on these resources.

The governance structure follows Article 38.4.b of Regulation 1303/2013. The fund of funds is established as a separate block of finance within the EIB.

The managing authority, the MUR, is responsible for the management of the NOP's resources. It has an active role in the implementation process, essential to ensure that the fund of funds implements the financial instrument consistently with the objectives and criteria of the NOP. The managing authority defines the guidelines of the investment strategy (including the state aid scheme) and adopts all the measures necessary for the implementation of the financial instrument, including those relating to the certification of expenditure.

The managing authority is a member of the investment committee, which includes one member from ANPA (the national agency for labour policies of the Italian Ministry of Labour), one from CRUI (Conference of Italian University Rectors), one from IGRUE (State General Accounting Department), and one from the EIB. The investment committee plays a coordinating role between the MUR and the fund of funds and is in charge of monitoring the implementation of the financial instrument. It supervises the implementation of the investment strategy by financial intermediaries on the basis of the reports prepared by the fund of funds manager. It approves or rejects strategic and operational proposals presented by the fund of funds manager as well as the proposals for substantial changes to the contractual terms of the loan agreements between the fund of funds and financial intermediaries. It also approves the tender terms for the selection of financial intermediaries and the selection itself.

Figure 18: Governance structure



The EIB, as the manager of the fund of funds, is in charge of implementing the investment strategy. More specifically, it prepares the tender for the selection of financial intermediaries, manages the process and evaluates the offers submitted by financial intermediaries as part of the selection process. It then negotiates the operational agreements with financial intermediaries. Moreover, it monitors and controls the activities of financial intermediaries on the basis of the terms and conditions set-up in the operational agreements. It manages the treasury of the financial instruments and it is in charge of reporting the progress of operations and the costs for the management of the financial instrument to the investment committee. The EIB can also formulate proposals to the Investment Committee for the improvement of the management of the financial instrument (*e.g.* review of the investment strategy, procedures, operating manuals).

Communication and awareness

The promotion and communication process was mainly conducted by the two financial intermediaries which organised seminars and road shows among universities. Web and social media campaign complemented the campaign.

However, due to Covid19 emergency the promotion of the financial instrument incurred in some delays.

State aid

When the fund of funds manager implements the financial instrument without co-investing own resources, it is considered as an intermediate body for transfers of OP resources to final recipients through financial intermediaries. Therefore, as long as the fund of funds manager is not over-compensated for his service (i.e. remunerated within the limits of management costs / fees prescribed in the Common Provision Regulation[134]), it receives no state aid.

As far as financial intermediaries are concerned, provided that they only perform the role of agent implementing the financial instrument - i.e. they are limited to acting as managers, - and have been selected in an open, transparent and non-discriminatory procedure (which implies that the their remuneration is at market level), no state aid could occur.

On the other hand, when financial intermediaries provide co-financing, potential state aid should also be assessed for financial intermediaries such as private investors:

- if the investments are made on an equal basis between public and private investors and the contribution of private investors is economically significant, i.e. at least 30%, this situation would be considered compliant with the market and there is no State aid for private investors;
- The option in which the private investor benefits from preferential treatment could be eligible from a state aid perspective, once justified and in line with other relevant EU and national state aid provisions.

In general, in the event of a lack of economic activity of the final recipients or no impact of the supported projects on EU trade (as in the case of students) no State aid is granted.

5.2.4 Implementation

The MUR contributed with EUR 100 million from ESF resources in the financial instrument. The fund of funds channels the resources to the final recipients through selected financial intermediaries in the forms of loans.

To select the financial intermediaries, the EIB launched a call for expression of interest in June 2019 and in October of the same year Intesa Sanpaolo and ICCREA were selected as the two financial intermediaries participating in the financial instrument. The first operational agreement was signed two months later and in September 2020 the first loans were disbursed.

Table 8: Timeline of the financial instrument

Date	Event
October 2018	Publication of the ex-ante assessment
November 2018	Signature of the funding agreement
June 2019	Call for the Expression of Interest for the financial intermediaries selection
October 2019	Selection of two financial intermediaries
December 2019	Signature of the operational agreement with ICCREA
June 2020	Signature of the operational agreement with Intesa Sanpaolo
September 2020	First loan disbursement

134 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

Financial products and terms

The loans are granted on better terms than those offered by the market. They have a zero-interest rate and up to 20 years maturity, with a grace period of up to 30 months.

Instalments are every month and students have the right to start reimbursement even before the end of the grace period. Voluntary / extra refunds may be possible anytime without charges or penalties. In consideration of the social purposes of the instrument, the suspension or cancellation of the reimbursement is possible on the occurrence of particular conditions (unemployment, insufficient income).

In order to ensure the non-discriminatory access to higher education to the students, regardless of their financial situation, the loans are granted without requiring any type of guarantee (neither personal nor third parties).

The maximum loan amount is EUR 50 000. In addition to the coverage of the tuition fees, there is a maximum annual threshold of EUR 10 000 for the costs of living. This amount can be modulated according to the real needs of the student and (if easily implemented) of future income expectations deriving from the course of study undertaken.

Table 9: Financial product key characteristics

Loan amount	Max EUR 50 thousand
Fund contribution	100%
Maturity	Up to 20 years
Grace period	Up to 30 months
Interest rate	No interest rate is applied
Guarantee	No guarantee rate is required
Repayment	Every month

Demand/Final Recipients/Project Types

The final recipients are mainly students from less developed and transition Italian regions (i.e. Abruzzo, Puglia, Basilicata, Calabria, Campania, Molise, Sardinia and Sicily). Loans are used for their study careers in Italy or in another Country. Up to 25% of the resources can be allocated to non-resident students who intend to attend studies in the target areas of the program.

Eligible for loans are post-bachelor, single cycle university courses, two-years specialisation degrees and masters (so three-years degrees are excluded), and with priority to those coherent with the one of the specialisations listed in the national strategy for smart specialisation (SNSI): aerospace, agri-food, blue growth, green chemistry, cultural heritage, design, creativity and made in Italy, energy, smart factory, sustainable mobility, health, smart, secure and inclusive communities, technologies for living environments.

Appraisal process

Students apply for loans to financial intermediaries which are entrusted with the task of assessing the eligibility of applications, and to grant and manage the loan until the allocated resources are exhausted. Applications can be presented physically in one of the banks agency and documentation, such as evidence and payment of enrolment, can be then submitted on-line on dedicated financial intermediaries portals. Students are given the possibility to monitor, in every moment, the state of their application.

Once the request has been submitted by the student, the intermediary analyses it and verifies that all the information entered is consistent with the parameters that allow access to the loan.

Loans are disbursed in tranches based on the achievement of certain university objectives / results by the final recipient. When applicable, for instance in the case of twelve months course (i.e. master degree or last year of the university course), students may receive the loans in a single tranche.

The first tranche can be disbursed before the beginning of the academic year. The student must provide the financial intermediary with proof of enrolment in pre-enrolment or admission to the programme (depending on the procedure provided by the university), or, if university fees have been already paid, payments already made together with a copy of the enrolment certificate. To receive the subsequent tranches, the recipient students must demonstrate compliance with the objectives set out in the loan agreement, connected to the course of study undertaken (for example, the certificate of regular enrolment together with the achievement of a certain amount of university credits, or percentage of exams, or certificates of attendance, as appropriate).

Recipient students who do not meet their pre-agreed objectives (numbers of university credits, exams planned) have a period of six months to align the study programme, while maintaining access to subsequent tranches of funding.

Financial intermediaries must take care to verify the real financing needs of borrowers, connected primarily to housing (for instance, those who live in family properties, or who receive housing subsidies should not receive funding to cover this item of expenditure), food, transport and other minor expenses.

In agreeing to the amount, with reference to the amount to cover out-of-pocket expenses related to the course of study, financial intermediaries take into account the student’s needs (primarily related to accommodation, food, transport, teaching and support materials, and other expenses, declared by the student at the time of the request for funding) which represent the purpose of the funding and future income expectations deriving from the course of study undertaken.

5.2.5 Output

At the end of June 2021 around 1 200 contracts for loan disbursement were signed for a total of EUR 30 million with an average of EUR 23 000 per loan.

The Covid19 pandemic has created some difficulties by delaying the start of disbursement and reducing the capacity to organize road shows in the universities to present the financial instrument. Moreover, it slowed down the demand for the loans, mainly as a consequence of studying from home (i.e. less costs, therefore less need for finance). The government also introduced some measures to support students contributing to further lessen the needs.

Mario Proia is a student from Alcamo, in the Province of Trapani, Sicily (one of the targeted regions), enrolled at University of Pisa in the Data Science and Business Informatics course. He is currently in last year of this Master's degree.

The student has a bachelor's degree in Economics and Finance, conferred at the University of Palermo, where he lived for three years in a university dormitory. He benefit from a free accommodation as the income is under the payment ceiling. When he moved to Pisa in Tuscany, he went to live on his own, and the first year he had to pay for the rent of an apartment. The second year, he decided to apply for the StudioSì loan, after he was informed by one of his relatives, already benefitting from the loan, about this possibility. The loan is needed to cover mostly exclusively the costs of living, as the university fees are not particularly high.

The required amount was EUR 10 000, and up to now the student has received EUR 5 000. The submission of the demand was very easy, by sending to the financial intermediary all the required documentation via email through an ICCREA agency. The mobile app allows the student to constantly monitor the loan status or update necessary information when required.

The loan conditions are considered to be very accessible, especially for the fact that the interest rate is zero, and also able to attract him despite he has no previous experience with bank credit. An additional positive aspect is the long grace period (30 months), which allows the student to repay the loan already from the next year when he is expected to start to work. Moreover, the student should confer the degree by July 2022, one year earlier with respect the plan according to the loan agreement. The student thinks that he will not use the entire required amount, but in any case, the loan granted has been extremely useful in supporting student's daily expenditures and his study career.

5.2.6 Lessons learned

StudioSì is considered an excellent instrument to support students and financial intermediaries, despite the delays due to the Covid19, are very satisfied with the disbursement rate. Moreover, it allows to provide finance also to those students that cannot have access to scholarships, which are exclusively based on family income declaration. Therefore, also those who have an income higher than the scholarships ceiling, but incur in significant daily costs reducing their real income - for insurance, daily costs experienced a remarkable increase during the pandemic period - can access finance to support their study. It has therefore collected a high degree of satisfaction also among students and families.

Overall, the financial instrument could benefit from an enhanced cooperation with universities. Other than the challenges due to the Covid19 emergency, there were also some initial difficulties with the communication especially to make potential beneficiaries understand the key advantages of the financial instrument. This underlines also the need of financial education among students and, more in general, the population.

For the 2021-2027 programming period, there will be only one NOP for education financed with ERDF rather than ESF resource, without a specific programme for research. The prosecution of this or similar initiatives at national or regional level for the 2021-2027 programming period is to be evaluated by the competent Managing Authorities and will depend on the relevant NOPs or ROPs encompassing such or similar measures.

5.3. Further Studies Made Affordable – Malta

5.3.1 Summary

This case study describes the "Further Studies Made Available (FSMA)" financial instrument in Malta, which provides (repayable) loan support to students facilitated by an ESF backed loan guarantee and is meant to complement existing support provided by both the public and private sectors to students in Malta. The objective of this ESF and nationally co-funded financial instrument is to support the development of human capital and it is aimed at meeting the financing needs of students following "Malta Qualifications Framework (MQF)"[135] accredited courses across levels 5, 6, 7 and 8 as well as internationally-recognised certificates.

The number of individuals continuing further education in Malta has constantly increased over the past years. Although certain education related parameters in Malta have been improving, the Country's performance is still below the EU average in various areas of its Europe 2020 educational targets. Students wishing to continue with their post-secondary education are provided free University tuition (at undergraduate level), and various grant schemes, primarily EU co-financed, have also supported students to specialise further (beyond undergraduate studies), especially outside of Malta. Despite these various support measures, multiple studies have documented that access to finance to continue studying remains an issue for various students and households. These have shown that a shortfall exists between sources of private and public support for students and actual (and potential) demand for assistance.

Support to follow certain specialised courses/subjects which are unavailable in Malta was not being met by existing (government and EU funded) support schemes, whilst concurrently the private sector's support, such as loan requirements, reduced or eliminated take up by certain socio-economic groupings. This led to the creation of the FSMA to specifically target this gap. The instrument is 80% funded through the ESF and 20% through national funds, with the guarantee element amounting to EUR 1.65 million and the grant element to EUR 1.35 million. The FSMA's Managing Authority (MA) is the "Priority and Planning Coordination Division (PPCD)" which is responsible for the efficient absorption and management of European assistance, particularly in relation to Cohesion Policy. The designated body implementing the financial instrument is the "Malta Development Bank (MDB)" and the financial intermediary, selected after a public call, is the "Bank of Valletta plc (BOV)". The funding was used mostly to provide a loan guarantee to commercial bank(s), which then leveraged its own funding to provide a larger loan product offering, as well as an interest rate subsidy.

The FSMA eases access to finance for students seeking to further their studies by:

- Providing a grace period with zero repayment during their studies, whether full time or part time. This will be ensured via a full subsidy of the 2.75% interest rate during the grace period;
- The student will not be required to provide any form of collateral requirements or life insurance cover;
- The product has a significant reduction in interest rate; and
- A longer-term repayment programme will be considered, ensuring that the loan is affordable for the student via a lower monthly repayments[136].

135 The Malta Qualifications Framework is a referencing tool that helps to describe and compare both national and foreign qualifications to promote quality, transparency and mobility of qualifications in all types of education. It is mainly referenced to the European Qualifications Framework (EQF) as well as to other non-European qualifications frameworks.
There are various MQF levels:
Level 5 refers to an Undergraduate Certificate/Diploma and a VET Higher Diploma/ Foundation Degree.
Level 6 refers to Bachelor's Degree
Level 7 refers to Master's Degree and Post-Graduate Diploma/Certificate
Level 8 refers to Doctoral Degree
Source: Malta Qualifications Framework (gov.mt)

136 BOV Studies Plus+ - Bank of Valletta - BOV Group

The budgeted portfolio is relatively small on a European scale, by August 2021 244 students had requested an average of EUR 34 500 each in loans. Even though students in Malta were traditionally accustomed to using (non-repayable) grants to support their further studies, there has been a rapid and consistent take up of this financial instrument. Stakeholders also believe in the potential for similar financial instruments (targeting education and other areas such as SME support) in Malta and other Countries.

This case study shows how this **financial instrument has addressed a clear market gap** and has a **social element** as students who previously could not afford to further their studies can now benefit from this instrument. The FSMA has also pushed the exposure limit and cost eligibility as non-study related expenses linked to everyday life incurred while studying, are also eligible for support. The success of the FSMA can be a blueprint for future financial instruments, both in Malta and the EU.

Financial Studies Made Affordable (FSMA), Malta

THE FINANCIAL INSTRUMENT

Funding source
80% ESF and 20% National Funds

Type of financial products
Portfolio Guarantee for building a portfolio of new student loans

Financial size
EUR 3 million

Thematic focus
The objective is to support the development of human capital and it aims to meet the financing needs of students seeking to pursue a full-time or part-time study programme for accredited courses in MQF levels 5, 6, 7 and 8 as well as internationally-recognised certificates.

Timing
From October 2019 to December 2023

Type of Final recipient
Students who are 18 years of age and older, who would qualify for studies at MQF levels 5, 6, 7, and 8 and internationally recognised certificates.

