European Union
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ATM for SMEs
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Five case studies on the relationship between microfinance and the European Social Fund (ESF)

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EUROPEAN
MICROFINANCE
NETWORK

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The research activities have been coordinated and performed by Microfinanza Srl, a fully independent company specialized in providing qualified services and technical support to the microfinance sector worldwide. The analysis has been commissioned by the European Microfinance Network (EMN): since April 2016, EMN has been an advisory partner in the “ATM for SMEs” project which has the aim of improving access to microfinance for small and medium enterprises. In the framework of the project, EMN shall deliver a study that explores and showcases the potential of European Social Fund (ESF) for the microfinance sector in Europe (“study”). EMN has sought the services of the Consultant in order to carry out the study.

SUMMARY

microfinanza EUROPEAN MICROFINANCE NETWORK European Union European Regional Development Fund ATM for SMEs Interreg Europe

LIST OF ACRONYMS

BDS	Business Development Service
CF	Cohesion Fund
CLLD	Community-Led Local Development
EC	European Commission
EIF	European Investment Fund
EMN	European Microfinance Network
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Fund
EU	European Union
FEAD	Fund for European Aid to the Most Deprived
FMFIB	Fund Manager of Financial Instruments in Bulgaria
GDP	Gross Domestic Product
MA	Managing Authority
MFC	Microfinance Centre
MFI	Microfinance Institution
NBFI	Non-Bank Financial Intermediary
NBMFI	Non-Bank Microfinance Institution
NGO	Non-Governmental Organization
NOP	National Operational Programme
NPO	Non-Profit Organization
OP	Operational Programme
ROP	Regional Operational Programme
SME	Small-Medium Enterprise
TO	Thematic Objective

ABSTRACT

The following report investigates and emphasizes the role of microfinance using European Social Fund (ESF) funding. The main role of the ESF is to support the creation of jobs, improve working conditions and ensure fairer job opportunities for European citizens. The ESF offers both financial and non-financial services, and it has been used to co-finance entrepreneurship activities and guarantee funds around Europe.

In recent years, microfinance has garnered attention as a tool to improve the work possibilities for those who are considered "*un-bankable*", i.e. people who do not have access to commercial banks and therefore cannot ask for a loan to finance their business activities. As a result, microfinance is seen as a tool to boost entrepreneurship around Europe and corresponds to the aim of the ESF.

In the first chapter of this report, the ESF and microfinance are introduced as follows: first, the role of ESF and its functioning are explained. The ESF works in cooperation with different European and national actors. Funding for the ESF is proportional to the Gross Domestic Product of each country. Second, the European microcredit sector is introduced and its relationship to entrepreneurship and self-employment is explained. The third section of the introduction highlights the link between the ESF and microfinance as they relate to three Thematic Objectives conceived for the programming period 2014-2020. Since the ESF arises out of market failures, the fourth section of the introduction presents the concepts of market failure and touches on the successful cooperation and coordination cases between ESF and microcredit, as well as the involvement of all stakeholders. Finally, Community-Led Local Development (CLLD) strategies are presented as a way to overcome the impasse and offer a new bottom-up approach.

In the second chapter of the report, primary data sources suggest how to improve the coordination and cooperation between Managing Authorities (MAs) and local Financial Intermediaries, as well as how to improve CLLD strategies at all levels.

In the third, fourth, fifth, sixth and seventh chapters of the report, case studies are presented across five EU contexts: Bulgaria, Italy, Poland, Spain, and Belgium. Each case is organized with the same structure: a brief overview of the country is presented followed by a mapping of Microfinance Institutions (MFIs). Afterwards, the Operational Programmes for the country at the national and regional level are presented. Finally, each specific case details a successful project and the related implementing MFI(s) to highlight the partnership's strengths and weaknesses, which emerged from the interviews conducted.

In the last chapter, conclusions and recommendations for the next programming period 2021-2027 are drawn up, including a brief overview of the evolution of ESF, namely ESF+.

1 INTRODUCTION

1.1 THE ROLE OF THE EUROPEAN SOCIAL FUND (ESF)

The main objective of the European Social Fund (ESF) is to **support the creation of more and better jobs for European citizens.** It offers a range of funding opportunities for financial and non-financial services. The ESF has been used to co-finance entrepreneurship training and guarantee funds in a number of European countries. In particular, the ESF works by investing in Europe's human capital (workers, young people and job seekers). With annual financing of EUR 10 billion, the ESF is improving jobs prospects for millions of Europeans, in particular those who have difficulty obtaining a job.

In 2010, the European Commission launched the "**Europe 2020 Strategy**" aimed at **generating smart, sustainable and inclusive growth** in the EU, with particular attention on the creation of more and better jobs and a socially inclusive society. The ESF is playing an important role in meeting those goals and in mitigating the consequences of the current economic crisis, which has undermined employment opportunities and worsened poverty situations. **Entrepreneurship** is seen as a key element for bettering the current scenario, and the main role of the ESF is to fund opportunities that encourage self-employment, business start-ups and entrepreneurial initiatives.[1]

Other ESF priorities consist of **boosting the adaptability of workers and enterprises through the acquisition of new skills and new ways of working,** as well as **improving access to employment** by helping young people transition from school to work or by training less-skilled job-seekers to improve job prospects. Indeed, **vocational training and lifelong learning opportunities** constitute a large part of many ESF projects.

Furthermore, the ESF aims to **help people from disadvantaged groups find jobs** as a way to enhance 'social inclusion': as a matter of fact, a rewarding workplace allows individuals to contribute positively in the development of their local community. In this sense, it is possible to say that 'work ennobles man.'

It is important to mention that the ESF is not an employment agency, but rather funds tens of thousands of local, regional and national employment-related projects throughout Europe: **from small projects** run by neighborhood charities to help local disabled people find a suitable job, **to broader national projects** that promote vocational training among the whole population. Projects funded by the ESF vary widely in terms of nature, size, aims and target groups: some target education systems, teachers and schoolchildren; others focus on young and older job-seekers; finally, some programs reach potential entrepreneurs from all backgrounds[2]. Although the ESF and European microfinance sector have similar goals, MFIs often face difficulties in channeling these funds towards the underserved.

[1] Maas B. & Lämmermann S., Designing microfinance operations in the EU, (April 2012), p. 28
[2] Retrieved from http://ec.europa.eu/esf/main.jsp?catId=35&langId=en (December 3rd, 2018)

1.1.1 HOW THE ESF WORKS

Each member State agrees on one or more Operational Programs (OPs) in cooperation with the European Commission for the following seven-years programming (the next programming period will start in 2021). The EU distributes ESF funds according to the dimension and size of the pre-decided OPs, which can be run by public as well as private organizations.

The ESF is coordinated by the European Commission and national and regional Managing Authorities (MAs), but other actors are also involved, such as NGOs and workers' organizations. The functioning of the ESF is based on upon two strategic pillars:

a) **Co-financing**: the ESF is always co-financed by public or private entities at a rate between 50% and 85% of the total cost of the selected project; and,
b) **Shared management**: guidelines are designed at the European level and then implemented at a micro level (national or even regional).

Moreover, ESF funding is assigned on the basis of the well-being of the region on a GDP basis. In Europe, three areas are identified: **less developed regions** (GDP/capita < 75% of EU-27[3] average), **transition regions** (GDP/capita between 75% and 90% of EU-27 average) and **more developed regions** (GDP/capita ≥90% of EU-27 average).

Instruments funded by the ESF are under the responsibility of the MAs, e.g. National Ministry of Employment or Regional Governmental bodies, which need to collaborate with other entities to establish and implement a successful strategy and project.

Since one of the objectives of the ESF is the **growth of self-employment** and **small businesses**, the Community of Practice on Inclusive Entrepreneurship (COPIE) was created in 2007 as a "*learning network of ESF Managing Authorities and Implementing Bodies at national and regional level in Europe.*"[4] It has five thematic groups: Strategy and Action Planning, Entrepreneurship Education, Quality Management, Integrated Business Support, and Access to Finance.

Our analysis draws the attention to the Access to Finance thematic group, as this report investigates the role of microfinance as an opportunity to finance self-employment activities and small businesses, as well as how microfinance could be seen as an alternative to grants, in order to achieve a more inclusive entrepreneurship in Europe. Creating a shared vision on inclusive entrepreneurship is essential to related areas such as employment, social, economic, and regional policies, and reflects a common interest to implement inclusion from an entrepreneurial point of view.

[3] Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, the United Kingdom (1 Jan 2007 – 30 June 2013)
[4] Maas B. & Lämmermann S., Designing microfinance operations in the EU, (April 2012), p. 8

1.2 MICROFINANCE AS A TOOL TO BOOST ENTREPRENEURSHIP IN EUROPE

According to Eurostat, in 2015, nearly all EU business (99,8%) were SMEs – Small and Medium Enterprises (employing less than 50 people for small- and 250 for medium-sized) – and 92% of SMEs were considered microenterprises.[5] Microenterprises employ less than 10 people and do not exceed EUR 2 million in annual turnover.[6] Although micro and small enterprises play an important role in the European economy, establishing a business is not easy and self-employees encounter many difficulties, chief among them being access to financing.

Access to finance is particularly acute for **disadvantaged people,** such as unemployed and socially inactive people, young people, women, disabled and seniors, who want to start up a business. In fact, commercial and traditional banks often do not lend to these categories as they are considered "too risky." Challenges lending to these borrowers typically include **higher operational costs** that banks bear when lending small amounts – resulting in lower profits – and the **lack of collateral** by disadvantaged borrower categories, as they often do not have a credit history or a business track record.

In this context, **microfinance** could play a crucial role. Microfinance is defined as "the provision of basic financial services to poor (low-income) people, who traditionally lack access to banking and related services" (Consultative Group to Assist the Poor – CGAP – definition).[7] Microfinance includes microinsurance, microsavings and microcredits, but in Europe the focus is mainly microcredit. **Microcredit** is defined as loans below EUR 25.000[8] to microenterprises and disadvantaged persons. A further distinction is made between microenterprise lending and inclusion lending: the former refers to bankable clients with loans up to EUR 25.000 and the latter is intended for "unbankable clients," i.e. those who are excluded from the traditional financial sector.

As shown by the 2018 EMN-MFC survey[9], 156 surveyed MFIs (156) disbursed 660.330 credits (+5% compared to 2016) for a total of EUR 2,1 billion (+ 11%) in 2017. The number of active borrowers was 988.457 (+8% compared to 2016) with a gross microloan portfolio outstanding of EUR 3,2 billion (+ 16%). The majority of microloans has been allocated to business microloans (54%).