Partners involved
The Managing Authority is the PPCD, the designated body implementing the financial instrument is the MDB and the financial intermediary is the Bank of Valletta plc.

ACHIEVEMENTS

Absorption rate
100% of programme resources contracted

ESIF programme multiplier
5 times. The guarantee element is EUR 1.84 million and the grant element is EUR 1.16 million.

Main achievements (so far)
By August 2021, 244 students (in various fields and education levels) had benefited from this financial instrument. It has been so successful that a new financial instrument, called FSMA+, has been announced to build on the experience and initial results of the FSMA.

5.3.2 Objectives

Malta faces a number of socio-economic and education-related challenges. These are tackled through various regional policy objectives within **the Operation Programme II (OPII) for Malta**, which focuses on investing in human capital to create more opportunities and promote the wellbeing of society. Amongst these, OPII identifies four priority axes (PAs), one of them being **'Investing in People through Education, Training and Lifelong Learning'**. This PA will directly contribute towards improving the educational experience and its relevance to the labour market with the objective to limit the number of young people that leave education too early. Malta's ability to sustain its economic and social development is dependent on the quality of its human resource capital. This financial instrument will help contribute to Malta's targets in this field, namely, to reduce the rate of school leavers by 10% and reach a participation rate in tertiary education of 33% of the population aged between 30-34. It is expected that in the new 2021-2027 period, the ESF+ will also be one of the cornerstones of EU socio-economic recovery from the coronavirus pandemic. The ESF+ brings together four funding instruments that were implemented separately in the previous 2014-2020 programming period: the European Social Fund (ESF), the Fund for European Aid to the most Deprived (FEAD) the Youth Employment Initiative and the European Programme for Employment and Social Innovation (EaSI)[137].

The objective of the **FSMA** financial instrument is to support the development of human capital in Malta and is aimed to **meet the financing needs of students interested in pursuing a study programme for accredited courses** at EQF/MQF levels 5, 6, 7 and 8 as well as for internationally-recognised certificates. Eligible students will be entitled to receive support of up to EUR 100 000 through the FSMA for the activities related to tuition fees, accommodation costs and other expenses to further their studies (in Malta and/or abroad).

Prior to the FSMA, students could not secure loans from commercial institutions on their own merits but had to rely on family income and security for the required collateral and guarantees. The **FSMA has created a shift in the market as it targets students directly,** resulting in students from all backgrounds being eligible to apply. The portfolio is small (on a European scale), but the market has shown that demand for such support exists as by August 2021 over 80% had been absorbed.

5.3.3 Design and set up

Table 10: Timeline of FSMA

Time period	Action taken
2015 to 2016	Ex-ante assessment commissioned by the Managing Authority (MA)
June 2019 to July 2019	Call for expression of interest by Malta Development Bank (MDB) for financial intermediaries
August 2019	Publication by MDB of the successful applicant (BOV plc)
October 2019	The funding agreement signed by the MDB and the MA.
October 2019	Operational Agreement signed by the MDB and BOV
October 2019	First disbursement
December 2023	End of eligibility period

137 What is ESF+ | European Social Fund Plus (europa.eu)

Preceding events

Existing market intervention measures to support students in the form of (non-repayable) grants in Malta have increased in the past 15 years. This was especially as a result of various grant schemes which were co-financed by the ESF, and also by the national government, such as the Strategic Educational Pathways Scholarship (STEPS)[138] and Master It![139], which both focused on promoting further studies. All these schemes were, however, still not sufficient to meet existing (and estimated) demand, leading to various applicants not receiving any meaningful financial support. An ex-ante assessment of the potential for financial instruments in the higher education and vocational fields, commissioned by Malta's MA, the PPCD in 2015, also showed that a gap remained, even when other private and other forms of assistance available to students were factored in. This assessment proved the general perception that a number of students were not furthering their studies or even trying to request further funding support because **currently available financial products were not deemed to be attractive enough or were inapplicable to their course of study.**

Moreover, there has traditionally been a relatively low take-up by students of available private sector financial products in Malta. The ex-ante assessment identified an overall investment need in Malta (and gap in funding) for further education to range between EUR 70 million and EUR 245 million over 5 years for Maltese students willing to further their studies. The MDB also made its own estimates of existing financing gaps based on the results of this ex-ante assessment. This provided the evidence needed to develop the FSMA which was projected to partially cover the investment gap resulting from this ongoing market failure.

It was also noted that the utilisation of financial instruments financed by the ESF and applied to (financially) assist students to continue to study was a relatively new experience across the EU, not only in Malta. The main exceptions to this were the Countries which adopted the **ERASMUS Master Loan programme** which supported students following EQF level 7 courses. Malta did not participate in this ERASMUS Programme.

Funding and governance

Table 11: Funding sources

Funding sources	EUR
ESF	EUR 2.4 million
National co-financing	EUR 0.6 million

The implementation option chosen for the FSMA fund is the one foreseen under Article 38.4(b)(iii) of "the Common Provision Regulation (CPR)"[140], entrusting implementation tasks to a body governed by public or private law. The MDB was set up in 2017 and has been managing this first financial instrument (FSMA) following its selection by the PPCD to take over this fund. The MDB issued a public call for financial intermediaries to run the financial instrument and following a selection procedure chose Bank of Valletta plc (BOV) to manage this fund on its behalf.

The MDB and BOV signed the funding agreement in October 2019. This describes the roles and responsibilities for each stakeholder, as well as governance, management and monitoring of the financial instrument. BOV was selected as the financial intermediary in view of its previous experience with financial instruments in Malta, which included the joint initiative with the EIB, 'SME Initiative Malta'[141].

138 ESF 1.25: Strategic Educational Pathways Scholarship (STEPS) - Investing In Your Future (gov.mt)
139 ESF 1.225: Master It! - Investing In Your Future (gov.mt)
140 Staff-Working-Document_Guidance-Note_Implementation-options-Art 38(4)-CPR.pdf (fi-compass.eu)
141 EIB Group-EC SME Initiative: First bank in Malta to implement new SME financing initiative (eif.org)

Requests for FSMA assistance are received and evaluated by the Financial Intermediary (BOV), whereas the MDB retains an oversight role. The MDB, also with the support of the EIB, reports on financial instrument progress and implementation to the PPCD which ensures that the financial instrument is run in line with the aims of the CPR. The overall size of the FSMA portfolio did not make it feasible to have more than one financial intermediary to promote and manage this financial instrument.

The terms of the agreement signed between the MDB and BOV includes a Guarantee for a product whose maximum term is 15 years covering the full grace period of up to a maximum of 5 years; and the loan repayment period of up to a maximum of 10 years following the grace period. The agreement contains certain portfolio volumes that shall be reached by BOV by a specific date, (typically 1 year after the end of the Availability Period or 31 December 2023, if earlier)[142]. It should be noted that at time of preparation of this case study, the MDB issued a pre-announcement for an extension to the existing FSMA, being called FSMA+.

Applications for FSMA support are received and initially vetted considered by BOV Relationship Officers at BOV Branch level. Each request for assistance is subsequently presented for recommendation to the Branch Management, who in turn refer the request for approval to the BOV Consumer Finance Centre at BOV Head Office. This Centre confirms the request's conformity with financial instrument requirements as well as supports, and provide further assistance or advice to the Applicants to minimise liability. This support is especially important for students who face challenging socio-economic circumstances.

Communication and awareness

The communication campaign needed to create awareness amongst potential applicants is the primary responsibility of BOV, with the MDB also contributing through its official channels. BOV's information and communication campaign included information brochures, visits to the University of Malta and other public and private educational institutions in Malta, social media platforms and information on its website portal. All BOV branches and other customer units participated in the promotion of the financial instrument.. The MDB also provides information on their website[143]. The relatively small size of the Country means that the target audiences were shown to be quite easy to identify and reach. This also contributed to the rapid take-up of the financial instrument over its lifetime.

State aid

This instrument is aimed at natural persons, namely students or potential students. Hence in view of the nature of the target group to be assisted by the FSMA, and the absence of undertakings as understood in Article 101 of the Treaty on the Functioning of the European Union (TFEU), **no state aid implications have been determined**.

On the other hand, the MDB and the BOV acknowledge that the guarantee provided under the funding agreement needs to comply with State Aid legislation and rules and have undertaken to comply with any applicable State Aid legislation and rules. Moreover, BOV has also undertaken to fully pass on any state aid benefit derived from this financial instrument to the eligible students. Again, as outlined in the Agreement, in the case of students applying for assistance that is considered as eligible under the financial instrument, no state aid applies[144].

142 Microsoft Word - FSMA FI Blue print_20190620.docx (mdb.org.mt)
143 Further Studies Made Affordable (mdb.org.mt)
144 Microsoft Word - FSMA FI Blue print_20190620.docx (mdb.org.mt)

5.3.4 Implementation

Financial products and terms

The FSMA includes a total Portfolio Guarantee of EUR 1.84 million covering 80% of each individual loan with a cap rate of 25%. This means that the expected volume of total eligible loans generated under the financial instrument will amount to EUR 9.2 million.

When carrying out interviews for this case study, the MDB disclosed that this product offers a partial guarantee of up to 80% of individual loans capped at portfolio volume at 25% together with interest rate subsidy (zero interest for the borrower, during the grace period). The grace period is of a maximum of five years, and the maximum loan term is fifteen years inclusive of grace period (subject to terms and conditions).

Thanks to the guarantee, students are able to benefit from the following:

- Grace period on commencement of loan repayments of a maximum of 5 years covering the course term plus 12 months;
- Full Interest Rate Subsidy during grace period on eligible loans;
- **Maximum loan term** will be of a minimum of twice the study period following the grace period (up to a maximum of 5 years) but limited to a maximum of **10 years**. As a result, the total maturity period of the loan could be up to 15 years;
- The **maximum loan amount is EUR 100 000;**
- **Support of up to 100% of their eligible expenses** through the loan. Eligible expenses include tuition fees, accommodation fees, living allowance, transport expenses; textbooks and other costs related to the study course.

Table 12: Targeted Final Recipients

Age	Minimum age requirement is 18
Credit History	N/A - no credit history requirement
Students eligible	Courses in MQF Levels 5, 6, 7 and 8 or international recognised certificates.
Place and status	Maltese or a national of an EU/EEA Member State or family member of such EU/EEA national, third Country national who has been granted long-term residence status.

The interest rate will be a variable rate since it will be composed of the fixed margin (0.5%) over the banks' "consumer lending bank base rate (CLBBR)", which is variable. This meant an average rate of 2.95% over the period i.e. 2.45% base rate (set by the Central Bank of Malta) and a margin of 0.5%. This rate went down to 2.75% during the moratorium.

In various instances, FSMA applicants were also able to benefit from other forms of support, primarily through financial advice provided by the financial intermediary at point of application. Other forms of support remained open to FSMA applicants, including grants and scholarships awarded by the Ministry of Education. The BOV FSMA product was called BOV Studies Plus+. The FSMA supports costs related to the course of study, as well as accommodation, transport and living expenses, textbooks and other study-related costs[145].

145 BOV_Studies_PlusPlus_FAQS (1).pdf

Demand/Final Recipients/Project Types

Up to August 2021, the MDB reported a total of 244 FSMA final recipients with an average loan of EUR 33 504. This beneficiary demand is spread across different MQF levels, age groups and fields of study (See Table 13).

These beneficiaries were split as per below table.

Table 13: Types of Final Recipients (as at end August 2021)

MQF Level/ Certification	No of Applicants	%	Present Eligible Active Account Transactions	Average Assistance	Male	Female	16 - 24	25-54	55+
5	5	2	EUR 52 220	EUR 10 444	5	0	2	3	0
6	30	12	EUR 740 091	EUR 24 670	19	11	23	7	0
7	124	51	EUR 2 793 551	EUR 22 529	59	65	75	49	0
8	3	1	EUR 47 863	EUR 15 954	2	1	0	3	0
Int. Recognised Certificate	82	34	EUR 4 541 302	EUR 55 382	73	9	60	22	0
Total	**244**		**EUR 8 175 027**	**EUR 33 504**	**158**	**86**	**160**	**84**	**0**

Source: BOV (2021)

The FSMA offers assistance to students at various levels and has hence had a wider potential target audience than previous Malta-based support schemes which very often linked support to specific E/MQF levels or particular subjects/areas. A large proportion of FSMA final recipients have categorised their courses as ‘International courses’ and are mainly related to support to follow courses leading to commercial/aviation pilots courses. Fees for these type of courses are typically higher than average and had previously been ineligible for support from EU co-financed and nationally financed grant schemes. Take-up to date for international courses has also shown that the largest proportion have been given to students to follow E/MQF level 7 courses, with a significant number of them following degrees in Countries outside of Malta in the veterinary surgeon and allied health care fields. BOV expects that the volume of the active Credit Portfolio will reach its maximum by September 2021 of EUR 9 450 00. The active number of students being supported will most likely exceed 260. FSMA started a portfolio of EUR 5 000 000 to divest over a 3-year period in October 2019, however in 2 years, the demand nearly doubled.

FSMA final recipients have indicated being satisfied with its conditions, including the wider eligibility criteria, the better grace period and longer-term re-financing conditions, the larger financial ceiling/s and the move away from reliance on collateral[146].

146 EUR 5,5 million for over 400 students wishing to continue studying from diploma to doctorate - TVM News

Appraisal process

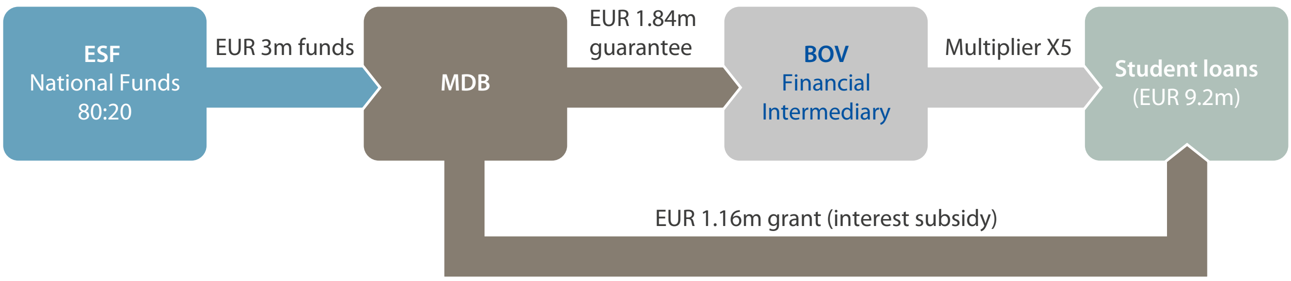
Potential FSMA recipients need to contact the Financial Intermediary BOV branch and provide the following documentation for the bank's consideration:

- Proof of identification;
- FSMA application form detailing: Educational Institution; Type of Degree; Official Name of Course; Expected Course Start Date; Expected Course End Date; Expected First Drawdown Date; Country of Educational Institution; Country of Attendance; MQF Level Course, Full Time /Part Time Course and distance Learning, if applicable;
- Evidence of income (where applicable) – FS3 and latest 3 payslips or Profit & Loss Account together with Inland Revenue income and self-assessment form submitted to the Inland Revenue covering a period of at least 3 years in case of a self-employed;
- Evidence re academic fees, related study expenses and subsistence, transport expenses (including location) to further customer's studies[147].