Although the microfinance sector is relatively new in Europe, the last EMN-MFC survey indicates that the growth trend is positive, and it is believed continue growing in the coming years.

The majority of the MFIs continue to pursue a primary mission of financial inclusion (60%), but also target job creation (14%) and the growth of existing businesses (10%) as well. In

[5] Lorenzi, M., Microcredit in the European Union: A feasible Means for business growth and fair access to credit (2016, June), p. 5
[6] Maas B. & Lämmermann S., Designing microfinance operations in the EU, (April 2012), p. 1
[7] Maas B. & Lämmermann S., Designing microfinance operations in the EU, (April 2012), p. 8
[8] EU Regulation No 1296/2013
[9] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018), p. 8

this study, we emphasize the disadvantaged categories such as women, rural workers, unemployed and minorities.

In terms of supply, 68% of surveyed MFIs provide both financial and non-financial products and services. Core **financial services** include loans (both business and personal – 81%), followed by savings products (24%), mortgages (7%) and insurances (6%). Mobile services and money transfers are offered as well but to a lower extent.[10]

Non-financial services include client development services (56%), entrepreneurship development services (57%) and business development services (56%).

The provision of microcredit varies widely among European countries. In **Western countries**, the microfinance sector started to develop in the 2000s and stresses cooperation between different actors to deliver financial and non-financial services. By contrast, **Eastern and Central countries** saw the rise of microfinance in the 1990s mainly as private initiatives to serve disadvantaged areas, often relying on the intervention of international organizations as well.[11]

1.3 ESF AND MICROCREDIT: IMPLEMENTING FINANCIAL INSTRUMENTS

In the previous paragraph, the increasing importance of microcredit in Europe has been outlined, making it a key instrument for financial and social inclusion of disadvantaged categories of borrowers. Below, the link between microcredit and the ESF is illustrated. As already mentioned, microfinance is one tool that can help to **fill the gap** between small businesses and access to finance. COPIE has established five thematic groups whose aim is to develop more favorable conditions for self-employees and small business – and to achieve this goal, access to finance is fundamental.

In the 2014-2020 programming period, the European Structural and Investment Funds, which includes ESF, outlined 11 investment priorities or **thematic objectives:**[12]

1. Strengthening research, technological development and innovation
2. Enhancing access to, and use and quality of information and communication technologies (ICT)
3. Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
4. Supporting the shift towards a low-carbon economy in all sectors
5. Promoting climate change adaptation, risk prevention and management
6. Preserving and protecting the environment and promoting resource efficiency
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures
8. Promoting sustainable and quality employment and supporting labor mobility
9. Promoting social inclusion, combating poverty and any discrimination

[10] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018), p. 18
[11] Maas B. & Lämmermann S., Designing microfinance operations in the EU, (April 2012), p. 15
[12] https://ec.europa.eu/regional_policy/en/policy/what/glossary/t/thematic-objectives

10. Investing in education, training and vocational training for skills and lifelong learning
11. Enhancing institutional capacity of public authorities and stakeholders and efficient public administration

These thematic objectives are then taken into account when every EU country, in cooperation with their national MAs, are asked to hand in their National Reform Programs (NRPs), National Strategic Reference Frameworks (NSRFs) and the related OPs, which are fundamental to implement the Europe 2020 Strategy **through ESF funding**. With regard to this report, we focus on three **Thematic Objectives** (**TOs**) that emphasize the role of microcredit. In particular, **TO 8** (Microcredit can support self-employment and small business creation), **TO 9** (Microfinance can support minorities and marginalized communities) and **TO 10** (Microcredit can apply to student loans, increasing and encouraging further education e.g. also in the form of training, coaching or mentoring). These TOs relate to microcredit by:

- Focusing on the client demand and their expectations;
- Increasing the capacity in the financial ecosystem to provide finance;
- Assuring a closer relationship between the lender and the borrower compared to traditional financing tools;
- Assuring the efficiency and the effectiveness of EU programs; and,
- Attracting co-investments from other sources.

In sum, these three TOs can be achieved through financial instruments, i.e. microfinance and microcredit, which can support vulnerable categories. In doing so, MAs may need help when implementing microcredit schemes.

Once the ESF's commission has assigned funding to the MAs according to the respective TOs, the MAs need to identify a financial intermediary to manage the funds, under the oversight and responsibility of the MAs. **Establishing a microcredit scheme** that combines the potential of microcredit and the availability of ESF funds is one of the strategies adopted by the ESF to boost entrepreneurship and self-employment at the European, national and regional levels.

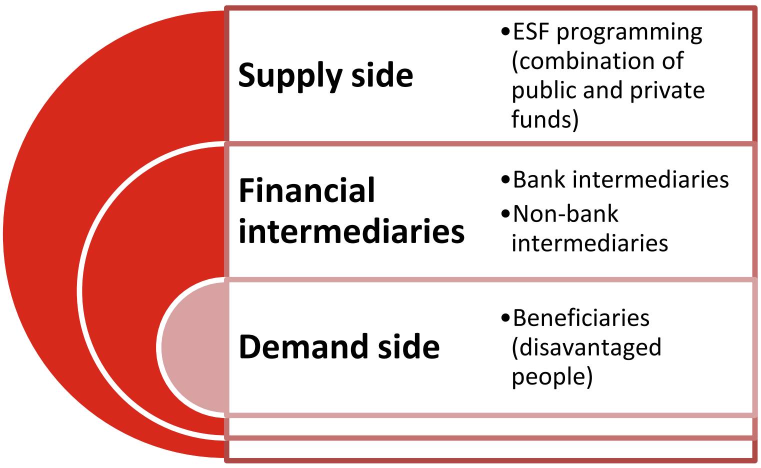

Figure 1: The role of financial intermediaries in ESF funding

Figure 1 shows the relationship between the demand and supply side and the role of financial intermediaries when implementing a microcredit scheme.[13]

Unlike traditional banks, **financial intermediaries** in the microcredit system respond to **triple bottom line sustainability,** which means acting in accordance with social, economic and environmental capital. In fact, most financial intermediaries in microfinance schemes are designed to meet social and economic needs, as well as environmental needs. For instance, although **green microfinance** is considered a young and underdeveloped trend in Europe, as explained in the EMN-MFC survey (2016), "the promotion of environmentally friendly practices through microloans for renewable, energy efficiency and environmentally-friendly activities is currently carried out or planned to start by almost a third of survey respondents."[14]

Among financial intermediaries, we focus on **non-bank financial intermediaries (NBFIs)**, such as foundations, associations, non-banking financial institutions, credit unions, and financial cooperatives. Despite their capability to cater the needs of the most vulnerable clients and the fact that NBFIs represent the majority of the organizations operating in the European microfinance sector,[15] funding managers such as MAs and the ESF tend to assign the role of financial intermediary to commercial banks.

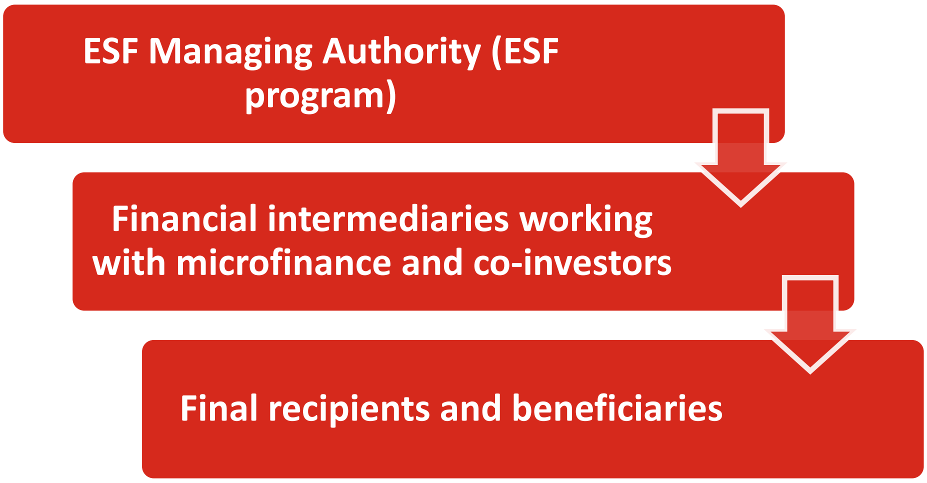

Figure 2: The implementation of microfinance schemes in ESF programs

As previously mentioned, the ESF can implement microcredit schemes in partnership with public and/or private entities. Figure 2 summarizes how this process works.[16] First, through the ESF program, the MA identifies and funds the financial intermediaries engaging in microfinance. Second, the financial intermediaries disburse microcredits to final recipients, who belong to disadvantaged categories. Third, final recipients establish small businesses or self-employment activities and repay the loans to the financial intermediaries through

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[13] The following figure is a personal elaboration retrieved from EIB, Financial instruments working with microfinance (2016), p. 9
[14] Botti F., Dagradi D. L., Torre, L. M. (December 2016), Microfinance in Europe: A Survey of EMN-MFC Members, p. 8
[15] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018)
[16] The following figure is a personal elaboration retrieved from EIB, Financial instruments working with microfinance (2016), p. 13

their profits. Finally, the financial intermediaries pay back funds to the MA. This mechanism is bidirectional: from MA to final beneficiaries, and vice versa.

The same scheme can be applied when credit **guarantees** are available. In this case, the ESF ensures guarantee funds that preserve the capital base of financial intermediaries and lower the risk of default situations in the case that final beneficiaries cannot repay their loans.

Figure 3 and the subsequent list illustrate the main steps that MAs should follow to identify a correct and efficient microcredit scheme:[17]

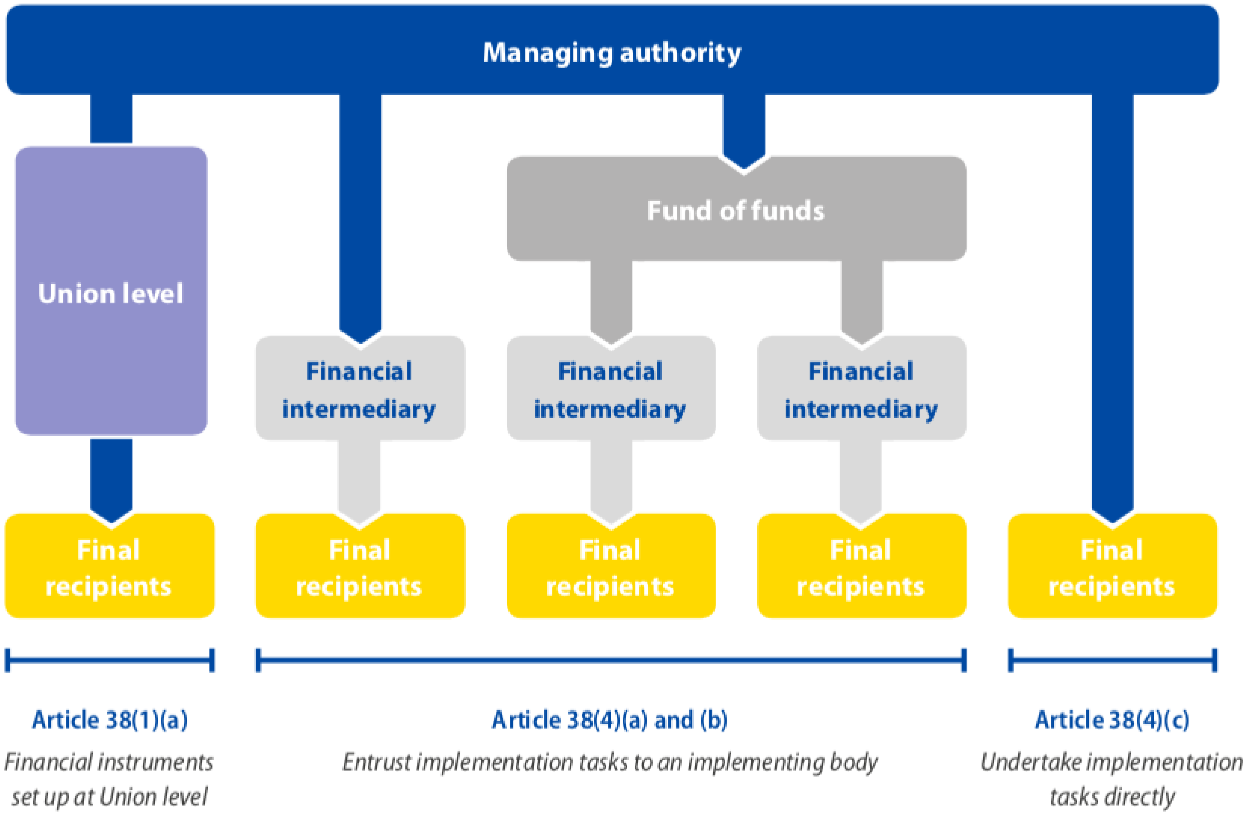

Figure 3: The ESF system

a) Choose the aim of the financial instrument, i.e. the reason why the scheme has been put in place;
b) Define the target group;
c) Define the role of the MA, after assessing the *ex-ante* situation and appointing the financial intermediary as a manager of funds or as a manger of a specific financial instrument;
d) Identify the implementing body, i.e. the financial intermediary, which can be public or private;
e) Identify the financial product;
f) Define the lending and the pricing policy;
g) Define the non-financial services; and,
h) Establish reporting and evaluating.

[17] EIB (2018). Setting up a microfinance financial instrument. Figure retrieved from p. 11

In conclusion, we emphasize the **importance of collaboration to develop dedicated microcredit schemes**: it is key that all involved actors work together to create suitable microcredit products, with tailor-made non-financial services adapted to vulnerable people. As a way of example, we mention non-financial services for two disadvantaged categories:

a) **Unemployed people, migrants, women and students**: skill training and capacity building for income generating activities, financial literacy, social empowerment, debt advisory services;
b) **Microenterprises**: business skill development, mentoring services for start-ups, enterprise and financial management, debt advisory services.

1.4 MARKET FAILURES

In microeconomics, market failures are defined as a situation where the allocation of goods and services is not efficient, and as a result causes a net loss of social welfare. In our case study, the market failure is linked to the **lack of access to ESF funds by non-bank financial intermediaries** – we can define it as a non-efficient allocation of funding. In fact, even though microcredit schemes are conceived in consultation with all involved actors, a funding gap could arise that consequently leads to a market failure.

To identify and prevent possible future market failures, the EMN and the MFC have investigated "not completely successful" or "unsuccessful" cases of cooperation between the ESF, MAs and financial intermediaries in various European countries. The **main identified failures** include:[18]

- **The application process for ESF** is considered too complex, too time consuming and could lack of transparency. An example of this failure is reflected by **Responsible Finance in the UK** as the process was very bureaucratic and too difficult;
- **National policy**, referring to long-term commitment and focus on specific topics, which should be common to ESF and the MA. An example of this failure is the **Italian RITMI** as the national and regional MAs manage the ESF, but they do not consider self-employment – *one key element in ESF* – a priority in the Mediterranean country;
- **Awareness of ESF managing authorities**, through the provision of financial and non-financial services as well as the description of achieved goals. One example is the **Spanish C'PAC** as the MAs were not aware that MFIs in the country do deliver non-financial services, too;
- **Availability of information** such as guidelines and funding opportunities. One example is **Bulgaria**: there has not been a clear and proactive communication from ESF-MAs towards the possible beneficiaries;
- **Long-term strategy**, which means reliability and planning on long-term commitment strategy of national policy and MAs. **Various MFIs in Germany** have encountered this failure as the Ministry of Labor to which they are dependent to, has changed the strategy and it was not in line with the MFIs' one anymore;

[18] EMN & MFC, ESF Market Failures for Microfinance in Europe. Findings "short mapping"

- **Complexity of the management of the ESF program**: as in the case of Nantik Lum (Spain) where many actors were involved, and it has been difficult to manage the program;
- **Eligibility criteria**, i.e. the actors who can apply, the criteria to be met, reporting among others. One example of this failure is **VITAS** (**Romania**) as MFIs are excluded from any financing instrument from the Structural Funds (to which ESF belongs), so there is a structural barrier;
- **Direct contact with ESF authorities**, such as working relationship or peer-to-peer contact. One example of this situation has been depicted by entities in **Greece** (**Cooperative Bank of Karditsa** and **Agricultural University of Athens**) as despite of the good experience of EaSI[19], the financial intermediaries have not managed to contact ESF MAs.

Although market failures are likely to continue as a challenge for successful cooperation between stakeholders, in this report we focus on five case studies that have been identified as examples of cooperation and coordination between MFIs and MAs.

1.5 COMMUNITY-LED LOCAL DEVELOPMENT: A GLIMPSE

We also account for a second way of involving stakeholders when designing policies. In this report, we emphasize the **need to improve and boost entrepreneurship and self-employment to increase social inclusion**, and **microcredit is a tool that can help to fill the gap between personal entrepreneurial attitude and access to finance**. We also stress the importance of collaboration and cooperation between actors when implementing microcredit schemes.

We briefly describe **Community-Led Local Development**. As defined in the Guidance for Local Actors (2014), Community-Led Local Development (CLLD) is "*a term used by the European Commission to describe an approach that turns traditional "top down" development policy on its head. […]* ***The strategy is designed to build on the community's social, environmental and economic strengths or "assets" rather than simply compensate for its problems***"[20].

This definition highlights the role that CLLD can play for European communities in the long-term by delivering development policies. The Cohesion Policy 2014-2020[21] defines the characteristics of CLLD as the following:

a) The focus on sub-regional areas;
b) The leadership of local action groups;

[19] EaSI (Employment and Social Innovation Programme) is a financing instrument to promote high level of quality and sustainable employment, guaranteeing an adequate and decent social protection, to combat the social exclusion and poverty, as well as to improve working conditions. It brings together three EU programmes (2007-2013): PROGRESS, EURES and Progress Microfinance.
[20] European Commission. Guidance for Local Actors on Community-Led Local Development (third version, September 2018), p. 9
[21] European Commission. Community-Led Local Development. Cohesion policy 2014-2020. (March 2014). Retrieved from https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf (December 4th, 2018)

c) The existence of multi-sectorial area-based local development strategies to take into account the local needs and potential; and,
d) The inclusion of innovative features, networking and co-operation.

In fact, CLLD is often used because of its potential to **add value to national and regional programmes**, as they rely on the support of local actors who are well aware of the necessities of their communities. CLLD strategies have been practiced for over 20 years by LEADER[22] in rural areas and have been promoted through other European initiatives such as URBAN[23] and EQUAL.[24] In the 2014-2020 programming, CLLD strategies relate to four European funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

CLLD strategies align with ESF funds since they are designed to enhance local and inclusive development. The focus is on the quality of growth in accordance with social, economic and environmental sustainability as well as territorial cohesion to address unemployment and poverty. From a practical point of view, Member States and MAs are required to define CLLD strategies when applying for ESF funds. For priority areas, MAs need to establish capacity-building activities to ensure that local communities can participate.

CLLD strategies are not separate from other strategies implemented by European institutions or national and regional actors. Rather, their strength is the **complementarity** and **synergy** with other initiatives.

For this reason, in the next chapters of this study, their role and their importance in defining a new way of conceiving policies will be undergone.

1.6 STRUCTURE OF THE STUDY AND METHODOLOGY OF MICROFINANZA

This study identifies and presents five examples of positive cooperation between MAs and non-bank MFIs using ESF funds. Moreover, it seeks to understand how, and under what conditions, ESF funds can be used by MFIs. Finally, based on the case studies, the report emphasizes ways to improve cooperation between MFIs and MAs.

The report is organized as follows: Chapter 2 introduces the research questions and briefly reviews our findings; Chapters 3, 4, 5, 6 and 7 each examine one of the five identified country cases (Belgium, Bulgaria, Italy, Poland, and Spain). These chapters offer an

[22] LEADER is the acronym for Liaison Entre Actions pour le Développement de l'Économie Rurale, Links between actions for the development of rural economy
[23] URBAN is an initiative of the ERDF (European Regional Development Fund) which supports innovative strategies for sustainable economic and social regeneration launched in the 1994-1999 programming, followed by URBAN II for the period 2000-2006
[24] EQUAL initiatives, funded by ESF, focused on supporting innovative and transnational projects in order to tackle the discrimination and disadvantages in the labour market for the period 2000-2006

overview of the macroeconomic context and the microfinance environment; Chapter 8 provides recommendations and conclusions.

Microfinanza has adopted an approach based on two sources:

- Primary sources are based on phone interviews with involved actors of the five countries. The list has been retrieved thanks to online research, direct and personal contacts provided by the EMN and exploiting the company's personal network;
- Secondary sources based on available literature, both online and offline.