There is **no means testing**; however, a credit assessment is performed by the Financial Intermediary. BOV also required educational institutions to conduct aptitude test on the students or to issue a letter of acceptance to confirm that the FSMA applicant's potential to attain the qualification was well within reach. Hence lending was made responsibly, with students being informed in advance to assess their potential to achieve their target qualifications. The bank does not apply fees related to this verification process, which are normally accompanied by an agreement or a formal invoice.

Over **98% of applicants for FSMA** support received by the Bank have been **approved**. The applicants which were refused this support were advised by the Bank to choose alternative more cost effective/cheaper course options which would have helped the applicants achieve their same educational objectives. The few refusals occurred due to high value of costs presented in the applicants' proposals, which the Bank believed would jeopardise the ability for eventual repayment. In many cases, the applicant's proposal was amended with the assistance of BOV personnel so as to minimise any unnecessary burden. The BOV also provided support to students who were conducting their studies outside of Malta or who were affected by COVID-19.

Figure 19: Structures of the FSMA FI



Source: fi-compass

147 BOV_Studies_PlusPlus_FAQS (1).pdf

5.3.5 Output

The BOV received the **first applications for FSMA support in October 2019**[148]. The FSMA has changed the way that students can acquire support, resulting in more students being able to benefit from this financial instrument and further their studies.

Performance, main output and results

By the **end of August 2021, 244 loans** had been issued to students. The FSMA loan has a critical role as the first financial instrument in education where students can independently acquire loans without needing any family members to provide collateral. Students have reacted well to this new financial instrument, as some would not have been able to further their studies if such an financial instrument did not exist.

Table 14: FSMA Applications per Field Study

Courses	No. of Applications	Courses	No. of Applications
Accounting	3	Legal - Corporate Business	5
Aviation - Others	1	Legal - Justice	4
Aviation - Pilot	80	Life Style	13
Engineering - Others-	3	Management & Business Studies	35
Engineering - Specilaised	7	Maritime - Marine	1
Finance	12	Maritime - Other	1
Hospitality	4	Sciences - Maths & Statistics	1
Human Resources & Sociology	5	Sciences - Other	34
Humanities	8	Sciences - Physiological	6
IT Digital	21		

Source: BOV (2021)

In August 2021, the MDB announced that the success of the FSMA has led the PPCD to secure EU financing for a new MDB managed scheme being called the **FSMA+.** It is envisaged that this new scheme will be funded by the ESF and the ESF+.

148 MDB to launch a new EU funded scheme for students

Result / Output Indicators

During the period October 2019 to August 2021 the rate of loan requests and approval remained relatively constant, as outlined below. The Bank approved a total of 252 applications for FSMA support up till end August, 2021, of which 244 continued with their studies under the facility.

Table 15: Number of FSMA Final Recipients

Years	2019	2020	2020	2020	2020	2021	2021	2021
Quarter	4	1	2	3	4	1	2	July - August
Approved applications	56	25	6	49	43	14	13	46

Source: MDB & BOV (2021)

No geographical limits are imposed with regard to the educational institution offering the accredited courses, but to be eligible for a loan, a student must be a Maltese citizen or a national of an EU/EEA Member State or a family member of such EU/EEA national.

Performance Indicators

Certain students were unable to continue their studies as the support available to them from both public and private sources was insufficient or unattractive. This reality was mitigated through the FSMA. No figures for successful completion of the courses for which FSMA support has been given were yet available in September 2021.

COVID implications

Due to COVID-19, FSMA final recipients experienced some delays in completing their course. This was especially relevant for those following commercial pilot/aviation courses which typically include some element of physical hands-on training at training facilities in order to obtain the minimum required flying hours. The pandemic also meant that some final recipients had to postpone going abroad to follow their course, some of the courses which previously required the students' physical presence were changed to online courses and some even had to stop their studies and return to Malta. In this respect, some of the final recipients also requested a reduction in the loan amount to reflect the lower expenses that these changes brought about.

Student Testimony on FSMA

Mariah Cassar is a beneficiary of the FSMA. Mariah is a full-time student at the Malta European Pilot Academy studying to become a commercial aviation pilot. She has been following this course since 2018 and requested support from the FSMA to help her complete her studies. Significant fees are incurred to complete the various steps needed to secure such a licence. Prior to the FSMA, no existing grant and/or public support schemes existed to help students acquire this qualification which meant that students had to rely on their families and own income to pay for the course.

In 2018, Mariah started the course and self-financed some of the initial steps needed to obtain this licence. She was, however, to continue studying as she was unable to finance the subsequent and final steps needed to become a pilot. Following the launch of the FSMA, Mariah applied and was accepted to receive a loan amounting to over EUR 52 000 in April 2019. She has been given up to May 2021 to utilise the loan. During the moratorium period interest would be 2.75% per annum (i.e. 0.3% over the consumer lending bank rate). Following the moratorium period, and for the rest of the period, interest will become 2.95% per annum. The loan was required to cover both her course instruction and mandatory flying hours.

Mariah found out about the FSMA, through the financial intermediary (BOV). She found the process to apply and receive approval and for the disbursement of support to be very straightforward. She also needed an extension due to COVID-19 which was granted to her. Overall, it was a simple process, and no external advisors were needed. Mariah also benefitted from advice and support offered by the FSMA financial intermediary to ensure she was choosing the right financial product to follow her planned educational path. As a result of this financial instrument, a number of other students at various commercial pilot academies have also benefited from this support and are now able to further their studies.

5.3.6 Lessons learned

Main Challenges

The FSMA is considered to be an **overall success** by the different stakeholders in Malta and across Europe. Although in existence for a brief period of time, these are some lessons learned which could be emulated by other financial instruments across the EU.

Experience: This was the first financial instrument managed by the MDB, with extensive support from the EIB. The MDB received expert help from the EIB in various areas, including support to manage the documentation required at the different steps of the process. Thanks to tailored assistance, the MDB managed to announce and evaluate the call for Financial Intermediaries in a relatively short time. **Technical support is crucial for managing authorities and financial institutions wishing to provide financial instruments, especially for those with limited size/capacity and limited experience**.

Design and reporting: It is important that the design is simple and that any instructions are clear for both the implementing partner such as commercial banks, as well as for the final recipients (students). Certain reporting has been reported to be relatively complex. The innovative nature of the financial instrument has also affected the ability of the financial intermediary to meet various reporting deadlines. **Simplifying the reporting process and ensuring simple financial instrument design is important to increase financial instrument take up by financial intermediaries across Europe.**

COVID-19: despite the onset of the pandemic leading to its own challenges including some students having to discontinue or delay their studies, or shift to online, the take up and rollout for the financial instrument was still considered to be positive.

Main Success Factors

Eligibility criteria: The FSMA's eligibility **criteria were purposely as open as possible to attract the widest possible cohort of students**. This included support for courses which are not followed through the standard University higher education pathway which were previously unable to benefit from other forms of (grant) support. Moreover, the grants available to date did not support travelling, accommodation and everyday expenses but covered primarily tuition and course fees. Widening these eligibility criteria to include other daily items of expenditure ensured more students being able to benefit from the support available. Moreover, **incorporating lower E/MQF levels and other non-University based courses also assisted in attracting more final recipients**.

Financial limits*:* Previous loan products had significantly lower caps, which also impinged on their usefulness for various students. Increasing the ceiling for loan support past the widely applicable EUR 30 000 limit has also been important to help open the financial instrument to students from all backgrounds.

Ability to pay: When assessing applications for FSMA support, the financial intermediary has been stringently evaluating the applicants' repayments schedule to cover the full credit exposure in terms of feasibility to meet all liabilities in a timely manner. This has ensured the protection of both the student and the financial institution, which on occasion provided more specific advice to applicants to change their chosen educational institution/course of study and/or size of requested assistance.

Building on financial instrument success: FSMA has addressed a gap in the market and the social dimension. Students (including parents of children) who could not afford to go abroad to continue their studies are now benefitting from this instrument. In Malta, plans to roll out a new similar financial instrument, called the FSMA+, and which is built on the positive experience of the FSMA to date, have been announced. **The target audience does not need to be limited to students, but financial instruments for SMEs should also be considered.**

Stakeholders cooperation: Aside from the contribution of various stakeholders, support and cooperation amongst all the entities involved (PPCD, MDB, BOV, EIF/EIB and FSMA final recipients) has been crucial to the success of the FSMA (and other financial instruments that may be rolled out). This cooperation and support is as important as the other steps followed by the different entities involved to ensure a successful financial instrument, including the proper identification and quantification of an existing market gap, identifying and targeting beneficiary groups in a clear manner, creating an attractive product which will ensure adequate take-up and an adequate communication and awareness campaign.

Outlook

The challenges to establishing and implementing the FSMA as an innovative financial instrument have been successfully overcome, as even the pandemic did not impinge on its success. Lessons were learned and the experience will be used to create and implement future financial instruments, both in Malta (through the newly announced FSMA+ and other financial instrument in different areas) and in Europe.

The FSMA started providing support in October 2019 and up to August 2021 supported 244 students. These total number of final recipients over a relatively short period of time are considered an overall success by all stakeholders, especially given the overall size of Malta. This experience also led to an increase to the initial FSMA budget and also for new call by the MDB for Expressions of Interest for financial intermediaries to manage a similar updated version of the financial instrument (called FSMA+). This shows that the initiative has been successful and has been accepted by key stakeholders.

The EIB is also examining the reasons behind the success of this financial instrument and intends to use the experience and lessons learned to proposed additional financial instruments across Europe supporting education and other areas.

5.4. Erasmus+ Student Loan Guarantee Facility; Skills and Education Guarantee Pilot under EFSI

5.4.1 Summary

This case study focuses on two financial instruments supported by the EU, namely the Erasmus+ Student Loan Guarantee Facility (Erasmus+ SLGF) and the EFSI Skills and Education Guarantee Pilot (S&E Pilot).

Erasmus+ SLGF

THE FINANCIAL INSTRUMENTS

Funding source
Erasmus+ programme

Type of financial products
Capped portfolio guarantee

Financial size
EUR 13 911 503

Thematic focus
Higher education (Master's degree level mobility)

Geographical focus
Erasmus+ Programme Countries

Timing
2014 – 12/2020

Partners involved
- European Commission (Directorate-General for Education and Culture)
- European Investment Fund
- Nine financial intermediaries at the national level (throughout the duration of the loan scheme)

ACHIEVEMENTS

EU leverage
up to 6 times

Main achievements (so far)
From the start of the programme to 30 December 2021, the loan scheme has supported 1 200 students.

Skills and Education Guarantee Pilot under EFSI

THE FINANCIAL INSTRUMENTS

Funding source
EFSI

Type of financial products
Capped portfolio guarantee

Financial size
EUR 50 million

Thematic focus
Education, training and skills

Geographical focus
EU Member States

Timing

2020 – ongoing –selection process of the financial intermediaries closed on 31 December 2020. Guarantee agreements with selected financial intermediaries signed with financial intermediaries under S&E Pilot.

Partners involved

- European Commission (Directorate-General for Education and Culture, Directorate General for Employment, Directorate General for Economic and Financial Affairs)
- European Investment Fund / European Investment Bank (for capacity building activities)
- Seventeen financial intermediaries at the national level

ACHIEVEMENTS

EU leverage

Up to 5 times.

Main achievements (so far)

Involvement of a wide selection of financial intermediaries in a number of Member states over a very short implementation timeframe, offering a diverse portfolio of products for education and skills.

In the first year of implementation, 646 students have benefitted from a student loan offered by 5 of the 17 financial intermediaries.

5.4.2 Objectives

Various commercial banks and alternative lenders offer commercial financial products for students across Europe. These are generally considered as higher risk financing and require a parental guarantee/collateral from students. If students are unable to provide these parental guarantees/collaterals, which is often the case for socio-economically disadvantaged students, the banks will usually not lend them money. Such credit crunch is even more evident for those who study abroad, although such experience is an economically rewarding and personally enriching one. Although there are alternatives to commercial student loans, these are only provided to a very small number of beneficiaries. The Erasmus+ SLGF and the EFSI Skills and Education Guarantee Pilot (''S&E Pilot'') schemes are, therefore, aimed at addressing a major gap on the European market of financial instruments for students, because they do not require any additional guarantee/collateral and enable more favourable financing conditions.

Erasmus+ Student Loan Guarantee Facility (Erasmus+ SLGF)

The Erasmus+ SLGF[149] scheme is a debt financial instrument implemented across Europe (in the Erasmus+ Programme Countries)[150] in the form of (counter-) guarantees to financial and non-financial intermediaries who are developing new debt financing portfolios (i.e. portfolios of student loans or deferral of payments for students). The instrument aims to provide financing for student mobility to undertake higher education courses at Master's level (ISCED Level 7), thus complementing the well-known transnational credit mobility scheme. By supporting students financially in the form of student loans or fee deferrals, the scheme makes higher education more accessible to students, regardless of their socio-economic background, thereby aiming to facilitate mobility, equity and excellence.

The idea of Erasmus+ SLGF was conceived around the beginning of 2014 upon discussions between the EC and EIF. However, as early as 2010, the EC had identified financing issues as one of the major

149 The official website available at: https://ec.europa.eu/programmes/erasmus-plus/opportunities/individuals/students/erasmus-plus-master-degree-loans_en.

150 More information available at: https://ec.europa.eu/programmes/erasmus-plus/programme-guide/part-a/who-can-participate/eligible-Countries_en.

barriers to international degree student mobility[151] across the EU, especially for socio-economically disadvantaged students at Master's Level. The Student Loan Guarantee Facility was integrated in the Erasmus+ programme (2014-2020) on a pilot basis.

The Skills and Education Guarantee Pilot (S&E Pilot)

The Skills and Education Guarantee Pilot (S&E Pilot), is a more recent debt financing initiative than the Erasmus+ SLGF, and aims to increase access to finance to benefit the transformation of the economy, education and skills. This is part of the solution to involve more people into the labour market and to respond to changes in skills needs. This initiative benefits from the EFSI and targets a wider set of eligible beneficiaries than its Erasmus+ SLGF predecessor (which focussed only on master students pursuing their degree abroad). Under the S&E Pilot the EIF provides (counter-) guarantees to financial and non-financial intermediaries which are developing new debt financing (*e.g.* loans, deferral of payments, income sharing agreements, etc.) portfolios dedicated to three Categories of final eligible recipients, namely:

- Individuals (students and learners), including for transnational mobility;
- European enterprises investing in skills and skills utilisation of their workforce; and
- European organisations supplying services in the field of education and skills development.[152]

This is being done by:

- Supporting individuals in education attainment and skills upgrade by acquiring access to finances to cover educational/skills gaps in Europe including providing support to students and learners who would like to pursue programmes in other EU Member States;
- Assisting in the development of skills pursued by European enterprises by providing finance to improve their employees' skillset, which will result in increased competitiveness and productivity within the enterprise; and
- Enhancing access to finance at more favourable conditions to European organisations supplying services in the field of education and skills development.

5.4.3 Design and set up

The design and set-up of the two financial instruments are outlined below.

Erasmus+ SLGF scheme design and set-up

The Erasmus+ SLGF scheme has been in operation since 2015 when the first agreements with financial intermediaries were signed. The first steps in the scheme's implementation are outlined below.