1.6.1 DIFFICULTIES ENCOUNTERED IN THE RESEARCH

During the second phase of the project, Microfinanza encountered some difficulties reaching the involved actors for interviews.[25] In some cases, stakeholders had limited time to dedicate to the project, or reported that the questionnaire was too time consuming. Another difficulty came from the lack of answers to the questions related to CLLD (Community-Led Local Development). Very few interviewees responded to those questions as they did not know the topic, which in turn made it difficult for Microfinanza to analyze CLLD information.

[25] In one case, the questionnaire sent via email was considered to be too time consuming and was not filled out. In this case, the contacted person represents one organization that does not work with MFIs anymore.

2 GENERAL OVERVIEW

The second part of this report provides an overview of the research questions, which relate to the coordination between Managing Authorities and non-bank MFIs using ESF funds. We try to understand how to improve their cooperation and how they account for new bottom-up approaches such as Community-Led Local Development (CLLD) strategies.

All information presented in this section has been retrieved from primary sources, i.e. interviews with concerned actors, and secondary sources, i.e. online and offline sources. The questions investigated various topics to better understand the context of the relevant actors, as well as the main difficulties and suggestions they encounter.

The questionnaire was sent to two groups of stakeholders: (1) European Institutions and MAs, and (2) non-bank financial intermediaries. In some cases, the questions were the same, since our aim was to understand the different viewpoints on a common topic such as access to ESF funds and CLLD strategies.

The **questions for European institutions and Managing Authorities** cover:

- **Job creation and entrepreneurship** to identify the priorities of interviewed institutions on boosting entrepreneurship and self-employment, as well as whether relevant policies and strategies have been adopted to create jobs;
- **ESF funds** to understand the relationship between ESF, the State and institutions, the design of Operational Programmes in cooperation and coordination with national and regional policies;
- **Relationship between MAs and local financial institutions** to investigate their mutual cooperation delivering microfinance, particularly in the frame of ESF funds;
- **Access to ESF funds for local financial institutions** from the viewpoints of Managing Authorities and financial intermediaries with respect to the main challenges and opportunities.

The **questions for non-bank financial intermediaries** cover:

- **Knowledge of the ESF and application process** to understand MFIs' degree of knowledge, their difficulties in applying for funds and the weaknesses of the process;
- **Implementation of microcredit schemes** to boost entrepreneurship and self-employment for disadvantaged populations;
- **Perspectives and improvements of ESF funds for microcredit**, i.e. linking ESF and microcredit.

Finally, questions about Community-Led Local Development strategies were also probed but respondents were generally not aware of CLLD initiatives since the topic is relatively new for individuals outside of rural development or fisheries. After explaining CLLD strategies, interviewees typically agreed on the **necessity of local actors' growing and more inclusive participation** to best achieve successful outcomes.

The following table summarizes the involved actors and their role in ESF programmes:

Name of the institution	Role
European Union	
Directorate General for Employment, Social Affairs and Inclusion	European Union
European Investment Bank (EIB)	European Union
European Investment Fund (EIF)	European Union
Bulgaria	
Fund Manager of Financial Instruments in Bulgaria (FMFIB)	Managing Authority
SIS Credit	Non-bank financial intermediary
Mikrofond	Non-bank financial intermediary
Italy	
Direzione Regionale Formazione, Ricerca e Innovazione, Scuola e Università, Diritto allo Studio – Lazio Region	Managing Authority
Microcredito Italiano SPA	Non-bank financial intermediary
Confeserfidi	Non-bank financial intermediary
Cofiter	Non-bank financial intermediary
Fondazione Welfare Ambrosiano	Non-bank financial intermediary
Poland	
Polish Union of Loan Funds (PZFP)	Stakeholder
Mazovian Unit of EU Programmes Implementation	Intermediate and implementing Authority
KSWP	Non-bank financial intermediary
Spain	
Autoocupació	Non-financial services provider
Belgium	
microStart	Non-bank financial intermediary

2.1 RESEARCH QUESTION: COORDINATION BETWEEN MANAGING AUTORITHIES AND NON-BANK MICROFINANCE INSTITUTIONS IN USING ESF FUNDS AND IMPROVEMENT OF THE COOPERATION BETWEEN MAs AND NON-BANK MFIs

In the frame of ESF funding and projects, Managing Authorities can cooperate with actors in the **implementation of microcredit or guarantee schemes**. Our questionnaire explores this topic.

As explained in the previous section, the implementation of such schemes requires the involvement of different actors, i.e. Managing Authority, Intermediate Authority and the local financial intermediary. Together, these parties are responsible for the elaboration and design of financial and non-financial products targeting a specific set of final beneficiaries.

Regarding **microcredit schemes**, one MFI described the process as "a successful example of cooperation between national and regional private/public institutions in the use of ESF funds to offer microcredit and non-financial services." In fact, several stakeholders take on roles and responsibilities in line with their capacity, role and function. For example, an MA suggested that financial instruments are "**an active and effective tool for increasing employment**". However, the same MA also stated that this instrument is only **attractive for people in a relatively good situation in the labor market whereas grants may be more appropriate and cost-efficient for marginalized groups**, i.e. unemployed or disabled people.

Financial intermediaries can help MAs analyze risks and opportunities, competition, and the profits and losses of potential beneficiaries before disbursing loans. In fact, these FIs' core competencies and capacities are to assess whether a loan will be repaid or not. In addition, the expertise of financial intermediaries helps to limit the bad loan decisions and establish contacts for the future growth. Therefore, we suggest the **coordination and collaboration between MAs and Non-Bank MFIs (NBMFIs) is essential to reach the social and economic inclusion goals in an efficient and effective way**. We argue that collaboration is essential since there is a positive correlation between social and economic inclusion and it is fundamental that diverse stakeholders collaborate to reach this goal.

Regarding **guarantee schemes**, one MFI stated that it selects and presents final beneficiaries to a bank that handles the credit assessment; the local financial intermediary is then responsible for issuing the guarantee. For business microloans, the local financial intermediary supports entrepreneurs to develop a business plan that will be presented to the bank. The bank grants the microcredit if it judges the entrepreneurial idea as feasible. The local financial intermediary supports entrepreneurs with an interest rate reduction and business mentoring services. This example illustrates collaboration between different actors; however, the interviewed organization did not use ESF funds.

In short, microcredit and guarantee schemes are two potential collaborations between MAs and NBMFIs that could support economic and financial inclusion.

Although our interviews show some successful examples of cooperation between MAs and NBMFIs, the interviewees expressed some difficulties as well. One challenge is the **lack of direct involvement of local financial intermediaries**. Often, the funding decision is taken directly by MAs and local financial intermediaries' may simply play a 'passive' role intermediating the funds. In this sense, financial intermediaries are simply financial providers and do not engage in tutoring and mentoring activities or assist with the evaluations of business plans. A possible solution to this obstacle could be the **implementation of CLLD strategies**. As emphasized in the interviews, it is necessary to **improve the involvement of local actors as they are more aware of the difficulties and opportunities in the area**. In this case, CLLD strategies could help to avoid stratification in the regulatory framework, i.e. the overlapping of actions.

Another challenge emerging from the interviews is the **high levels of bureaucracy**. Financial intermediaries mentioned that they are obliged to meet numerous requirements and present detailed documentation to execute their activities. As stated by one local financial intermediary, simplification of the bureaucratic process could save valuable time. The ESF **application process** is typically considered as "good but complex and so long" or "challenging but manageable."

The ESF application process is generally considered difficult and not very user-friendly, although the complexity is often similar to that of other financing sources. Applying to the ESF implies more bureaucracy and more complex rules compared to private donor funds. In addition to the application process, the reporting mechanism (to deal with various regulations) is a further obstacle. The evidence emerging from our analysis suggests to simplify such aspects. Although ESF funding is perceived as a fundamental financing source, some obstacles characterizing it should be overcome to facilitate coordination between MAs and NBMFIs.

In the first section of this chapter, we considered two ways of coordination and cooperation for actors using ESF funding: (1) microcredit, and (2) guarantee schemes and non-financial support. We now further examine possible approaches to improve such cooperation.

First, the interviews highlight some key problems in the cooperation between MFIs and MAs. For instance, one MFIs has stated that financial intermediaries encounter **difficulties being recognized as a source for fighting unemployment and boosting economic development by MAs**. One way to improve cooperation could be to first establish a **mutual legal recognition of the two entities**, although we are aware that legal recognition is a matter for national and regional legislation and the ESF could not intervene. We observed throughout our interviews NBMFIs encounter difficulties working and partnering with MAs since they do not have legal requirements to apply.

To improve cooperation **MFIs should receive advisory assistance and specific support to solve problems in the implementation of the projects** as they do not always know the rules that govern their management or may lack internal resources to address this specific task. Furthermore, as mentioned by an interviewed NBMFI, **financial**

intermediaries may need capacity building and equity management as they are generally not well structured in terms of financial resources and skills. This is particularly relevant for small MFIs that do not have a well-structured internal organization. These MFIs likely encounter difficulties working with MAs and managing funds coming from the ESF.

To improve this relationship, one MFI stated that it expects "**more expression of interest about microfinance programmes**" from the MA. The coordination could be implemented through microfinance outreach, perhaps sponsored by the MAs through its actions towards European citizens.

One of the most interesting **suggestions** emerging from the interviews asserts that the **microfinance sector could contribute to new and innovative financial instruments that are forecast in the current programming 2014-2020**. **The ESF could operate as a fundamental instrument to support the microfinance sector** and in this regard, **the role played by the MFI can be strategically instrumental in channeling ESF funds towards the underserved**.

The coordination between the two entities also concerns the **design and implementation of financial instruments**. One interviewee indicated that there is **a strong unsatisfied demand for financial services for disadvantaged and "un-bankable" people** – and therefore, **the cooperation and the involvement of local financial intermediaries is fundamental to reach more final beneficiaries.** Setting a common goal, i.e. making credit accessible for disadvantaged categories, is one way to implement such cooperation.

Building on these statements, we suggest some criteria that should be met by both entities when designing a microcredit product/financial instrument, such as **efficiency, impact, financial** and **social inclusiveness,** and **sustainability**. In line with the objectives of the ESF and the Europe 2020 strategy, we advise that **cooperation could be improved to align the modalities (i.e. design and implementation of financial instruments) to reaching the established goals**. In fact, a common and shared working methodology would improve coordination between the various public and private stakeholders.

MAs and NBMFIs should also be more cooperative in the **implementation of non-financial services** Not only financial services are necessary to have an impact on beneficiaries' lives. **Mentoring, tutoring and coaching should be provided as well**. In this sense, interviewed MAs agree that **including those services may be fundamental to complement financial products**. In fact, as stated by one MFI, sometimes they encounter difficulties to reach final beneficiaries, but **MAs could help to promote ESF initiatives and support projects with non-financial services**. As a result, we suggest that including NBMFIs in the implementation of non-financial services at a wider level could integrate more stakeholders at different levels, i.e. regional, national and European. One suggestion by an interviewee indicates that the ESF could be the instrument to shift from a regional focus to a Pan-European approach.

Another consideration emerging from the interviews, as declared by one MA, is for the need to improve the **capacity of local financial intermediaries using ESF funds**

through more frequent meetings. More contact between these actors can encourage the **sharing of experiences by MFIs as well as foster discussion on the design and implementation of financial instruments**. To communicate the full potential of microfinance as key a policy tool to reach underserved populations, closer exchange with relevant actors and awareness campaigns towards MAs and general public could be beneficial. Although the role of financial intermediaries is generally considered prominent, there is still room for a wider and deeper liaising, particularly to take a more active role in the definition phase of the project as remarked by some MFIs. In sum, considering the difficulties encountered by MFIs, these activities can help to improve cooperation and avoid misunderstandings and potential future problems.

In summary, **improving cooperation between MAs and NBMFIs is necessary and fundamental when using ESF funds for microcredit activities**. As declared by the EIB, **European structural funds** – including the ESF – **are shifting from grant-based to return-based instruments**. This change reflects a shift from a “welfarism” approach to a more autonomous and independent approach. Given this future intervention logic of European Union, it is clear that the implementation of microcredit tools and schemes to support final beneficiaries should include financial intermediaries as an active part of the process. Since MAs are responsible for implementing and managing the process, they should act in coordination with all involved actors. We therefore suggest that an **active and proactive approach should be adopted by both MAs and NBMFIs.**

After reviewing the literature and conducting interviews, we find evidence of cooperation and coordination between MAs and NBMFIs. However, these collaborative efforts could be improved.

2.2 RESEARCH QUESTION: A NEW BOTTOM-UP APPROACH INVOLVING CLLD

As defined by the European Commission,[26] “**CLLD is a method for involving partners at local level including the civil society and local economic actors in designing and implementing local integrated strategies that help their areas make a transition to a more sustainable future**”.

In the past 20 years, CLLD has mainly helped rural actors to prove the potential of their local regions and the effectiveness and efficiency of development policies. Since 2007, CLLD has been used in the frame of the European Maritime and Fisheries Fund for the sustainable development of fisheries communities.

CLLD is regulated by Articles 32-35 of the Common Provisions Regulation (EU) No 1303/2013 based on the LEADER[27] approach and concern the four funds covered by the Common Strategic Framework which includes ESF funds.

[26] European Commission (September 2018 – Version 4). Guidance for Member States and Programme Authorities on Community-Led Local Development in European Structural and Investment Funds, p. 8
[27] The acronym LEADER stands for Liaison Entre Action de Développement de l’Économie Rurale, i.e. Links between the rural economy and development actions

According to Article 32, the principles of CLLD are:

- Focus on sub-regional areas;
- Leadership of local action groups composed of public and private actors;
- Integrated and multi-sectoral area based local development strategies;
- Innovation; and
- Networking and cooperation.

Article 33 defines the elements that should be included in CLLD strategies, defined as follows:

- The definition of the area and the concerned population;
- The analysis of the development needs and potential of the area, including strengths and weaknesses;
- The description of the strategy and its objectives;
- The description of the involvement at community level;
- The action plan to put in place the over-mentioned objectives; and
- The financial plan for the put-in-place strategy.

Once the objectives are defined, Local Action Groups (LAGs) design and implement the objectives under the responsibility of the Managing Authorities. LAGs are non-profits composed of both private and public entities from different socio-economic sectors, and they are responsible for managing the funds from by the European Commission and the Managing Authority.

Our interviews indicate that **it is necessary to encourage local development to increase the social and economic impact of financial intermediaries' and MAs' activities in a specific geographical area**. According to an interviewed MFI, "CLLD has to create better conditions to make it easier to take advantage of the microfinance opportunity for final beneficiaries." Moreover, even when interviewees did not know the topic, they elaborated possible strengths and weaknesses which are summarized in the following table:

Strengths	Weaknesses
Bottom-up initiative, i.e. a broad participation of the local community in the creation and implementation of strategies	**Lack of precision** because needs are not clearly stated
Territoriality, i.e. it is a local strategy of development prepared for a particular and coherent area	Possible **social disadvantage** as the democratic preferences of the majority could prevail over minority preferences
Partnership as a local group works together towards social and economic partnership	**Risk of discontinuity** as more involved actors could lead to a "*moving away*" from OP
Innovativeness at a local scale	Possibility of **fraud**
Decentralization of management and financing	

Networking and **co-operation** as exchange of experience and dissemination of good practices	

2.2.1 AN EXAMPLE OF CLLD STRATEGY

An example of CLLD strategy has been retrieved from the interview with the European Investment Fund (EIF), a specialist provider of risk finance for SMEs across Europe and part of the European Investment Bank (EIB)[28]. The case involves partners at the local level and aims to design and implement local integrated strategies. Although not explicitly related to the microfinance sector, the case is an interesting starting point to understand the underlying principles of CLLD.

The EIF is working on the **Urban Partnership Agenda to increase awareness of microfinance as a tool for the integration of migrants and refugees into European cities**. It is 1 of the 12 thematic objectives that have been implemented: each partnership has an **Action Plan** with concrete actions (June 2017) that will be assessed by the European Commission, the Member States, the cities and the stakeholders with a final reporting session (End 2017). Once the plan is approved, it is further consulted on "Futurium," a dedicated platform for European citizens to actively contribute. Finally, three DGs (Directorate General)[29] discuss the new proposal and the meetings are attended by Member States, the European Commission, the Committee of Regions, Council of European Municipalities and Regions, EUROCITIES to reflect the multi-level of the Urban Agenda for the EU. Partner states, European Economic and Social Committee (EESC), European Parliament (EP), EIB, URBACT[30], ESPON[31] and EUKN[32] participate as observers. The Partnership meets four times per year and organizes other relevant meetings, e.g. political round-table initiative of the European Commission. Funds are allocated by ERDF, EIB, ESF (EUR 1,5 billion to sustainable urban development) and other sources.

As mentioned above, Urban Agenda Partnership includes different thematic and objectives, one of which is the inclusion of migrants and refugees. **The objective covers housing, integration, provision of public services, social inclusion, education and labor market measures**.

[28] Its shareholders are the EIB itself, the European Union, represented by the European Commission, as well as private and public banks

[29] In the case of meeting held in April 2018, Directorate-General for Migration and Home Affairs and the Directorate-General for Education, Youth, Sport and Culture have taken part into it.

[30] URBACT is an instrument of the Cohesion Policy, co-financed by the European Regional Development Fund, the 28 Member States, Norway & Switzerland. In the last 15 years it has aimed at fostering sustainable integrated urban development in cities across Europe, delivering integrated urban strategy and action on the thematic according to the challenges.

[31] ESPON is a cooperative programme; the latest was approved in 2016 by the European Commission. Its aims are promoting and fostering a European territorial dimension in development and cooperation through evidence, knowledge transfer and policy learning to public authorities and other actors at different levels.

[32] European Urban Knowledge Network is an independent EU Member States driven network in the field of urban policy, research and practice, which is deeply involved in EU policy-making.

In particular, "**the objective of the Partnership is to propose and implement ways for better managing the integration of migrants and refugees considering in particular cities' challenges and needs.**" Among other actions, the EIF and EIB are coordinating a **microfinance activity since "financial instruments represent a powerful tool for providing financial support as a way of reaching various policy objectives.**"[33] Refugees and migrants are vulnerable categories who face difficulties to access financial services since they are considered "un-bankable" due to a variety of reasons, such difficulties with bureaucracy and administrative procedures of the Country of arrival. For this reason, **microcredit is considered as a tool to link migrants and refugees with access to finance, and therefore can help them to develop business activities**. The partnership attempts to solve migrant and refugee issues through the combination of EU grants (such as ESF) and loans.

This example shows how the **combination of ESF funds and microcredit initiatives can lead to better financial and social inclusion of vulnerable groups**, i.e. migrants and refugees. Additionally, the example demonstrates the involvement of different actors at various levels to achieve the goal. The Partnership on Inclusion of Migrants and Refugees is part of the strategy adopted by European Institutions after the adoption of Pact of Amsterdam (2016), which states that European cities will be more involved in the policy-making of EU legislation, EU funding and knowledge sharing. More than 70% of European citizens live in cities and 60% of migrants live in urban areas.[34]

The involved actors include:

- City of Amsterdam and the Directorate General (DG) for Migration and Home Affairs of the European Commission as **coordinator** and **co-coordinator**; and,
- Cities of Athens, Berlin, Helsinki, Barcelona; the countries Portugal, Italy, Greece and Denmark; EUROCITIES, an organization composed of several European cities; the Council of European Municipalities and Regions (CEMR), URBACT, European Council on Refugees and Exiles (ECRE), EIB, Migration Policy Group and two DGs of the European Commission (i.e. Regional and Urban Policy and Employment, Social Affairs & Inclusion), as **members**.

Briefly, the initiative has the following steps:

1. Scoping papers;
2. Stakeholder involvement. In this case, two conferences were organized;
3. Selection of actions; and,
4. Communication of results and public consultations.

<u>Action no. 3</u> of the Urban Agenda (named 'Further reinforce the role of Microfinance, for instance through blending') **encourages the role of microfinance** to support vulnerable groups, including refugees and migrants. The instrument tests the feasibility of the mechanism to incentivize financial intermediaries to provide business development

33 Retrieved from https://ec.europa.eu/futurium/en/inclusion-migrants-and-refugees/financial-blending-facilities-cities-migrants-and-refugees (January 22nd, 2019)

34 Action Plan. Partnership on Inclusion of migrants and refugees. Retrieved from https://ec.europa.eu/futurium/en/system/files/ged/action_plan_inclusion_of_migrants_and_refugees.pdf

services to vulnerable micro-borrowers. This works in parallel with Action no. 2, (named 'Establishment of Financial Blending Facilities for cities and SMEs'), which **supports investments** concerning migrant and refugee inclusion by combining EU grants with EIB loans. It relies on the establishment of Financial Blending Facilities for cities and SMEs, which could be part of the post 2020 sectoral legislation.