Table 16: ERASMUS+ SLGF scheme

Time period	Action taken
January 2014	EIF Working paper Financing the Mobility of Students in European Higher Education
December 2014	Signature of the Delegation agreement between the EC and EIF
February 2015	Call for Expression of Interest from financial intermediaries
From June 2015	Signature of agreements with financial intermediaries
Second half of 2015	First loans provided

151 LSE Enterprise Ltd (2010) Feasibility study on student lending Ref: EAC/47/2009, available online at: http://eprints.lse.ac.uk/42833/1/FeasibilityStudyOnStudentLending.pdf.

152 More information available at https://www.eif.org/what_we_do/guarantees/skills-and-education-guarantee-pilot/index.htm

Based on the Delegation Agreement between the EC and EIF in December 2014, the EIF became the managing authority of the scheme on behalf of the EC. The EIF was in charge of selecting financial intermediaries for the scheme, i.e. entities in charge of receiving/managing loan applications of students, disbursing the loans, and collecting repayments. This process started in February 2015 when a call for Expression of Interest from the market was issued by the EIF.

In order to become a financial intermediary for the Erasmus+ SLGF scheme, a public or private entity needs to operate and be established in one or more Programme Countries of the Erasmus+ Programme. In addition, the entity needs to be an authorised lender to natural persons. Eligible entities are then required to submit an application to the EIF. When assessing the applications, the EIF takes into consideration the following criteria: transparency, equal treatment, proportionality, non-discrimination, experience, operational and financial capacity of the financial intermediaries, and compliance with the EIF's statutes, policies, rules, procedures and best business practices.

The Erasmus+ SLGF scheme originally aimed at appointing 20-25 financial intermediaries by 2020. Although the initial response from the market was positive, only a few institutions had eventually applied to the scheme. This was not necessarily caused by any shortcomings in the EIF's selection process, however potential financial intermediaries were facing a number of challenges which are further elaborated upon below (section 5.4.5). As a result, as of 2021, only nine intermediaries, covering eight Countries, had been selected. Most beneficiaries were 'outgoing students' who took a loan with an intermediary in the Country where they were resident. However, since a few financial intermediaries were also supporting applications from 'incoming students' (from other Countries than where the intermediary is operating), the Erasmus+ SLGF scheme had a truly European nature and supported students from nearly all Erasmus+ programme Countries.

It is also worth noting that the Erasmus+ SLGF scheme piloted the cooperation with higher education institutions acting as financial intermediaries offering tuition and accommodation payment deferral schemes, alongside commercial banks (as traditional lenders)[153] and this approach has been seen as very innovative by, for instance, the European Court of Auditors. More specifically, two universities, the University of Luxembourg and the University of Cyprus, were among the financial intermediaries of the Erasmus+ SLGF. However, the University of Luxembourg has terminated its guarantee agreement due to the fact that they decided to implement a deferral of payments scheme of a broader eligibility than the one of Erasmus+ SLGF, given that the applications received were not fitting the eligibility criteria of Erasmus+ SLGF. In the case of the University of Cyprus, attracting international students studying in English has been the main motivation for becoming involved in the scheme but despite the good reasoning the inclusion period has ended with only a few deferrals of payments having been provided to students. Despite that, the piloting of such a cooperation of the EIF with higher education institutions is regarded as a considerable first step in accommodating these type of institutions in the palette of financial intermediaries, although the feasibility of adopting this approach more broadly in the EU is yet to be proven. The mid-term evaluation report of Erasmus+[154] concluded that "in many Countries, however, universities would not have incentives to act as financial intermediaries…"[155]

153 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

154 ICF and Technopolis (2017) *Combined evaluation of Erasmus+ and predecessor programmes: Final Report-Evaluation of the Student Loan Guarantee Facility (Volume 2)*

155 Interview with the University of Luxembourg.

There have been some challenges facing the financial intermediaries during the set-up and implementation of the Erasmus+ SLGF scheme:[156]

- Erasmus+ SLGF was focusing on a narrow/niche target population (internationally mobile full master's degree students), excluding sizeable segments of students (*e.g.* credit mobility, bachelor's students, etc.), making the implementation harder;
- The narrow scope of eligibility of the instrument, which was driven by the fixed and regulated loan features deriving from the legal basis of the programme, constrained the uptake by the market and inclusion potential of the selected financial intermediaries;
- Student mobility was perceived as leading to higher credit risk as it increases the challenge of following up in case of non-payment/default;
- While prohibiting the banks to ask for parental guarantees was intended to give better access to finance for less well-off students, financial institutions considered that this requirement was materially increasing the credit risk as the EU guarantee was capped and financial intermediaries were expected to maintain part of the risk for alignment of interest purposes;
- Some financial intermediaries considered the administrative burden linked to monitoring and reporting on the Erasmus+ SLGF scheme to be too heavy. They were often requiring relevant changes in the IT systems, which were usually deemed as too costly in view of the small portfolio sizes and in light of small loan amounts;
- Erasmus+ is a strong brand within the EU. However, it is typically associated with grants rather than loans under a financial instrument, resulting in a mismatch of expectations (*e.g.* if a loan application is rejected);
- In certain Countries, students were lacking a culture of borrowing to invest in education; universities themselves offering deferred payment of tuition and housing costs were already regarded as a good option.

Overall, student loans were a new asset class for market-based EU support for all participants in the implementation chain (students, universities, intermediaries, EIF and the European Commission); consequently, this programme has been a first-time experience for all of them and subject to a learning curve.

S&E Pilot Design and set-up

The S&E Pilot scheme was launched in April 2020. The table below provides an overview of the first steps in the scheme's implementation.

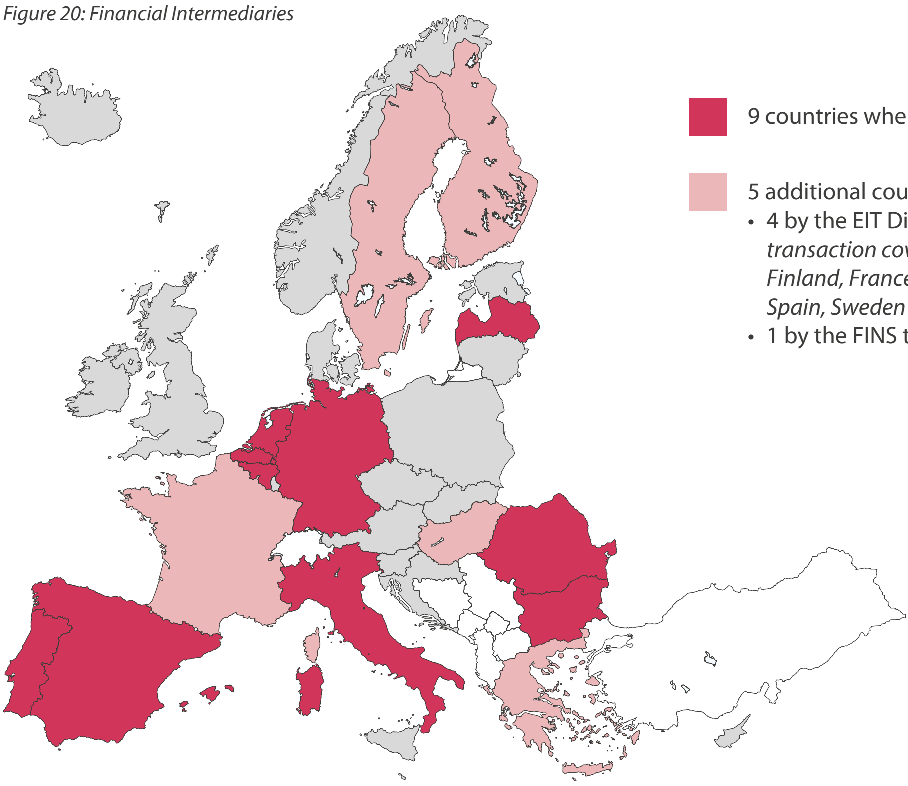
Table 17: S&E Pilot scheme

Time period	Action taken
April 2020	Launch of S&E Pilot
14 April 2020	Open Call for Expression of Interest from financial intermediaries
31 October 2020	Deadline for Call for Expression of Interest from financial intermediaries
18 December 2020 – 31 December 2021	Signature of agreements with 13 financial intermediaries (outlined in the figure below).

Between the end of 2020 until end 2021, 17 agreements were signed with Financial Intermediaries from 9 participating Countries. Due to the multi-Country focus of certain intermediaries, the instrument covers 14 participating Countries.

156 Interview with the University of Luxembourg.

Figure 20: Financial Intermediaries



Country	Intermediary	Signature Date	Start of Availability	Cap amount EUR	MPV EUR	Final Recipient Categories
Latvia	JSC Development Finance Institution Altum	22/10/2021	30/10/2020	13 500 000.00	67 500 000.00	A
Romania	Banca Transilvania	17/05/2021	17/05/2021	4 555 790.16	51 770 342.70	A, B, C
Romania	BCR Social Finance IFN SA	15/04/2021	01/07/2021	2 339 323.79	15 229 972.59	A, B, C
Germany	Brain Capital	30/06/2021	30/06/2021	3 600 000.00	18 000 000.00	A
Romania	BT Microfinantare IFN SA	11/12/2020	15/01/2021	1 846 456.85	15 387 140.45	B, C
Portugal	Caixa Geral de Depositos	09/04/2021	09/04/2021	3 000 000.00	25 000 000.00	B, C
Germany	CHANCEN eG	23/11/2021	15/01/2022	6 000 000.00	30 000 000.00	A
Germany	Dautsche Bildung	08/07/2021	08/07/2021	800 000.00	4 000 000.00	A
Belgium	EIT Digital Education Foundation	23/04/2021	01/07/2021	500 000.00	2 500 000.00	A
Romania	FINS	18/05/2021	18/05/2021	1 100 000.00	5 500 000.00	A
Portugal	Fundação José Ferreira Neves	18/02/2021	15/09/2020	1 000 000.00	5 000 000.00	A
Spain	Nuevo MicroBank S.A.U.	18/12/2020	17/03/2021	8 320 000.00	65 000 000.00	A, C
ES, NL, BE	Santander Consumer Finance	04/06/2021	04/06/2021	12 500 000.00	62 500 000.00	A
Spain	StudentFinance	25/05/2021	25/05/2021	800 000.00	4 000 000.00	A
Bulgaria	Telerik Academy	20/05/2021	01/06/2021	511 325.87	2 556 629.34	A
Italy	Università degli Studi di Bari Aldo Moro	07/12/2021	07/12/2021	80 000.00	400 000.00	A
Italy	Università Degli Studi Di Torino	07/12/2021	07/12/2021	80 000.00	400 000.00	A
			Total	**60 532 896.67**	**374 744 085.08**	

**Transactions signed as at 22 December 2021 **The S&E GP aims at supporting the following three categories of Final Recipients: Category A - students and learners, Category B - enterprises investing in skills and skills utilisation of their workforce, and Category C - organisations supplying education, training, skills and related services (including e.g. Kindergartens, Nursery Schools, Early childhood services) or developing projects in the education field.*

With regards to the financial intermediaries selection process, applications closed on 31 October 2020, meaning that no further new intermediaries could apply after this point in time. All selected financial intermediaries had to be approved by end-2020. The budgetary allocation between the counter-guarantee and the guarantee, Countries or regions was not set in advance but it is demand driven.

Funding and governance

The Erasmus+ SLGF scheme is funded from the Erasmus+ programme's budget. Initially, the scheme was allocated a budget of up to EUR 517 million over 2014 – 2020, which represented 3.5% of the total budget of the Erasmus+ programme. However, the scheme's budget was later downsized to better reflect its pilot nature and align with observed market demand. The excess budget was re-directed to the Erasmus+ programme.

As of December 2021[157], there have been nine guarantee contracts signed covering eight Countries for a total guarantee amount of EUR 12.6 million, and 1 200 students have benefitted from a loan guaranteed by the EU.

On the other hand, the S&E Pilot is funded through EFSI with a budget of EUR 50 million. This pilot programme was launched with the view to pave the way for a more substantial EU support to the education and skills sector under InvestEU, building on the lessons learnt under the Erasmus+ SLGF and substantially expanding the scope of final recipients.

Up till December 2021, 17 financial intermediaries have signed guarantee agreements with the EIF. During the first twelve months of implementation, over 500 final recipients were supported. Overall this meant more than EUR 382 million of financing available to the benefit of more than 19 000 students and 3 000 companies.

Communication and awareness

The awareness-raising activities have been targeted at potential financial intermediaries including financial institutions, higher education institutions and alternative lenders, at potential final recipients like individual students, but also at general awareness raising for the public at large.

The EIF launched a campaign back in 2015 aimed at raising awareness of the Erasmus+ SLGF scheme among commercial banks in the Erasmus+ Programme Countries, with the expectation that intermediaries would provide visibility and marketing support to the EIF, which was not the case in the end.

Based on the consultation with the ESU and ESN, the Erasmus+ SLGF scheme seems to have suffered from a generally low awareness among students. Some financial intermediaries conducted their own promotional activities, such as the University of Cyprus, who advertised the Erasmus+ SLGF scheme on Facebook and Instagram in some European Countries. However, these activities have had only limited reach and effect.

In addition, the EIF in collaboration with the European Commission organised a webinar for universities to further promote the Erasmus+ SLGF and performed a substantial awareness raising effort via social media and direct contact with relevant stakeholders during the origination and implementation of the facility. However, given the novelty of this form of EU support there was a learning curve needed to be bridged from all sides - the side of the EU, financial intermediaries and the students - for the facility to have reached the ambitious outreach was intended for.

157 EIF (2022) *Erasmus+ Master Student Loan Guarantee Facility: Implementation Update.*

The three different segments targeted by the S&E Pilot (individuals, European enterprises and European organisations) necessitate intensified communication and awareness raising activities. Communication and awareness activities included a webinar for universities and training centres organised by the EIF in collaboration with the European Commission and with the support of the EIB Advisory Hub, as well as awareness raising events and social media advertisement by different financial intermediaries, the development of educational presentations and videos, and awareness raising through participation to relevant local events[158]. Many intermediaries promote their products directly with potential clients. Potential final recipients must apply directly with the selected financial intermediary, which therefore need to promote their products that benefit from the S&E Pilot.

5.4.4 Implementation

Erasmus+ SLGF take-up to date

As of 30 September 2021, the Erasmus+ SLGF scheme has supported 931 students (48% of whom come from Spain[159]). The loans, nevertheless, tend to be concentrated in a small number of Countries reflecting the Country coverage of the selected financial intermediaries, with loans disbursed in Spain representing almost a half of the total funding provided to students so far, followed by Turkey (31%). Similarly, Spain and Turkey feature on top of the list of the Countries of origin of beneficiaries. As a result, there are large disparities among the intermediaries in terms of the number of loans and the financial amount disbursed. Although different intermediaries have been working with different segments of students, providing loans with a different focus, the cases of MicroBank in Spain and the University of Cyprus illustrate well the variety within the financial intermediaries (*e.g.* financing institutions vs universities). Whilst, for example, MicroBank has supported around 500 students, the University of Cyprus has so far only disbursed loans to some 10 students. Overall, the total number of loans / supported students is below the EIF's expectation, but also of some financial intermediaries.[160].