In brief, Action no. 3 addresses a specific problem related to the microfinance sector, responding to the needs of vulnerable groups such as migrants and refugees. Such programmes aim to help new arrivals and settled migrants to overcome various barriers to start and manage a business in their host locality since they may face difficulties related to creating professional networks, lack of familiarity with administrative and legal requirements to start a business in the host country, and difficulties securing funding – notably linked to a lack of credit history or secure legal status. Therefore, one method to support microfinance for these vulnerable groups is to explore the incentives to offer business development services, which are complementary to financial services. As mentioned, Action no. 2 helps to establish blending facilities, delivering grant and loans in an efficient manner. An opportunity could be a blending facility between the AMIF (Asylum, Migration and Integration Fund)[35] and the EIB to provide both financial and non-financial services.

[35] AMIF is a fund set up in the period 2014-2020 with a total amount of EUR 3.137 billion for the entire period; it promotes the efficient management of migration flows and the implementation, strengthening and development of a common Union approach to asylum and migration.

3 TERRITORIAL CASES – BULGARIA

3.1 MACROECONOMIC CONTEXT

Bulgaria is a country located in Southeast Europe and has 7 million citizens. Since 2007, it has been part of the European Union but is not part of the Monetary Union. Its currency is Lev (BGN).

Bulgaria has witnessed an important change in the last 30 years, from a centralized and planned economy to an open and market-based economy. The transition has been traumatic and initially the country incurred substantial debt, experienced slow growth and lost savings. However, in the 1990s, significant reforms were enacted, and these trends reversed, improving living standards and economic growth. Despite these important reforms, Bulgaria was hit hard by the financial crisis of the EU-Area in 2010-2012.

According to Eurostat (2018), the Bulgarian GDP has been steadily increasing since 2012[36] and real GDP growth for 2018 was 3.3% (The World Bank). The GDP growth rate outpaces the average of the EU-28.[37] Two reasons contributing to the increase of the Bulgarian GDP are higher employment and higher salary levels. These trends led to a moderate increase in personal consumption, and consequently GDP growth. In fact, the unemployment rate "*fell from a peak of 13% at the end of 2013 to just below 7% in 2016 and 6,3% in 2017.*"[38] Bulgaria has recorded a low unemployment rate for young people between the ages of 15-24.

Although unemployment rates have decreased, there are still individuals who encounter difficulties to find a job due to a mismatch between their qualifications and those needed by employers. To support labor activities and policies, Bulgaria utilizes funding from State budgeting, the European Social Fund and donor organizations. Concerning ESF funds, Bulgarian labor policies benefit from OP Human Resources Development (HRD). For the previous programming period (2007-2013), the share from OP HRD was higher than the share coming from the State budget. For the current programming period, i.e. 2014-2020, the total OP HRD budget is EUR 1.092,3 million and focuses on improving access to employment and the quality of jobs, as well as reducing poverty and promoting social inclusion, respectively 59,3% and 30,8% of the total funding. Bulgaria has also benefitted from the European Youth Guarantee through an integrated approach to facilitate young people (15-29) to enter the job market as they are NEET (Not Engaged in Education, Employment nor Training).

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[36] Eurostat, Database of National Accounts (including GDP) – Retrieved from (February 4th, 2019)
[37] Retrieved from http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/607358/IPOL_IDA(2017)607358_EN.pdf (February 7th, 2019). P. 7L
[38] European Commission (March 2018). 2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011, p. 6

Moreover, income inequality is increasing as measured through the Gini coefficient.[39] Compared to the EU-28, Bulgaria's score is lower: it was 35.9 in 2008 (35.9 for the EU-28), 37.0 (31.0 EU-28) in 2015 and 38.3 (31.0 EU-28) in 2016. In sum, Bulgaria was identified as having excessive macroeconomic imbalances primarily stemming from vulnerabilities in the financial sector and a high indebtedness rate.[40]

3.2 MAPPING MFIs

According to MixMarket, 14 MFIs are present in Bulgaria and are mostly credit cooperatives: Aetos (credit cooperative), Agroimpuls (agricultural credit cooperative), Doverie Finance (credit cooperative), Doveriye Bulgaria (credit cooperative), DSK Dobrich (private bank), General Toshevo (cooperative), Kajnardza 96 (bank rural cooperative), Kredo (bank), KSK RPK, Maritsa Invest (agricultural credit cooperative), Miziya, Momina Voda (credit cooperative) and Nachala (cooperative). The majority of Bulgarian MFIs operates primarily through **microloans** (>75% of all activities).

The European Microfinance Network surveyed 5 of the 14 MFIs for their annual survey, finding that:[41]

- The average Annual Percentage Rate (APR) was **15,9% for business microloans** and **17% for personal microloans**;
- In 2017, the total microloan portfolio outstanding was equal to **EUR 6.570.303** (EUR 4.993.542 for business microloans and EUR 1.576.761 for personal microloans);
- The 5 interviewed MFIs granted 1.146 microloans in the amount of **EUR 4.667.988** in 2017 (735 business microloans for EUR 3.169.008 and 411 personal microloans for EUR 1.489.979); and,
- In 2017, the surveyed MFIs served **1.450 clients** (1.555 in 2016). 1.163 of clients requested business microloans and 287 requested personal microloans.

The Bulgarian microfinance sector is regulated by the **Law on Credit Institutions** (LCI), which allows non-financial intermediaries such as non-bank financial institutions (NBFIs) and credit cooperatives to operate. Occasionally, non-bank financial institutions need to sign a partnership agreement with banks to provide targeted microcredit.[42]

According to the LCI, NBFIs and credit cooperatives can disburse business microloans up to EUR 50.000 and EUR 100.000 respectively. Concerning personal microloans, NBFIs and credit cooperatives can disburse up to EUR 10.000 and EUR 2.500 respectively. The law does not mention guarantees, equity or business development services (BDS), which are not provided or foreseen to support microcredit providers in the near future.

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[39] It is a statistical measure used to calculate and observe the income inequality as a ratio between 80% richest and 20% poorest of a certain group. 0 (or 0%) represents perfect equality and 1 (or 100%) perfect inequality.
[40] *Ibidem*.
[41] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018), p. 61
[42] European Microfinance Network. (December 12th, 2016). Legislative Mapping Report Bulgaria

3.3 OPERATIONAL PROGRAMMES

The following section summarizes the national operational programmes that have been carried out in Bulgaria for the programming period 2014-2020 under ESF funding. Other OPs also exist in Bulgaria, but they have been funded by ERDF or Cohesion Fund (CF):

Good governance - ESF

- To modernize the Public Administration and transparency of judiciary

Human Resources Development - ESF/YEI

- To generate more jobs and create inclusiveness

Science and education for smart growth - ESF/ERDF

- To help strengthen research and innovation, general and higher education, and vocatiional training

The **OP Good Governance** has invested EUR 336 million, of which EUR 286 million comes from the EU budget. The **OP Human Resources Development** has been funded through an investment of EUR 1 billion and includes the financial participation of the Youth Employment Initiative (YEI). Finally, the **OP Science and Education for Smart Growth** was funded for EUR 673 million, of which EUR 596 million comes from the EU budget.

3.4 CASE STUDY

According to the European Commission, Bulgaria is investing ESF funds in programmes to **develop high-quality skills in its workforce** while **ensuring disadvantaged people get the same opportunities as others**.

Education and **science** are a major priority for ESF investments in the country, in combination with funding from the European Regional Development Fund (ERDF). Schoolchildren and students are benefiting from innovative teaching methods to improve their skills and qualifications – thus supporting the modernization of country's economy. Children at risk of social exclusion, such as those belonging to marginalized groups or having special educational needs, are benefiting from dedicated funding for projects to give them the same skills and opportunities as others.

The ESF is also investing in social inclusion projects (**targeting groups such as Bulgaria's youth and older people, those with disabilities and minorities such as the Roma) through suitable training and support facilities; promoting social enterprise as a means to employment; and better access to health and social services for several thousand children**. Finally, the ESF is investing in the **quality of public**

administration and the **transparency of the judiciary** in Bulgaria. The objective is to strengthen the administrative capacity of public institutions, promote e-government, and improve the quality of services and the business environment.[43]

Despite these initiatives, the ESF does not appear to be very active in the country, especially with concern to the microfinance sector. In particular, the ESF seems to lack awareness of the sector and **there appears to be a lack of knowledge about ESF opportunities that MFIs could exploit**. Moreover, MFIs point out a that **communication from ESF Managing Authorities is not very proactive.**[44]

In any case, there are some cases of that highlight the effective access and use of ESF funds in the country. We decided to focus on one such particular and successful case: the **Fund Manager of Financial Instruments (FMFIB).** FMFIB was established in September 2015 as a commercial entity and is wholly owned by the Bulgarian State for the purpose of managing the Financial Instruments (FIs) to support the implementation of operational programmes co-financed by the European Structural and Investment Funds (ESIF). **All OP funds are pooled into a common Fund of Funds under FMFIB management**. Centralizing the management of financial instruments attempts to **build relevant expertise at a national level**. FMFIB was set up as a sole-owner joint-stock company with government interest and has a two-tier system of management, i.e. a supervisory board and managing board. Its activity is the management of financial instruments to be implemented under the programmes co-financed by 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 in the 2014-2020 programming period.[45]

The mission of the FMFIB is the effective and sustainable management of Financial Instruments through mandates to financial intermediaries based on competitive and open processes, which provide for mobilizing additional private capital.[46]

In brief, the governing bodies of the company are the Management Board, Supervisory Board and the sole owner of the capital, i.e. the State, which decides on matters in the general meeting of shareholders. The rights of the State in the company are exercised by the Finance Minister.

The mission and goals of the Fund of Funds described above are summarized as follows:

- **Better access to European financial resources**, improved access to financial resources through the efficient use of financial instruments to support the employment growth and ensure a more favorable business environment as identified in the goals laid out in the operational programmes;
- **Mobilization of private capital,** providing efficient management of the resources forming the Fund of Funds, and making use of the opportunities provided by the

[43] http://ec.europa.eu/esf/main.jsp?catId=372&langId=en
[44] ESF Market Failures for Microfinance in Europe. Findings “short mapping”, European Microfinance Network, Microfinance Centre
[45] http://www.minfin.bg/en/1085
[46] https://www.techstars.com/content/uncategorized/fund-of-funds/

financial instruments to maximize public resources by mobilizing additional private capital and achieve economies of scale;

- **Sustainability,** ensured in managing the financial instruments, in compliance with the requirements for good corporate governance and a prudent approach that accounts for inherent risks; and,
- **Strong expertise,** building the national capacity to manage financial instruments, thus overcoming Bulgaria's dependency on external expertise in that regard.

The Financial Instruments were first used in Bulgaria during the previous programming period, 2007-2013, by implementing the **JESSICA initiative for urban development** and the **JEREMIE initiative for SME financing**. The FIs **are expected to play an important role in the EU Cohesion Policy in the 2014-2020 programming period and an increasing portion of the EU budget will be earmarked for FIs in the future**. FMFIB manages more than EUR 600 million of public resources. The expected leverage effect boosts the cumulative monetary contribution to nearly EUR 1,4 billion, which will be actively invested in the Bulgarian economy. Generally, the FIs provide equity (including quasi-equity) and debt (including risk-shared loans and/or guarantees) financing. The FIs address identified market inefficiencies. The equity portfolio managed by FMFIB amounts to EUR 150 million of gross funding. With the expansion of the scope and the significant increase in the volume of funds earmarked for financial instruments for the 2014-2020 programming period, the complexity from the viewpoint of European citizens, businesses and the regions is growing and could pose a challenge. At the same time, **the European Commission and the Member States have committed to simplification, flexibility and reduction of the administrative burden**.

Operationally, the **synergies** and **complementarity** among financial instruments (financed using funds from ESIFs, other EU facilities such as financial instruments and grant financing, may serve as a **catalyst for public and private resources** and enhance access to financing for final recipients, thereby helping to promote economic growth and employment provide for a more favorable business environment and contribute to achieving the key goals of the Europe 2020 Strategy for smart, inclusive and sustainable growth.

In general, the **implementation of the Financial Instruments**, which can be considered special-purpose financing schemes co-financed with resources from the European Structural and Investment Funds (ESIF), national financing from the OPs and with additional resources from the private and public sector, **can leverage several advantages**. These advantages include:

- **Overcoming market inefficiencies**. Financial Instruments provide financing to target groups that have limited access to financial resources from the private sector. This kind of support generates a positive effect for the final recipients and contributes to the goals of the respective Operational Programme. Moreover, the financial products supplied by FIs are tailored to meet the needs and requirements of the target recipients and typically offer more favorable terms with respect to pricing, maturity and/or collateral requirements;

- **Leverage effect**. FIs mobilize additional private financing, which increases the total amount of the support available to the final recipients;
- **Revolving Funds**. Resources paid back by the financed projects, and the potential other revenue generated from them, can be reused to provide support to other eligible final recipients and projects;
- **Fiscal discipline**. The instruments require that the final recipients pay back the funds, which leads to a more efficient use of public resources compared to grant support and reduces the likelihood that final recipients grow addicted to public support; and,
- **Expertise**. Final recipients can benefit from the expertise of the financial intermediaries and other private sector partners in structuring economically viable projects.

Requirements for financial intermediaries

FMFIB selects financial intermediaries (firms, FFs) on the basis of an evaluation of their legal, financial, economic and organisational capacity to manage financial instruments (FIs).
FFs must meet the following set of minimum requirements as part of the selection criteria by FMFIB:

- Legal capacity and entitlement;
- Economic and financial viability;
- Adequate capacity to implement the FI (including organisational structure and governance);
- Internal control system;
- Accurate accounting system, for complete and reliable information in a timely manner; and,
- FFs agree to be audited by FMFIB, the Managing Authority, the Certifying Authority, the European Commission, the national and EU audit bodies, and the European Court of Auditors.

In selecting the FFs, FMFIB considers the type of FI entity, the applicant's experience in implementation of the FI, the expertise and experience of the intended team members, and the operational and financial capacity of the tenderer. FMFIB also considers the credibility of the methodology for identifying and appraising the final recipients, ability to raise addtitional resources, capacity to carry out projects in addition to its current activity and measures to manage conflicts of interest.

The FMFIB and the financial intermediary share the risk of non-repayment by final recipients *pari passu* and proportional to each loan amount. These instruments enable target recipients to use financing at more favorable pricing terms and loan collateral requirements. For the current programming period 2014-2020, FMFIB signed funding agreements for FI management with four Operational Programmes. Bulgaria has developed different OPs, but our focus is on those funded by the ESF. However, FMFIB has also been operating with OPs from other funds:

- Urban Development Funds (OPRG);
- Innovation and Competitiveness (OPIC);
- Environment (OPE); and,
- Human Resources Development (OPHRD).

For the scope of this analysis, we focus on the scheme '**Risk-sharing Micro-Finance Facility,**' an instrument funded through the **Operational Programme *Human Resource Development* 2014-2020 (OPHRD)**, which represents **one of the special-purpose financing schemes co-financed with resources from the ESIF**, national financing from OPs and additional resources from the private and the public sector. We focus on this instrument since **it helps to overcome identified market inefficiencies and to implement EU strategic goals and policies**. The main purpose is to **achieve a more efficient use of public resources** compared to grant funding and to **extend financial support to target populations implementing economically viable projects**. Through the instrument, which includes financing with risk-sharing, FMFIB provides **financing to financial intermediaries** to build loan portfolios that meet the eligibility criteria of the respective OP.

Applications to participate in the public procurement procedure for a financial instrument under the Risk-Sharing Micro-Finance Facility were opened in October 2018, and the first round of financing made BGN 3,4 million (approx. EUR 1,7 million) available under the instrument. The financial instrument provides **support** to entities which, all else equal, would not have had access to financing. The loans are target **start-ups and social enterprises**, as well as enterprises created by **people who have been unemployed** for more than 6 months, people with **disabilities** and **young people** aged 29 or under. The size of loans ranges between BGN 5.000 (approx. EUR 2.500) and BGN 48.895 (EUR 25.000). The loan repayment term is up to 10 years with a possible 2-year grace period.

Eligible activities should fall within the following **parameters**: acquisition of tangible and non-tangible, long-term and short-term assets for business development or expansion of the enterprise or to cover other costs linked to the main business operations; working capital for business development or expansion; special and vocational training of workers or the entrepreneur/the self-employed person.

The second round of financing from the 'Risk-sharing Micro-Finance Facility' amounts to BGN 26,4 million (approx. EUR 13,4 million) allocated in nine lots, with financial resources ranging from BGN 1 million (approx. EUR 500.000) to BGN 6 million (approx. EUR 3 million). Financing is made available in the form of **microloans**, **designed to support the establishment and development of start-ups**. In addition to the resources provided by the Fund of Funds, financial intermediaries provide co-financing for each loan (of at least 10%). The funds provide support to enterprises owned by persons from certain vulnerable groups, such as unemployed for over 6 months, young people under the age of 29, and people with disabilities.

Two MFIs are involved in this scheme and participated in the first and second rounds:[47]

- **SiS Credit AD** is a microfinance institution that provides loans up to EUR 25.000 and offers expert advice to its clients (start-up companies, micro and small enterprises, and agricultural producers) who want to develop their business idea or need working capital. Furthermore, SIS Credit is offering loans up to EUR 15.000 to individuals to refinance fast loan exposure or payment of current expenses. The objective of the company is to encourage entrepreneurship and grant access to funding for clients with limited ways to finance themselves. SIS Credit supports the creation of new jobs in the depressed economic regions of Bulgaria.

  SIS Credit JSC was established in 2006 and is registered by the Bulgarian National Bank according to the Law governing credit institutions in Bulgaria. The MFI's focus

[47] The second round of financing involve also a third participant which submitted offers within the deadline, First Investment Bank AD (https://www.fibank.bg/en/home-page/page/3057).

is to fund start-ups, support of agricultural producers and provide a wide range of business loans.

- **Mikrofond AD** was created in 1999 and has, through 10 branches and 7 offices, delivered more than 2.075 microcredits worth BGN 22 million.[48] It is the first non-profit organization in Bulgaria working in microfinance that was transformed into a trade company for financing micro and small enterprises. Mikrofond's mission is to ensure business credits to microentrepreneurs, including NGOs, to fund the needs of low-income families and to maintain good financial results in order to serve customers in the long run.

SIS Credit JSC

Mission: To support the preservation of existing jobs and the creation of new ones in Bulgaria by understanding the needs of our clients- entrepreneurs, micro and small businesses, and providing them tailor-made products and services in a fast and effective manner.

Vision: To be a reliable financial partner to our clients and investors through continuous improvement of our products and balanced growth.

What?

1. **Financial services:**
    - Loans to individuals (16%)
    - Loans to business clients and agricultural producers (84%)
2. **Non-financial services:**
    - Provision of Business Development Services (BDS), p.e. assistance in applying for EU grants, providing guarantees to clients who have won EU grans, brokerage, and so on;
    - Free of charge consultancy for business planning;
    - Education on repayment capacity, comparing terms and total costs of different loans, avoiding risks related to over-indebtedness

How?

Funding of start-ups, supporting agricultural producers and providing a wide range of business loans to clients, start-ups, microenterprises and small agricultural producers.

Relationship to ESF

- SIS Credit and ESF aim both at supporting entrepreneurship and self-employment;
- Helping to elaborate and implement the financial instrument "The Risk-Sharing Micro-Finance Facility" (OPHRD 2014-2020) together with Fund Manager of Financial Instruments in Bulgaria (FMFIB)

[48] Enterprise Policy Performance Assessment – Bulgaria, Investment compact, OECD, March 2005

4 TERRITORIAL CASES – ITALY

4.1 MACROECONOMIC CONTEXT

Italy is a country located in Southern Europe and has 60,6 million inhabitants. Italy was a founding member of the European Union in 1957 and adopted the Euro in 2002.

In 2008-2009, the Italian economy was hit strongly by the financial crisis which still endures today. After 2015, Italy has been able to slightly recover and there has been a small increase in GDP growth. Projections suggest GDP growth of 0,9% in 2019 and 2020. [49] Despite these figures, Italy is the third largest economy in the Euro-zone. According to OECD,[50] GDP per capita has increased from USD 35.935 in 2011 to USD 36.071 in 2014 and USD 39.043 in 2016.

Aside from economic and financial issues, Italy is also facing other problems, i.e. the arrival of immigrants, which led to a humanitarian crisis and an unstable political situation after elections in March 2018.