Table 18: Overview of amounts committed to beneficiaries, based on the financial intermediary's location (share of funding committed to the beneficiaries as of 30 September 2021)

Country	Share of funding committed to beneficiaries (30 September 2021)	Country	Share of funding committed to beneficiaries (30 September 2021)
Croatia	2.9%	Italy	0.9%
Cyprus	1.0%	Romania	3.7%
France	3.9%	Spain	49.5%
Ireland	7.1%	Turkey	31.0%

Source: EIF (2021) Erasmus+ Master Student Loan Guarantee Facility: Implementation Update.

158 Skills & Education Guarantee Pilot (europa.eu)
159 EIF (2021) *Erasmus+ Master Student Loan Guarantee Facility: Implementation Update.*
160 Interviews with EIF, University of Cyprus, University of Luxembourg

Table 19: Overview of the Countries of origin of the beneficiaries (share of all beneficiaries as of 30 September 2021)

Share of beneficiaries per Country (30 September 2021)			
Bulgaria	0.4%	Latvia	0.1%
Austria	0.1%	Lithuania	0.5%
Croatia	3.4%	Luxembourg	0.1%
Czech Republic	0.3%	Netherlands	1.6%
Cyprus	0.2%	Poland	1.5%
Estonia	0.1%	Portugal	0.4%
France	5.1%	Romania	3.2%
Germany	0.7%	Slovenia	0.2%
Greece	3.4%	Spain	31.7%
Hungary	0.6%	The Republic of North Macedonia	0.1%
Ireland	0.7%	Turkey	30.1%
Italy	2.9%	United Kingdom	12.3%

Source: EIF (2021) Erasmus+ Master Student Loan Guarantee Facility: Implementation Update.

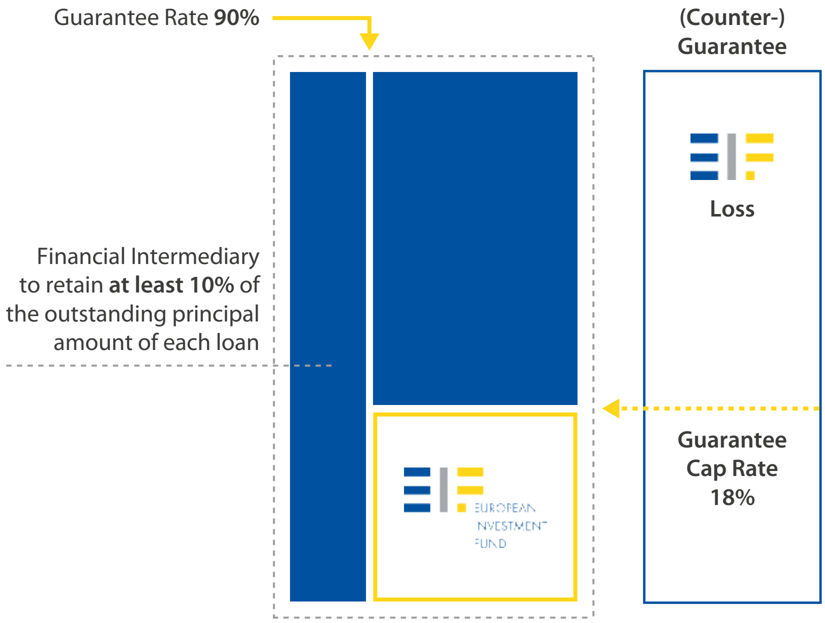
Erasmus+ SLGF Financial products and terms and final recipients

In the Erasmus+ SLGF scheme, the maximum loan amount that each beneficiary (student) can take is fixed at EUR 12 000 (or equivalent amount in other currencies) for a one-year Master's degree programme, or at EUR 18 000 (or equivalent amount in other currencies) for a Master's degree programme longer than one year. The actual lending vary on a case by case basis, depending on the tuition fees charged by different higher education institutions in various Countries, as well as on other related expenses for students (cost of living). For example, at the University of Cyprus, the product is composed of deferred tuition fees and a loan up to EUR 9 600 (disbursed in monthly instalments of EUR 400) to cover student accommodation, which could be provided for a period of up to 24 months. On the other hand, the loan amounts provided by MicroBank (Spain) and FINS (Romania) tend to oscillate around the maximum amount.

The Erasmus+ SLGF supports access to debt (*e.g.* loan financing) guaranteed by the EU. This mode of support is meant to complement the existing national financial support for students (rather than substitute it). Students are expected to start the repayment of the loan between 12 to 24 months after graduation. However, they can apply for an extension of this period of up to 12 months, allowing them to make the transition into their professional life and accommodate their personal situation. The length of the total repayment period varies across the Countries. Similarly, there is diversity across the financial intermediaries in the applied interest rate. FINS in Romania, for example, applies a different interest rate for the initial loan period (up to the start of repayments) between 9.5% and 11.5%. Once the student starts paying the loan back, the interest rate drops to 8% - 9%. MicroBank in Spain charges 5.19%. The University of Cyprus does not charge any interest rate on the Erasmus+ SLGF scheme. The differences can be partially explained by differences across national financial markets and by individual risk assessments performed by the relevant intermediary for each loan applicant, but also by the different type of support provided (i.e. loan by a bank, deferral of payments by a university).

The Erasmus+ SLGF model is based on a guarantee (from the EIF) of up to 90% of the value of each defaulted loan transaction, with a cap rate of 18% of the total loan portfolio of each financial intermediary. This means that every euro guaranteed by the EU institutions can leverage up to EUR 6.17. The figure below provides an overview of the Erasmus+ SLGF.

Figure 21: Overview of the guarantee mechanism of the ERASMUS+ SLGF



Source: D. (2016) Erasmus+ Master Student LGF fi-compass ESF event

Students admitted to a Master's Degree at a recognised higher education institution established in an Erasmus+ Programme Country are eligible to apply for the Erasmus+ SLGF.[161] In addition, the following conditions apply. Students must:

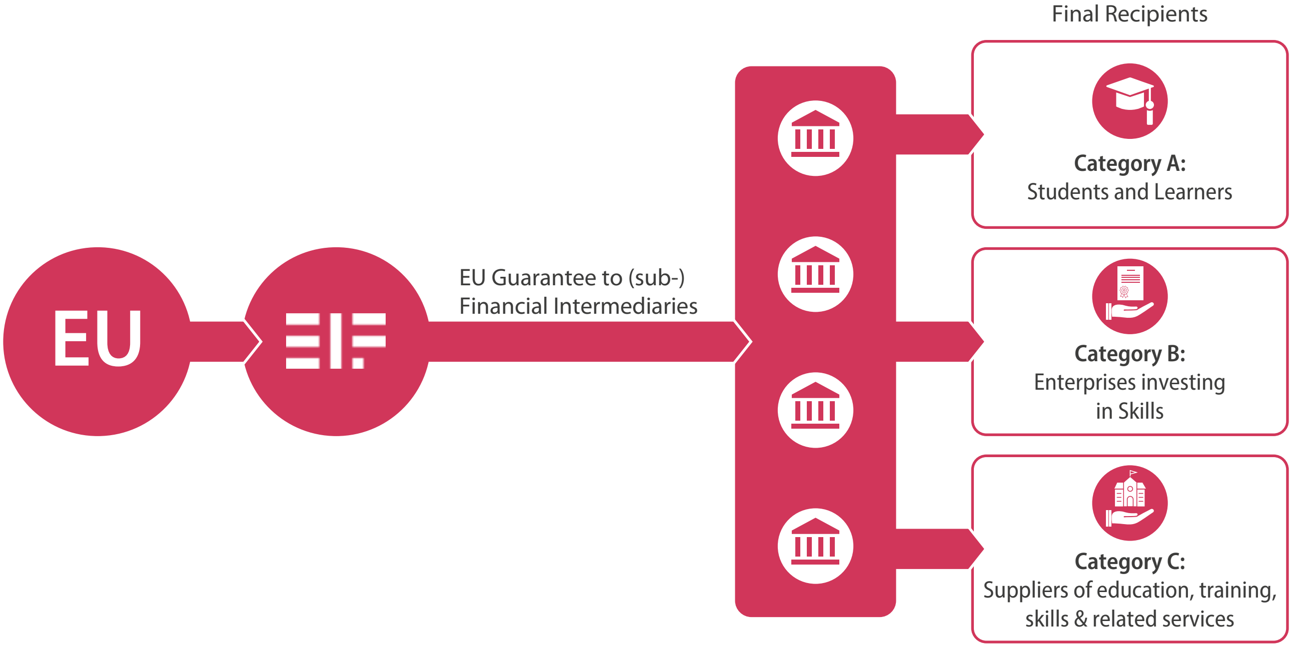
- Be a resident of a Programme Country[162] ;
- Study in a Programme Country other than the Country of residency or the Country in which the qualification granting access to the Master's degree was earned;
- Not having already taken a loan/deferral of payments under the Erasmus+ SLGF in excess of the maximum principal amount.

161 HEIs need to be holders of the Erasmus Charter for Higher Education.
162 If a student is not a resident of Spain, Italy (Emilia Romagna region), Croatia, Romania, or Turkey, they can still apply for the ERASMUS+ SLGF scheme, however, they can only apply for a Master's study programme in Spain, or at the University of Cyprus.

S&E Pilot Financial products and terms and final recipients

Alike the Erasmus+ SLGF, the S&E Pilot's financing was made available through a fully delegated model by the EIF to the financial Intermediaries, targeting the three different types of final recipients, as can be seen below. EIF sets the framework based on which the S&E Pilot's EU guarantee is made available to selected financial intermediaries. This framework needs to be adopted and adhered to by financial intermediaries when carrying out financing operations under the S&E Pilot. Final recipients can select their preferred financial intermediary (typically a financial intermediary located in their Country of residence/establishment or the Country of studies if applicable) to request debt financing and benefit from the S&E Pilot. The list of financial intermediaries is constantly being updated on the S&E Pilot webpage. Therefore, Final Recipients looking for financing may contact the selected Financial Intermediaries directly[163].

Figure 22: S&E Pilot Financial Intermediaries and final recipients



Source: European Fund for Strategic Investments Skills & Education Guarantee Pilot ("S&E Pilot") FAQs

The Eligibility Criteria comprise the Final Recipient Eligibility Criteria and the Final Recipient Transaction Eligibility Criteria. Financial intermediaries need to ensure that Final Recipient Transactions to be included in the Individual Portfolio under the Guarantee Agreement comply with the eligibility criteria set out in any agreement between the two sides.

163 EIF Note (europa.eu)

To receive support, the Final Recipients have to belong to one of the categories below and comply with the selection criteria of financial intermediaries:

Table 20: Final Recipient Eligibility Criteria

Final Recipient Eligibility Criteria		
Category A	**Category B**	**Category C**
• The Final Recipient is a natural person; • Undertakes an Eligible Educational Programme or part of it in a Member State , which shall be evidenced by means of a proof acceptance or enrolment in an Eligible Educational Programme; • Provides a declaration indicating any financial support received from other existing support schemes if any, and the total additional amount of financing needed, which shall be kept on record by the Financial Intermediary; • Is not a Sanctioned Person.	• The Final Recipient is established and operating in a Member State; • Is an SME, a Small Mid Cap or Small Public Enterprise; • The Final Recipient intends to finance an Eligible Investment in Skills, which shall be evidenced by means of a presentation of a training plan, training budget or offer by a training provider or any similar relevant document; • Is not established in a Non-Compliant Jurisdiction unless in case of NCJ Implementation; • Is not a Sanctioned Person.	• The Final Recipient is an SME, a Small Mid cap, a Small Public Enterprise or an Organisation (or association thereof); • A newly established enterprise or organisation with an economic activity in the field of education/skills (NACE code in group P9); or an existing enterprise or organisation with a substantial focus of their economic activity in the field of education/skills (NACE code in group P); or entering into a Final Recipient Transaction for the purpose of developing a skills/training/educational project that falls under one of the NACE codes of group P11 (Education), which shall be evidenced by means of the provision of the project plan or equivalent documentation; • Is established and operating in a Member State; • Is not established in a Non-Compliant Jurisdiction unless in case of NCJ Implementation, e.g. The Final Recipient is not a Sanctioned Person.

Source: Annex II to the Open Call for Expression of Interest to select Financial Intermediaries under the Skills & Education Guarantee Pilot

Table 21: Eligibility Criteria for Final Recipient Transactions

Eligibility criteria for Final Recipient transactions			
	Category A	**Category B**	**Category C**
Loan amount	• Max. EUR 30 000 per student / learner.	• Up to EUR 2 million per Final Recipient Transaction; • Limited to 2x direct planned costs.	• Up to EUR 2 million per Final Recipient Transaction.
Maturity	• No limitations; • Term of the guarantee limited to 15 years.	• Min. 12 months; • For Revolving Credit Transaction, max maturity 9 years; • Term of the guarantee limited to 10 years.	• Min. 12 months; • For Revolving Credit Transaction, max maturity 9 years; • Term of the guarantee limited to 10 years.
Purpose	• Expenses related to an Eligible Educational Programme.	• Eligible Investments in Skills.	• Business Activity or projects falling under the NACE CODE P.
Others	• No collateral or parental (or other third party) guarantee.	• n/a.	• n/a.

Source: European Fund for Strategic Investments Skills & Education Guarantee Pilot ("S&E Pilot") FAQs

Final Recipients under Category A can apply for financing either at the higher education institution where they are undertaking their studies / training, if this is one of the selected Financial Intermediaries under the S&E Pilot, or at a financing institution amongst the selected Financial Intermediaries under the S&E Pilot. The maximum amount for each Final Recipient under Category A is EUR 30 000, or foreign currency equivalent.

Final Recipients under Category B can benefit up to. EUR 2 million or, where the Final Recipient Transaction is denominated in a currency other than Euro, the equivalent amount set out in the Guarantee Agreement.[164] The principal amount of a Final Recipient Transaction shall not be higher than twice the amount of the direct planned costs related to the Eligible Investment in Skills, as shall be evidenced in the relevant documentation (*e.g.* training plan, training budget, offered by a training provider)[165].

The principal amount of each Final Recipient Transaction under Category C shall not be more than EUR 2 million or foreign currency equivalent, where the Final Recipient Transaction is denominated in a currency other than EUR[166].

Appraisal process

For the Erasmus+ SLGF, students apply through participating financial institution or universities (the financial intermediaries). These then act as students' primary contact points. They also screen students' applications, make decisions, disburse the loans/ deferrals of payments and collect the repayments. At the University of Cyprus, for example, students could apply for the Erasmus+ SLGF scheme already as part of their application process for a Master's study programme. They then had to submit a proof of address (to certify that they are not residents of Cyprus) and a proof of previous qualifications. The university then prepares a deferral of payments contract with each selected student.

164 EIF Note (europa.eu)
165 3-se-pilot-ceoi-guarantee-term-sheet-annex-ii.pdf (europa.eu)
166 EIF Note (europa.eu)

For the S&E Pilot, the process remains the same and applicants must direct themselves to the selected financial intermediaries. Financial intermediaries are responsible for the selection of final recipients (under any of the three categories) and for the approval of financing operations according to their credit policy and to S&E Pilot framework.

5.4.5 Output

ERASMUS+ SLGF Result / Output / Performance Indicators

The 2019 report on the ERASMUS+ SLGF scheme prepared for the EC[167] points to generally high levels of satisfaction among the final recipients of the scheme. This applies to the scheme's terms and conditions, its operation, and also to its added value for students' future career prospects, although the lack of communication has been mentioned as a potential area for future improvements. The 2019 evaluation has also identified *"a positive relationship between the studying abroad supported through the loan and finding an employment or training position."*[168] Furthermore, based on the collected evidence, the ERASMUS+ SLGF scheme has contributed positively to addressing one of the main barriers to international student mobility, i.e. the lack of financial resources.

Repayments of the loans have so far not been a concern. However, it is still very early to come to any conclusions regarding the percentage of defaults because a lot of the loan holders have not yet reached the repayment period. As an example, the University of Cyprus awarded the first loans in September 2019, so the first students have only just graduated. FINS in Romania regards the prospects of repayment positively and expects the default rate to be in single digits at the most.

Based on the interviews with student representative bodies (European Students' Union and Erasmus Student Network), the success of the ERASMUS+ SLGF repayment is heavily dependent on the employability of the loan holders, and the fact that they have to pay the loan back (with the exception of the 12-month holiday) even when they are unemployed is a very important consideration.

Nevertheless, overall, the take up of the ERASMUS+ SLGF scheme has been rather underwhelming, as evidenced in multiple reviews conducted over the past five years[169, 170] and confirmed in interviews conducted for this case study. There are several possible reasons for the lack of take-up in the loans:

- **Limited segment of students eligible for the loan.** Master's students studying abroad represent a relatively narrow segment of students. Coupled with the fact that the ERASMUS+ SLGF scheme does not cover credit mobility (exchange students), but only degree mobility (students studying for a full master degree abroad), this narrows the segment even further. The mid-term evaluation of Erasmus+ estimated that the maximum pool of eligible applicants is around 60 000 students each year. Furthermore, it was estimated that "only a small portion of those who will be given a financing opportunity will make use of it (3% or below in most Countries and 5%–8% in Nordic Countries) – even if the support is provided in the form of a grant and supplemented by additional specific mobility support[171];

167 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

168 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

169 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

170 ICF and Technopolis (2017) *Combined evaluation of Erasmus+ and predecessor programmes: Final Report-Evaluation of the Student Loan Guarantee Facility (Volume 2)*

171 ICF and Technopolis (2017) *Combined evaluation of Erasmus+ and predecessor programmes: Final Report-Evaluation of the Student Loan Guarantee Facility (Volume 2)*

- **Low attractiveness for financial intermediaries.** The ERASMUS+ SLGF scheme was not as attractive to the financial sector as expected. Essentially, the main reasons can be listed as follows:
  - Narrow scope, as the limited market size made it hard to launch a new product;
  - Expensive management of the instrument, as it required prescriptive (and non-standard) loan terms (*e.g.* payment holidays), combined with very small ticket size;
  - Requirement to launch at below market interest rate
  - Particularly high risk, due to lack of income and international mobility (inherent potential risk of losing track of the client, particularly when compared to usual parental guarantee practice)

  Commercial banks generally require a full parental guarantee for financial loan products for students (in order to reduce their risk exposure). The ERASMUS+ SLGF did not allow for such guarantee to be required from applicants (replaced by the Erasmus+ guarantee), however leading to a potential moral hazard. This resulted in a lower-than-expected number of financial intermediaries, covering a low number of Countries, which further limited the pool of eligible students. Some of the financial intermediaries interviewed for this case study contend that this has been redressed, at least partially in the S&E Pilot. These conditions capture a wider audience of final recipients including students and learners and more flexible terms and conditions, making it more attractive for financial intermediaries;
- **Erasmus+ branding and perception issues.** The Erasmus+ brand is one of the most successful brands linked to the European integration project. However, it is a brand which is generally not associated with loans and may, therefore, cause confusion among students and parents, as well as higher education institutions. In addition, the loan decision was ultimately in the hands of the financial intermediary, which could reject the application on the basis of its risk/credit assessment, even if the applicants were eligible from the perspective of the Erasmus+ SLGF criteria (i.e. the loans are not provided by default but an assessment of the eligible applicants must still be made by the financial intermediaries);
- **Existing student support schemes at the national level.** In a number of European Countries, such as in the Nordics, the national support available to students overlaps with the ERASMUS+ SLGF scheme. This leads to a further decrease in the attractiveness of the ERASMUS+ SLGF scheme for students in these Countries, which was however in line with the Erasmus+ SLGF idea of not replacing the national support but complement it where needed;
- **Policy position of student representative bodies.** Based on the consultations with some of the student representations, such as the ESU, there are hesitations around accepting loans as part of a standard student journey in higher education. Rather than relying on loans, they believe that students should be offered grants and scholarship opportunities when they go abroad.

S&E Pilot Result / Output / Performance Indicators

The S&E Pilot scheme has not yet been the subject of any pan-European evaluation or assessment. A number of one-to-one interviews with some of the EIF-approved S&E Pilot financial intermediaries have been carried out. Although the Pilot is just starting, interviewees have shown generally positive feedback on scheme developments to date. Some intermediaries have started focusing on certain categories, such as B and C, before shifting their efforts to the remaining Category A. Others have started accepting applications for category A and are facing positive initial feedback from potential beneficiaries. Some specific examples of S&E Pilot experience from approved financial intermediaries are described below:

(a) **BCR Social Finance,** a microfinance institution based in Romania, supports the creation and development of small businesses and micro-entrepreneurs. The focus is currently on the S&E Pilot's Categories B & C, with the intention to start providing loans under Category A in 2022. This will first be done through an initial pilot to study individual's reaction to this new product.

(b) The agreement between EIF and **EIT Digital,** an innovation community of the European Institute of Innovation and Technology (EIT) supporting the EU's digital transformation, covers a budget of EUR 2.5 million through the S&E Pilot. Prior to this some students applying for training (on digital skills) at EIT Digital would drop out during the application period due to a lack of funding. EIT Digital is now able to offer **deferred payment schemes** for students and learners participating in its courses, thus improving their access to education. Future EIT Digital students and learners have been able to apply for the new scheme from June 2021 onwards, with around 500 people[172] estimated to benefit from the scheme. One of the programmes offered by EIT Digital is a summer school programme, launched as a pilot in 2021. One student benefited from the S&E Pilot as the summer school had to be held remotely because of the COVID-19 pandemic which affected participation; hence uptake of the deferral of payment scheme.

(c) **StudentFinance** is a fintech company **connecting education with employment through Income Sharing Agreements (ISAs).** The programme focuses on building the data and technology layer to enable education providers - ranging from boot camps to certificate providers and institutions offering Masters Degrees - to offer ISAs as an **income-based deferred payment** option to their students[173]. From May to the end of June 2021, 35 agreements were signed corresponding to approximately EUR 200 000. This was the first cycle for StudentFinance and demand is expected to grow to around 100 contracts per quarter. The average request amounts to around EUR 6 000. The majority of final recipients are focusing on digital skills, web development, marketing and cyber security.

(d) **FINS** believes that without the S&E Pilot, a large percentage of potential final pilot support recipients would have not been able to fund their studies/training with other forms of support.

Since the S&E Pilot scheme is in its very early stages and no final recipient has begun repayments yet, no assessment of the repayments process has yet been made by any of the financial intermediaries.

COVID-19 implications

The consultation with the ERASMUS+ SLGF scheme stakeholders has identified no direct impact from the COVID-19 pandemic on the scheme.

The S&E Pilot was launched at the beginning of the COVID-19 pandemic. The pandemic may have increased the potential market for this financial instrument, especially in its capacity for helping to reskill individuals who lost their job during the pandemic and felt the need to improve their skills and education to acquire future employment. On the other hand, COVID-19 may have also had an effect on students' ability to travel and the motivation to study abroad during a crisis. Some of them have already postponed or stopped their study related plans. A couple of Financial Intermediaries noted an increase in demand due to COVID-19 whereas others reported having to cancel certain (short-term) training courses due to the pandemic. Some of the programmes' attractiveness derived from the opportunity to meet and interact with students from different Countries and the shift online of certain S&E Pilot supported training courses would have negatively affected their appeal from this point of view.

172 European Investment Fund and EIT Digital team up to close digital skills gap in Europe (eif.org)
173 Spain: EIF and StudentFinance provide financial support to students investing in their future (europa.eu)

5.4.6 Lessons learned

ERASMUS+ SLGF Lessons learned

There are a number of lessons that could be drawn from the past six years of the roll-out of the ERASMUS+ SLGF scheme:

- **Access to capital for smaller financial intermediaries.** Smaller lenders have found it difficult to access capital at a reasonable price. In the effort to keep their margins, they had to offer higher interest rates to students;
- **Only a small fraction ((0.47%**) from the expected 200 000 students over the 2014-2021 period **have so far been supported by the ERASMUS+ SLGF scheme,** which leaves a lot of the potential untapped. There are several reasons for this low uptake (see Section ERASMUS+ SLGF Result / Output / Performance Indicators above);
- **The segment of Erasmus+ Master's degree students is very niche** and, when coupled with the general loan aversion of students and saturation levels in some parts of the EU (*e.g.* the Nordics), leads to a low demand for financial instruments based on loans. This is not to say that student loans are not a viable option for a European-level financial instrument. However, caution is necessary when formulating the eligibility criteria in order to ensure that the segment of eligible applicants is not overly exclusive;
- **The experience with working with non-conventional lenders is important but very difficult to scale up.** Although the ERASMUS+ SLGF scheme managed to pilot the involvement of non-traditional lending institutions, such as universities, its set-up has made it less attractive to traditional lenders, i.e. commercial banks in European Countries. It cannot be expected that individual higher education institutions will become major players in the area of student loan provision in Europe. Although they may be an interesting alternative option, higher education institutions are not designed to function as money lending organisations on a massive scale (and in some European Countries, they are not allowed to do so by law). Furthermore, higher education institutions will, naturally, tend to support only incoming international degree mobility. This, therefore, means that for a successful future European-level student loan instrument, there will need to be a buy-in from commercial banks or other alternative players. One way of achieving this is by increasing improving and widening the nature of the support available to make it more attractive for commercial banks;
- **The ERASMUS+ SLGF scheme's experience has provided important and invaluable evidence and learning** to both the EC and EIB/EIF about student preferences and financial behaviour in the EU. This could be used as a base to build upon when designing, launching and implementing further future financial instruments at the European level, which has also been the case for the Skills and Education Guarantee scheme under EFSI;
- **The EIF's support has been critical** throughout the process of setting the Pilot scheme up and during its implementation. The interviewed intermediaries mentioned that without the support of the EIF it would have been much more difficult to implement the loan scheme, because of its unique features. This meant that a bespoke approach was often required.

S&E Pilot Lessons learned

Even though the S&E Pilot is in its early stages, feedback received during the case study interviews show that its design does build on the lessons learned from preceding financial instruments. This also means that it has the potential to meet its goal of being part of the solution to encourage more people to join the labour market and respond to the European economy's changing skills needs.

As it was the case for the ERASMUS+ SLGF, the S&E Pilot-related guarantee provided by EIF has removed the need to ask for collateral from students (i.e. Category A of eligible final recipients) due to the risk sharing component which final recipients can benefit from. The removal of this requirement, and an increase in support ceilings across a wider set of three categories means financial intermediaries can provide more and better products to a wider range of beneficiaries.

This notwithstanding, some challenges remain including:

- **Early stage:** The S&E Pilot is still very new to the market. Therefore, interviews with financial intermediaries could not yield information on any post roll out beneficiaries' lessons or challenges. For example the few Category A beneficiaries to date have not yet completed their studies, thus not started to repay the support received. Some products planned by the different financial intermediaries on the basis of the S&E Pilot in various Member States are either relatively new/recent or not yet on the market;
- **Due Diligence:** the Due Diligence process is strictly dependent on the time and the quality of information provided by the financial intermediary; however, a lengthy one may discourage some financial intermediaries from participating in similar instruments in the future.

The main successes witnessed by the S&E Pilot include:

- **Multiple targets and categories:** The S&E Pilot targets multiple beneficiary groups, as it focuses on education and skills and is applicable to not only university students, but also to individuals following a lifelong learning programme, educational institutions and businesses. This wider than previous scope has led to a wider interest in this financial instrument than seems to have been the case for the ERASMUS+ SLGF. This is also resulting in the wider geographic coverage of the S&E Pilot as more applications have been received and more financial intermediaries have been selected as compared to ERASMUS+ SLGF. For instance, through this new financial instrument, StudentFinance, which is based in Spain, is planning to expand their geographical scope to reach students in other Countries such as Germany, Belgium, Poland, Italy and the Netherlands;
- **Range of eligible training:** The range of possible education and training is also wider than before. For instance, the S&E Pilot at EIT Digital is aimed at supporting students and learners in accessing a vast education and training portfolio through their different Master School, Summer School and Professional School programmes. These programmes will provide more Europeans with the much needed digital knowledge and skills in support of innovation and entrepreneurship;

- **Financial intermediaries:** the inclusion of relatively small, but innovative and specialised financial intermediaries, in the approved list of intermediaries is also considered to be a positive development. Besides giving the opportunity to a wider range of financial intermediaries to participate, this is helping to develop a more diverse (and specialised) range of products and services in more Member States than previously was the case. Furthermore, the scheme appears to have attracted several Income Share Agreement providers, thus providing the opportunity to pilot a relatively new student lending model. Rather than interest-based student loans, the ISA repayment model is based on a (relatively small) percentage of the salary, but only if a job is obtained and above a pre-defined minimum income. This shows that the EIF has built on the experience gained from the ERASMUS+ SLGF and other EIF-support mechanisms to create a product which may be more widely accepted by the market and final recipients;
- **Final recipients:** all interviewees indicated that the support of the EIF was indispensable in allowing these financial intermediaries to offer support to individuals/entities. Moreover, some students would not have been willing (and able) to meet and obtain support due to the conditions attached such as the requirement for collateral and restrictions on expenses with other links attached – collateral etc;
- **EIF Support:** there is consensus that the EIF, through also the support of EIB, offered very useful and practical support to financial intermediaries in the form of capacity building prior to and during the call for financial intermediaries. Such support may encourage these (and other) financial intermediaries involvement in future iterations of this financial instrument (and others) across Europe.

Future Outlook

The Digital Economy and Social Index (DESI) ascertained that four out of ten adults in the EU lack basic digital skills. Moreover, around 70% of businesses report that their staff lacks the necessary digital skills, representing an obstacle to investment. There is also a lack of digital experts who can help cutting-edge technologies for the benefit of every citizen in Europe[174]. This is a tremendous opportunity for financial instruments to support European citizens to acquire these skills.

ERASMUS+ SLGF has been a pioneer in student loans at the European level. Linking student loans as a financial instrument supporting students and the Erasmus+ brand was a novel idea with large potential. Many students in the EU are unable to benefit from the opportunities offered by the Erasmus+ programme and study abroad for either a part of their studies or for a full degree, most often because of the financial situation of their families. The ERASMUS+ SLGF's ambition was to address this major barrier, and it has done so successfully, at least in the cases of those students who have received the loan.

The S&E Pilot is still in its early stages, however, the level of interest from financial intermediaries and final recipients to date is considered positive. The EIF intends to grow this type of financial instrument further, under InvestEU throughout 2021-2027, supporting more financial intermediaries and final recipients who can benefit from education and skills related financial support. It is an innovative tool which is not only being used by the more established traditional commercial banks, but also training institutions and smaller entities which makes it more attractive and increases its prospects of success.

174 DESI | Shaping Europe's digital future (europa.eu)

6. Lessons learnt from the case studies

The table below provides an overview of the main characteristics of the five financial instruments analysed in the previous section. It highlights the diversity of the financial instruments under review, in terms of financial products, size of the instruments (from EUR 3 million in Malta to EUR 100 million for the Student Support Fund of Funds in Italy), size of the individual loans (FMSA in Malta providing the largest amount up to EUR 100 000) and eligibility scope (tuitions fees, living costs, international mobility), final recipients (mostly students), geographical scope, or leverage/multiplier effect of the EU funding.

Table 22: Overview of the financial instruments under review in Section 5.

	Further Studies Made Available (FMSA) (Malta)	Mutual Guarantee Student Loan (SLMG) (Portugal)	Student Support Fund (StudioSì) (Italia)	Erasmus+ Student Loans Guarantee Facility (SLGF) Eramus+	Skills and Education Guarantee Pilot scheme (SEGP) EFSI
Year of creation	2019	2015	2019	2015	2020
Financial products	Loans with grants and guarantee	Guarantee and counter guarantee	Loan	Student Loan Guarantee Facility (from the EU institutions)	Capped portfolio guarantee
Size of the instrument	EUR 3m	EUR 85m	EUR 100m	EUR 13.9m	EUR 50m
Ticket size	Loan up to EUR 100 000 (incl. tuitions fees) No collateral normally	Loan up to EUR 30 000 (1 000 to 5 000 per year) Option to ask for collateral	Loan up to 50 000 (incl. tuition fees) No collateral	Loan up to EUR 12 000 (1 year) or EUR 18 000 (18 month) No collateral	Students: < EUR 30 000 (no collateral) SMEs/Univ.: < EUR 2m
Thematic	HEI for accredited courses in MQF levels 5 to 8 (including international courses)	Access to HE levels to students who are normally excluded from it due to socio economic conditions	Investing in education	Full Masters & international mobility	Education, training and skills
Geo-focus	National	Portugal, save for 3 excluded regions	8 Southern Regions	Erasmus Countries	EU MS
Target recipients	Students	Students	Students	Master Students studying abroad	Students, Businesses, Higher Education providers (e.g. Universities/ Training Centres)
Funding source	80% ESF – 20% National	EUR 10m ESIF ; EUR 1.765m National ; EUR 73 235 others	100% from the NOP Research and Innovation (78% ESF, 22% National)	Erasmus+	EFSI

	Further Studies Made Available (FMSA) (Malta)	Mutual Guarantee Student Loan (SLMG) (Portugal)	Student Support Fund (StudioSì) (Italia)	Erasmus+ Student Loans Guarantee Facility (SLGF) Eramus+	Skills and Education Guarantee Pilot scheme (SEGP) EFSI
EU leverage/ multiplier	5x	8.5x	2x (considering only ESF) (ex-ante)	6x	5x
Management	MDB implementing body BoV as financial intermediary	Banco Português de Fomentoimplementing body 3 financial intermediaries	EIB (Fund of Funds) 2 Financial intermediaries	EIF 9 Financial intermediaries	EIF 17 Financial intermediaries

Beyond their differences, a number of lessons can be drawn from the demand / supply side analysis and the cross-analysis of the case-studies. Such lessons may inform the investment strategy of managing authorities willing to explore the potential of financial instruments to support socio-economic disadvantaged students to access to tertiary education, or learners and businesses to develop skills training courses. These lessons cover the design, the implementation and the monitoring and evaluation stages of the financial instruments.

6.1. Design stage

Many **managing authorities** do not have much **experience** of using resources under shared management (ESF/ESF+) via financial instruments, and even less about EU managed financial instruments. On top of that, financial instruments for education, learning and training are a fairly new topic. For instance, in Portugal, most financial instruments supported from the ESF target microenterprises and/or SMEs. As a result, Portugal had only little experience with a loan scheme targeting higher education students. There is often a lack of knowledge at the outset about the potential, conditions, and implementation modalities.

Policy makers in the EU are often reluctant about funding students in the form of loans, fearing over-indebtedness. This is a relatively sensitive issue in many continental Europe Countries, unlike in Countries such as the UK and the US where student loans are widespread. Furthermore, the managing authorities may be reluctant to use the traditional financial institutions (banks) as financial intermediaries, as they consider the cross-selling as a potential threat to students. The information asymmetry between the banker and the student is large.

From a **student** perspective, a loan is less **attractive** than a grant, for obvious reasons. However, it generally provides a larger amount of available cash to cover both tuitions fees and costs of living. While government grants are in the range, in most of the European Countries, of EUR 1 000 to EUR 3 000 per year (see section 3.1.2), the size of individual student loans are usually much larger as reported by the stakeholders consulted and observed in Countries such as France, Hungary, Portugal, Italy, or Malta (*e.g.* up to EUR 100 000 in Malta).

This is compounded by the relative **lack of experience and appetite of commercial banks** for student loan financing. Lack of experience was for instance reflected in Portugal when considering that parameters such as death of the student or interruption of the study were not included in the design of the financing options. The student population is perceived by banks as being at risk, as they have no financial track record. The profitability of these loans is also low because of their small size, being also relatively cumbersome to manage. In a way, banks treat similarly student loans and micro-credit for entrepreneurship. It is important for managing authorities to be aware of these constraints when designing their financial instrument. Risk aversion implies the banks to ask students for collateral, usually through parents, therefore cutting off socio-economic disadvantaged students.

Considering these perceptions across the stakeholders, there is an interest for managing authorities to develop financial instruments that have relatively **broad eligibility criteria,** i.e. that are eligible to a large spectrum of qualification (from undergraduate certificate/VET higher diploma to Doctorate), including possibilities to study abroad (*e.g.* FMSA in Malta, or the SEGP); categories of costs (covering both tuitions fees and costs of livings, as the former counts for approximately 90% of the average monthly student costs); or geographical areas. Regarding the geographical eligibility criteria, patchy coverage such as the Portuguese experience (which excludes the students living in Lisbon, Azores and Madeira) has proven counter-productive. A large eligibility scope helps to address a wider range of final recipients, which makes the instrument more attractive to financial intermediaries (larger pool of final recipients creates economy of scale and is easier to manage in terms of selection process and verification criteria) and avoids downsides observed in the Portuguese or Italian cases.

Removing collateral requirements from banks and offering **long term repayment** with a period of grace for the student is also a key element to keep in mind when designing the financial instrument. In the case studies, the lack of collateral was a pre-condition for the banks to enter into the scheme. Collateral asked by banks is a real barrier for socio-economic disadvantaged students to access commercial loans. Long term tenure of the loan and period of grace until the completion of the study are also important to not impose an early financial burden to those students that cannot afford their loan repayment. The instruments under review propose from 10 years (SPGM in Portugal) to 20 years (StudioSì in Italy) repayment period with a grace period from 2 to 5 years. Such features are essential to focus the public support on facilitating access of socio-economic disadvantaged students to tertiary education.

An important aspect to consider is also the **combination of grants and financial instruments.** It may help to reduce the interest rate and to make the loan more affordable for students, even introducing rewarding properties to the financial product (such as capital rebates subject to predefined milestones in the academic path), but it also may cover a certain category of costs (*e.g.* tuition fees), or may subsidise technical assistance support provided by financial intermediaries. In Malta, the FSMA applicants are also able to benefit from other forms of support, primarily through financial advice provided by the financial intermediary at point of application. In addition to the loan provided by Bank of Valletta and guaranteed by the FSMA, other forms of support remain open to FSMA applicants, including grants and scholarships awarded by the Ministry of Education. In France, the Bpifrance public-backed student loan scheme combines both a guarantee to commercial banks loans and a grant component to subsidise the interest rate of the bank loan (0% versus 0.9% to 3.5% depending on discount pricing policy).

Finally, it is worth mentioning that the guarantee and counter guarantee financial instruments generate a higher **multiplier effect** on ESF/ESF+ funding compared to the loan instrument as set-up in Italy, for which co-funding from financial intermediaries was not mandatory. In addition, considering the relatively ease for banks to access to refinancing, while the core issue at stake is to address to perceive risks to lend money to students, guarantee and counter guarantee seems to date more efficient.

6.2. Implementation stage

During the implementation stage of the financial instruments, the stakeholders' consultation and the case studies demonstrate it has proven challenging for the managing authorities **to find and select the relevant financial intermediaries,** due to the lack of experience in student loans and related perceived risks. For instance, in Portugal the financial intermediaries required the option to demand additional collateral from students to cover the part of the loan that is not guaranteed by the ESF. However, this not being allowed, there were a sub-optimal number of intermediaries engaged in the scheme.

From a managing authority perspective, it stresses the need for **communicating** in advance to **financial intermediaries** about the potential of financial instruments for skills and education, as well as changing the perception of financial intermediaries regarding this market.

Communication is also needed towards students as reported by some financial intermediaries. Enrollment of students requires intensive communication campaign and clarity on the conditions and modalities of the loans, and particularly the reimbursement conditions. Students were not necessarily fully aware about the borrowing conditions, nor did they understand the necessity to reimburse. In fact, student loans are often the very first approach of such recipients to a financial product.

From the perspective of financial intermediaries, it has also been noticed the under-estimation of the length of the process to set-up and roll-out the financial instrument cofounded by the ESF, and the **time dedicated to its management,** including reporting requirements. This may call again the managing authorities to keep simple and straightforward the investment strategy (see eligibility criteria), to keep simple the appraisal process of the final recipients (opt for on-line applications for instance), and eventually to provide additional support to the financial intermediaries to provide technical assistance support to final recipients (communication, advice).

6.3. Monitoring and evaluation

Satisfaction of the final recipients on the support received, when reported, is generally high. The 2019 report on the ERASMUS+ SLGF scheme[175] points to generally high levels of satisfaction for the final recipients. This applies to the scheme's terms and conditions, its operation, and also to its added value for students' future career prospects, although communication has been mentioned as a potential area for future improvements. The 2019 evaluation has also identified "a positive relationship between the studying abroad supported through the loan and finding an employment or training position."[176] Furthermore, based on the collected evidence, the ERASMUS+ SLGF scheme has contributed positively to addressing one of the main barriers to international student mobility, i.e. the lack of financial resources. In Malta, the FSMA started providing support in October 2019 and up to August 2021 supported 244 students. These total number of final recipients over a relatively short period of time are considered an overall success by all stakeholders, especially given the overall size of the student population in Malta. This experience also led to an increase to the initial FSMA budget and also for new call by the MDB for Expressions of Interest for financial intermediaries to manage a similar updated version of the financial instrument (called FSMA+). This shows that the initiative has been successful and has been accepted by key stakeholders.

175 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

176 European Commission (2019) *Summary Report - Erasmus+ Master Loan Scheme: 2018 Annual Report on Beneficiaries of the Erasmus+ Master Loans and Summary of Developments 2015-2018.*

The managing authorities interviewed in the case studies set up key performance indicators to monitor the implementation and impact of financial instruments. They are however **more output driven than outcomes oriented.** They measure mostly the uptake of the financial instruments, tracking the number of recipients and the individual size of loans. Very few information is tracked or available regarding the socio-economic profiles of the students, so to appraise for instance to what extent the instrument addresses already socio-economic advantaged students, and the impact of the loan on the entry to tertiary education or the completion rate of tertiary education, and employability on the labor market. It is worth to mention however that three instruments under review are too recent to generate an impact.

Similarly, it is not yet clear what would be the delinquency rate for the loans provided. For instance, under the Erasmus+, repayments of the loans have so far not been of concern. Many borrowers have not yet reached the repayment start point. For example, the University of Cyprus awarded the first loans in September 2019, so the first students have only just graduated. FINS in Romania is looking positively at repayment and expects the default rate to be in single digits at the maximum. In Portugal, under the ESF scheme it is also too soon to have a clear idea about loan default levels / any issues related to loan repayment. This is because the borrowers still have not reached the end of their grace period. However, from the 5 000 student loans provided through the predecessor loan scheme, the share of defaults was less than 10%. Therefore, all interviewees believed that defaults will not represent a major issue in the future, even when the effects of the Covid-19 pandemic are taken into account.

7. Conditions and opportunities for setting up financial instruments for education and skills

7.1. Recommendations

Recommendations are built on the analysis of financing gaps, the stakeholders' consultation and lessons learned from the case studies. They target managing authorities willing to support education and skills through financial instruments and entities that provide technical assistance and support (such as the European Commission).

Recommendation #1 is to **raise awareness on financial instruments for supporting education and skills.** The stakeholders' consultation and case studies analysis have brought to the surface an existing knowledge gap across different groups of stakeholders, particularly managing authorities and financial intermediaries. Capacity building activities and awareness raising are much needed to increase the knowledge about the potential of supporting education and learning through financial instruments (be it or not financed by European funds). Managing authorities should also be aware of the constraints that traditional financial intermediaries, such as banks, face when dealing with this subject matter.

Recommendation #2 to the managing authorities is to emphasize the **importance of tailor-made, broad eligibility criteria** (for selecting intermediaries, final recipients and for eligible expenditures) when designing a financial instrument supporting education and skills. Eligible criteria that are too restrictive may create counter-productive effect on the final recipients (exclusion) and be less attractive to traditional financial intermediaries that already perceive the sector as being very risky.

Recommendation #3 is for the managing authorities to consider the **combination of financial instruments and grants.** The grant component shall not exceed the value of the investments supported by the financial product, when the combination is under a single operation, and may take different forms: a subsidised interest rate to make the loan more affordable for the final recipient, a grant to the final recipient to cover a proportion of its cost (living cost, or tuition fees) or to reward high education performances, or even support to the financial intermediary to cover a part of the high management costs of such small loans. The first two possibilities offer a double advantage, however, compared to the last one: they allow the managing authority to propose a fair and balanced instrument - in exchange for putting the burden of repayment on the final recipient, it alleviates this burden, either by asking the final recipient to repay only the capital (subsidised interest rate), or by decreasing the outstanding debt upon pre-agreed conditions. For the final recipients, it would make the package more interesting.

Table 23: Combination of financial instruments and grants in the 2021-2027 Common Provisions Regulation

The rules on combinations of financial instruments and grants are defined in the articles 58(4) to 58(7) of the 2021-2027 Common Provisions Regulation (CPR).

Grants can be combined with financial instruments in one single operation (art. 58(5)). In the 2014-2020 period, financial instruments could only be combined with grants in one operation at the financial instrument level, where the grants took the form of an interest rate, guarantee fee or technical support subsidy. These grants could not be paid directly to the final recipient. The 2021-2027 CPR adds the possibilities to:

- use different types of grants under the condition that 'the programme support in the form of grants shall be directly linked and necessary for the financial instrument and shall not exceed the value of the investments supported by the financial product'; and
- to make direct payment to the final recipients (and not only to the benefit of the final recipients as in the 2014-2020 period).

Grants can also be combined with financial instruments in two separate operations (art. 58(4)) at the level of the final recipient as in the 2014-2020 period.

Source: fi-compass Factsheet, Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period, May 2021I

Recommendation #4 is to consider different or **alternative types of financial intermediaries to manage financial instruments** in the education and skill sectors. As the knowledge gap is large and the management cost is high for traditional financial intermediaries such as banks which are not necessarily well equipped to deal with a large number of applicants for a small volume of individual loans, the managing authorities may consider opting for alternative financial intermediaries. In that regard, the Skills and Education Guarantee Pilot offers interesting examples of universities or training providers (EIT Digital for instance) acting successfully as financial intermediary.

Recommendation #5 to managing authorities is to cover up-skilling and re-skilling needs of firms **either within existing public-backed financial instruments** for start-ups and SMEs and mid-caps **or within newly-designed ones.** Indeed, it is important for managing authorities that have set-up financial instruments supporting innovation and productive investment into businesses to make sure that the intangible investment attached to tangible investment (equipment, production capacity, etc.) such as investment into up-skilling and re-skilling the workforce is included as eligible expenditure as part of the innovation or investment plan of the businesses.

7.2. Options for financial instruments

This section presents various preliminary options for using financial instruments for education and skills. These options are built on the main assumption that the demand for affordable finance is considered to be growing in the next future due to the increasing number of students all-over Europe, with tension on public student grant schemes. In that regard, publicly supported financial instruments may be an efficient option to continue supporting student access to higher education. In addition, it is anticipated that needs for re-skilling and up-skilling workers will increase post Covid-19, particularly in the context of the twin transition, ecological and digital.

The guiding principles to design options, no matter the specific choice of financial products and governance structure, are to keep the financial instruments with broad eligible criteria as it makes for a better absorption of the product, economy of scale and it increases appetite from potential financial intermediaries; and to maximise leverage effects on private funding sources (multiplier effects), i.e. commercial banks and businesses.

7.2.1 Guarantee and Risk sharing Loan options

A first set of options for the managing authorities to consider is the guarantee and risk sharing loan schemes. These options build on the lessons learnt from the case studies and aim at making more affordable the access of socio-economic disadvantaged students and workers to tertiary education and/or training services. They are relatively easy to set-up building on the previous experiences and suitable with the ESIF regulations governing the financial instruments and State aids regulations.

Managing authorities may opt for a financial instrument under InvestEU or for a decentralised financial instrument. Decentralised options could be more suitable for tailor made solutions and for combining financial instruments with grants. However, they imply more preparatory work on the managing authorities' side, as well as on financial intermediaries, particularly if grants are combined with the financial product within the same operation. Combining financial instrument and grants is based on the possibilities made available by the 2021-2027 CPR[177]. In addition, where the support involves State aid, they can consider providing aid of up to EUR 2 million per training project based on GBER, allowing for maximum aid intensity of up to 70% in the case of small enterprises[178]. Other options to ensure State aid compliance at all levels may also be considered where appropriate[179].

The continuation under InvestEU of experiences such as the Skills and Education Guarantee Pilot may be a good option for universities and other training and education providers to participate in the instrument (Table below). In some geographies, where financial intermediaries have little understanding of the market and are enough skilled to take-up financial instruments co-funded by EU funds, centralised instruments could be a better fit, thanks to their leverage on the experience and know-how of actors such as the EIF or NPBs/NPIs. Managing Authorities of ESF+ could even opt for setting a national compartment under InvestEU to support operations under the new instrument that should be designed from the end of the first quarter 2022.

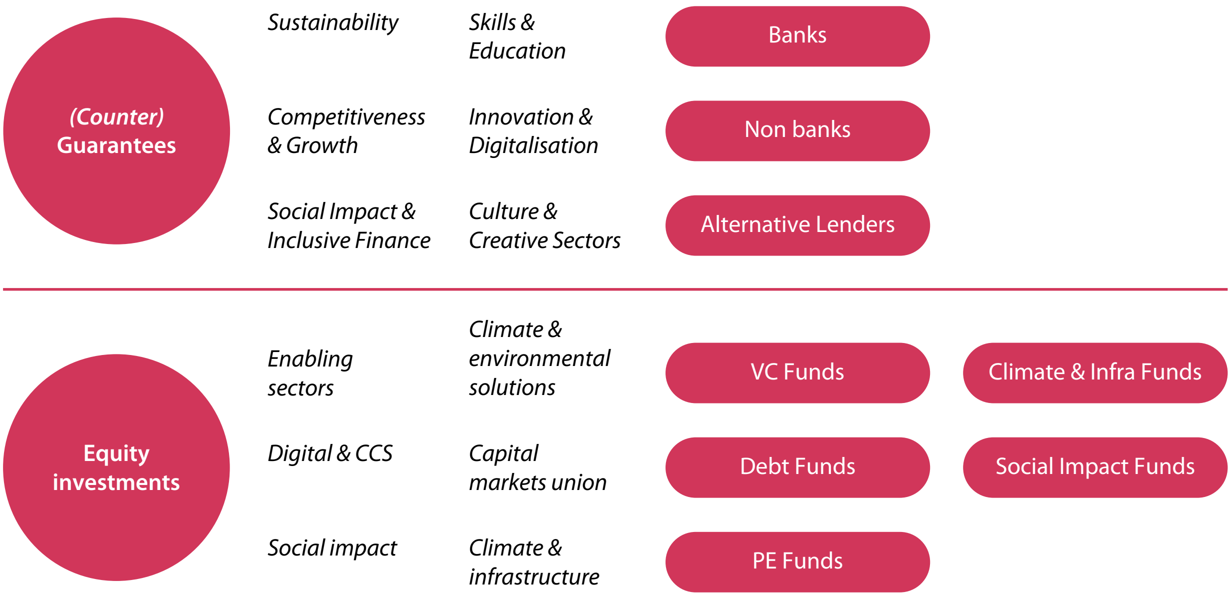
177 See Article 58(5) Regulation (EU) 2021/1060 as well as fi-compass (2021), Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period – Factsheet May 2021.

178 See Article 31 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

179 See fi-compass (2018), European Social Fund financial instruments and State aid.

Table 24 – Skills and Education under new InvestEU Fund

InvestEU brings a new wave of finance for innovation and job creation in Europe. As implementing partner, the EIF intends to leverage EUR 11 billion of InvestEU Fund resources and attract additional private investments through guarantee and equity risk sharing instruments aiming to mobilise EUR 145 billion in investments benefiting SMEs, small mid-caps and mid-caps, infrastructure projects, and individuals. This will be done in different policy areas including the skills and education sector. The EIF's InvestEU toolkit includes (counter) guarantees, equity investments, and capacity building investments. Advisory support will be offered alongside InvestEU products. The EIF does not provide financing directly to these beneficiaries, thus EIF will continue to rely on its strong network of intermediaries across Europe.



Source: EIF, The EIF and InvestEU, https://www.eif.org/what_we_do/InvestEU/index.htm

In the Skills and Education policy area, the EIF's Skills & Education Pilot will continue with few adjustments to the existing pilot scheme: the instrument will be open to a new category (D) of final recipients to cover enterprises that offer services ancillary to education (e.g. student housing); and the guarantee rate for categories B (enterprises investing in skills), C (suppliers of education, training) and D of financial recipients (section 5.4.4), will be 70% instead of 80%. In addition, EIF will also provide equity support to education, ie through investing, as a limited partner, into Edtech funds or funds that are investing into education technologies or education more broadly.

Support actions as described throughout the document (awareness raising, capacity building for managing authorities and intermediaries) are to be planned with a view to a successful launch of any instrument.

Figure 23: Implementation options

The analysis has shown that the market gap for socio-economic disadvantaged students is related to the perceived risk of borrowing money to beneficiaries which do not have any track record and as a consequence of this perception collateral requirements from banks. In that regard, the guarantee instrument looks fitter than loan to bridge such gap, as the commercial banks do not have, to date, a liquidity issue. The guarantee may also help to attract new intermediaries to get involved with financial instruments for education and skills. Guarantee instruments finally offer a larger multiplier of the EU funding, mobilising a higher amount of private funding, including when the guarantee is combined with a grant. However, the loan may be a preferred option for managing authorities willing to work with alternative financial intermediaries, particularly universities or training provider organisations. In that scenario, risk sharing loan may be an option to provide additional liquidity to universities or training centres to lend money to students and learners.

The table below synthetises the different options.

Table 25 : Guarantee and Risk sharing loan options

	Guarantee fund	Loan Fund
Nature /Type of financial product	Guarantee facility, with grant combination to i) subsidise the interest rate, ii) cover tuition fees (loan covering living cost) or iii) cover handling costs of the loan (up to 50%).	Loan - with potentially: • a grant combination to i) subsidise the interest rate, or ii) cover tuition fees (loan covering living cost) iii) cover handling costs of the loan (up to 50%); • a restructuring component in case of difficulties with repayments.
Potential final recipients	Students (EQF 5 to 8) Learners willing to finance re/up skilling CVT programmes Businesses willing to invest in education and training activities of their staff	

	Guarantee fund	Loan Fund
Expected multiplier and leverage effect	5x (e.g. FSMA) over EU resources (but less depending on the grant combination)	2x over EU resources (depending on the grant combination) assuming 50% of its resources are devoted to grants and that the Financial intermediaries contribute to the loan fund with 50% of own resources
Type of financial intermediaries	Banks and other types of financial intermediaries Potentially no intermediary (MAs may manage) / regional promotional agencies	Dedicated institutions such as Universities, potentially banks Potentially no intermediary (MAs may manage) / regional promotional agencies
Features	Capped guarantee with a proposed max 25% cap rate and a guarantee rate of max 80% loan-by-loan offered for free to intermediaries that accept to provide loans with the following features: long tenure, grace period, low interest rate, no collateral Or Counter guarantee to guarantors of student loans and training activities	Risk sharing with one or more financial selected intermediaries to offer loans with the following features: long tenure, grace period, low interest rate, no collateral
Potential funding sources (InvestEU, RRF, National)	ESF+, InvestEU (Social Investment and Skills window), National, Regional	ESF+, InvestEU, National, Regional
Geographical eligibility	Europe / National / Regional	Europe / National / Regional
Governance structure	Can be centrally managed (S&E) or at the National level Holding fund structure acting as guarantor and selecting of financial intermediaries	Can be centrally managed (S&E) or at the National level

7.2.2 Exploratory options

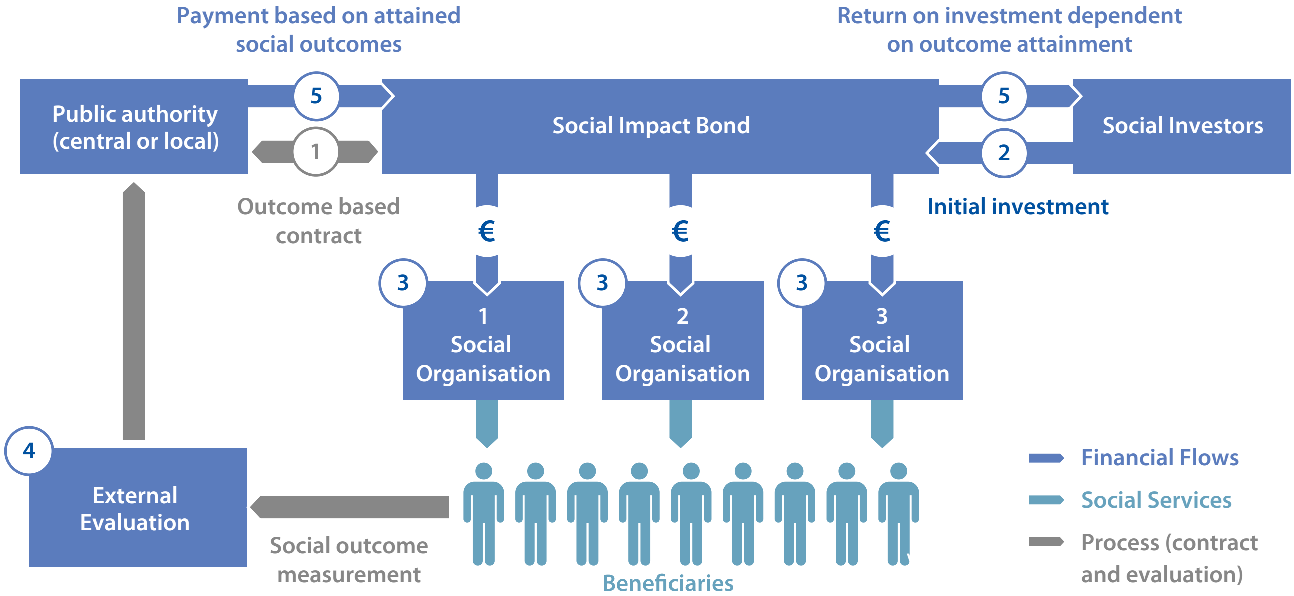
The second set of options is more exploratory and would need piloting phase to use ESF+ and other EU funding as funding sources.

InvestEU foresees the possibility to finance skills and education and training activities, including through **social outcome contracting** pilots (SOC) as a way of leveraging private investment for social goals. Social Impact Bonds (SIB or SOC) Programme uses an outcome payment mechanism to support innovative projects addressing societal problems in specific public policy areas – Employment, Social Protection, Justice, Health and Education. It is a financial scheme that can be used to support social innovation initiatives for which the setting of outcome targets is feasible. Benefits of SOC are generally to foster collaboration and co-creation of solutions with social economy participants, and to provide the social economy with the funding and freedom needed to test innovative solutions to social problems. It is expected that a SOC also drives a robust measurement of outcomes and creates a reliable evidence base on 'what works' in social policy. It mobilises that evidence base to drive replication of effective interventions and supports investment in prevention and helps to realise savings for the government[180].

180 An introductory guide to social outcomes contracting in European Union Member States, EIB, May 2021, https://eiah.eib.org/publications/attachments/social-outcomes-contracting-in-Europe-10052021.pdf

The Portugal Social Bond Initiative is an example of using SOC to support social innovation by mobilising ESF+ funding (2014-2020). By acting as the outcome payer, the Portugal Social Innovation Mission Structure (PSIMS) uses ESF to remove a key constraint to the adoption of SIBs in Portugal – the current lack of public sector outcome-based commissioning, while proofing the concept and help persuading public sector entities to start shifting from the traditional output focused approaches towards more outcome-oriented public policies. Additionally, by involving private external parties as initial investors, SIB reduces the financial risk of innovation failure for the public sector, while attracting private funding to the provision of social goods and responses. It consists of a grant support to pay for validated outcomes achieved by specific social innovation projects in an area of public policy. It funds 100% of eligible cost financing to beneficiaries (85% ESIF-ESF + 15% Portugal State budget), upon validation of contracted outcomes, with no maximum threshold per project. Project durations are long, going up to five years between project start and outcome validation and payment.

Figure 24: Social impact bonds



Source: EIB, fi-compass, The Portuguese Social Innovation Initiative The Social Impacts Bonds Programme Using ESF to finance Social Innovation and Social Entrepreneurship, 2018.

However, in the area of education and skills, the business case is yet to be defined in terms of social innovation to be introduced in the way of delivering courses to students or workers for instance. The definition of the outcomes and their quantification is also uneasy. The financing of ESF+ may be more complex for managing authorities that do not have already the experience of financing instruments and the cost of structuring a SOC could be eventually high.

A last option for managing authorities would be to consider providing funding to student access to higher education by using on-line student platforms that are arising in the US and the UK mostly. In the last 10 years, there has been a number of new financial intermediaries providing student loans, such as SoFi, LendKey, CommonBond, Credible, Achieve Lending, LendEDU, Prodigy Financeand UpStart (US), or Lendwise, Future Finance (UK). They generally act either as comparator tools, direct lenders or peer to peer platform such as Lendwise in the UK and use data sciences and algorithm for doing the screening and due diligence of the beneficiaries. Main benefits for the students are the ease of access (on-line service), quick service, and transparency on the terms and conditions.

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