As a consequence of financial crisis 2008-2009, the unemployment rate remains high in Italy, where it is higher than the European Union average. In 2017, the unemployment rate was 11,2% compared to 7,62% for the EU-28.[51] Moreover, youth unemployment rates – ages 15 to 24 – are even higher. In 2007 youth unemployment was 20,4% and increased to 40,3% by 2015, one of the highest rates in Europe. These figures indicate that more than one out of every three young Italians in the labor market does not have a job. The unemployment rate is not due to the increase of full-time enrollment in education, but rather to the increase of NEET, i.e. young people who are not in education nor training, which accounted for 17% of youth in 2013 and is stable today at 20%, with averages of 14% in the North and 28% in the South.

To find a solution to low productivity and high unemployment rates, Italy has established some reforms since the 1990s, especially to boost the flexibility on the labor market and to increase the participation of the workers.

Concerning ESF funds, the two primary objectives include:

- **Promoting employment and creating jobs in less developed regions**, i.e. Basilicata, Campania, Calabria, Puglia and Sicily;
- **Enhancing regional competitiveness and employment** to boost economic dynamism in all other regions.

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[49] OECD (November 2018). Developments in individual OECD and selected non-member economies. Italy. Retrieved from http://www.oecd.org/eco/outlook/economic-forecast-summary-italy-oecd-economic-outlook.pdf (February 8th, 2019).
[50] OECD (2019), Gross domestic product (GDP) (indicator). doi: 10.1787/dc2f7aec-en (Accessed on 08 February 2019)
[51] OECD (2019), Unemployment rate (indicator). doi: 10.1787/997c8750-en (Accessed on 08 February 2019)

4.2 MAPPING MFIs

In Italy, microcredit is regulated by Decree Law 141/2010 which has introduced changes to a previous Legislative Decree regulating banking activity, n. 385/1993. Article 111 of n. 385/1993 defines microcredit and its characteristics, beneficiaries, financial intermediaries and introduces a supervisory committee. Moreover, the Italian national permanent committee for microcredit ("Comitato nazionale italiano permanente per il microcredito"), created in 2006, has been transformed into the National Entity for Microcredit ("Ente Nazionale per il Microcredito") to eradicate poverty and to support the fight against social exclusion in Italy and third countries that benefit from European Union development cooperation programmes.

At the end of 1960s, the mutual guarantee system "Confidi" was created and represents non-profit organizations that act as guarantor for credits supplied by banking institutions to their members. In the 1970s, MAGs (Mutua Autogestione – Self-management mutual aid society) started to provide credits, advice and trainings, i.e. non-financial services, to fight economic exclusion. Finally, the launch of Banca Popolare Etica (Ethical Bank) in 1994 introduced a new way of banking.

Since 2008, the Italian microfinance sector has been coordinated by the Italian Network of Microfinance (RITMI – Rete Italiana della Microfinanza), which was created by aninitiative of eight organizations involved in fighting financial exclusion. The current members involved in credit activities include:

- **Ass.I.S.TE**, a network of public and private bodies whose primary objective is to provide financial support to individuals in difficulty and to finance the start-up of small businesses through microloans;
- **Banca Popolare Etica**, an "alternative" bank offering financial and non-financial services to its members;
- **CreSud Spa**, a network of individuals, associations and cooperatives working in the microcredit and fair-trade sectors that offers financial resources at fair conditions to microcredit organizations, fair trade suppliers, cooperatives, networks, associations and NGOs in Latin America, Africa and Asia;
- **FIDIPERSONA Soc. Coop**, a cooperative specialized in microcredit, delivering microloans to individuals and micro-and small enterprises;
- **Fondazione Risorsa Donna Onlus**, an organization that supports women through microloans;
- **Fondazione Welfare Ambrosiano**, a foundation involved in the metropolitan area of Milan;
- **Mag Verona**, a mutual aid society that provides microloans to individuals at risk of poverty;
- **MECC – Microcredito per l'Economia Civile e di Comunione**, an ethical finance entity in the form of a cooperative society;
- **Microcredito Italiano Spa**, a limited company;
- **Miko Kapital Spa**, a limited company granting microloans to families and businesses;
- **PerMicro**, specialized in providing microloans; and,

- **Ricrediti**, an association that implements microcredit programmes combined with non-financial services.

Other microfinance institutions include:

- **Associazione micro.Bo Onlus**, an association launched in cooperation with University of Bologna in 2004;
- **Microcredito di Solidarietà Spa**, a limited company which provide microloans for individuals in need or to those who want to start up a business; and,
- **Microcredito per l'Italia**, a social enterprise disbursing microloans to individuals who want to start a business or to enterprises, supporting primarily young people and women.

According to the latest EMN-MFC survey (2018),[52] Italy is one of the three countries, together with Spain and France, with the widest spectrum of financial products and services. The majority of Italian MFIs do not offer digital solutions for their clients and generally focus on micro-enterprises rather than SMEs.

The 14 surveyed MFIs report the following statistics:

- The average Annual Percentage Rate (APR) for business microloans is **5,1%** and **4,4%** for personal microloans;
- In 2017, the number of **active clients was 11.113** (3.001 for business microloans and 8.112 for personal microloans); in 2016, total clients numbered 10.264;
- In 2017, the **gross microloan portfolio outstanding** was **EUR 67.239.332** (in 2016 EUR 57.276.481), of which business microloans accounted for EUR 36.580.736 and personal loans accounted for EUR 30.658.594;
- The **value of disbursed microloans** was **EUR 37.915.195** in 2017 (EUR 33.346.007 in 2016), of which business microloans accounted for EUR 17.955.711 (EUR 15.241.616 in 2016) and personal microloans accounted for EUR 19.959.484 (EUR 18.104.391 in 2016);
- In 2017, **4.227 microloans were disbursed** (1.010 for business and 3.217 for personal microloans).

4.3 OPERATIONAL PROGRAMMES

The following table summarizes the national OPs implemented in Italy during the 2014-2020 programming period under ESF. Their main objectives are also indicated:

[52] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018)

Education - ESF/ERDF
- To contribute to an improved education system, better qualifications or students and improve school buldings

Governance and institutional capacity - ESF/ERDF
- To develop administrative and institutional capacity

Legality - ERDF/ESF
- To support PA against corruption and organized crime, to increase security and to foster legality

Metropolitan cities - ERDF/ESF
- To improve quality and efficiency of urban services and social inclusion

Social inclusion - ESF
- To reduce poverty through social inclusion

Systems for active employment policies - ESF
- To reinforce and develop national labor market and to achieve Europe 2020

Youth emplyment - ESF/YEI
- To implement Youth Guarantee

We also focus on the amount of available financial resources dedicated to each national OP:

- The **OP Education** was given an amount of EUR 3.019 billion, of which EUR 1.615 comes from the EU budget. The MA is the Departement for Programming and Management of Human, Financial and Instrumental resources;
- The **OP Governance and Institutional Capacity** has EUR 828 million and its MA is the Agency for Territorial Cohesion (Agenzia per la Coesione Territoriale – Autorità di Gestione del PON Governance e Capacità Istituzionale 2014-2020);
- The **OP Legality** targets the less developed regions of Italy, focusing on diverse TOs;
- The **OP Metropolitan Cities** is part of the Italian national Urban Agenda and Sustainable Urban Development and its MA is the Office of MA of PON Metropolitan Cities (Ufficio dell'Autorità di Gestione del PON Città Metropolitane - Direzione Generale per la Politica Regionale Unitaria Comunitaria);
- The **OP Social Inclusion** has a budget of EUR 1.238 million;
- The **OP Systems for Active Employment Policies** has a total amount of EUR 2.177 billion, of which EUR 1.181 comes from the EU budget. The MA is the Ministry of Labour and Social Policies; and,
- The **OP Youth Employment** includes various funding sources, including EUR 1,1 billion from the EU budget and its MA is the Ministry of Labor.

The following list summarizes the Regional Programmes implemented in the country:

ROP Abruzzo ESF
- MA: Regione Abruzzo - Direzione Politiche Attive del Lavoro, Formazione et Istruzione, Politiche Sociali

ROP Basilicata ESF
- MA: Regione Basilicata

ROP Emilia-Romagna ESF
- MA: Direzione Generale Cultura, Formazione, Lavoro dell Regione Emilia-Romagna

ROP Friuli-Venezia Giulia ESF
- MA: Servizio programmazione e gestione interventi formativi della Direzione Centrale Lavoro, Formazione, Istruzione e Pari Opportunità

ROP Lazio ESF
- MA: Direzione Regionale Formazione, Ricerca e Innovazione, Scuola e Università

ROP Liguria ESF
- MA: Regione Liguria

ROP Lombardia ESF
- MA: Regione Lombardia - Direzione Centrale Programmazione Integrata e Finanza

ROP Marche ESF
- MA: Regione Marche - Servizion N.6 Istruzione Formazione e Lavoro

ROP Piemonte ESF
- MA: Regione Piemonte

ROP Sardegna ESF
- MA: Regione Sardegna Assessorato del Lavoro, Formazione

ROP Sicilia ESF
- MA: Regione Siciliana - Dipartimento Istruzione e Formazione Professionale

ROP Toscana ESF
- Regione Toscana - Area di coordinamento, Formazione, Orientamento e Lavoro

ROP Umbria ESF
- MA: Direzione della Programmazione, Innovazione e Competitività dell'Umbria

ROP Valle d'Aosta ESF
- MA: Dipartimento politiche del lavoro e della formazione

ROP Veneto ESF
- MA: Dipartimento Formazione, Istruzione e Lavoro

ROP Campania ESF
- MA: Regione Campania

ROP Molise ERDF/ESF
- MA: Regione Molise

ROP PA Bolzano ESF
- MA: Provincia Autonoma di Bolzano - Ripartizione Europa

ROP PA Trento ESF
- MA: Servizio Europa - Ufficio Fondo Sociale Europeo

ROP Calabria ERDF ESF
- MA: Regione Calabria

ROP Puglia ESF/ERDF
- MA: RO Puglia

4.4 CASE STUDIES

Italy is using ESF funding to **increase employment possibilities** (in particular for young people), **help disadvantaged groups**, **improve workforce skills**, **boost** the **national education** and **training system** and **improve** the **administrative capacity**. **ESF employment schemes are devoted to getting young people into work, combating long-term unemployment, fostering employment for women and helping disadvantaged groups, such as immigrants and people at risk of poverty, to join the labor force**. Projects on the ground are helping young people make the transition from school to work, with support to apprenticeships and work placements. Coaching and skills training courses are also available for young people with little or no qualifications. It is expected that these measures will help raise the country's employment rate to 67% by 2020. ESF-funded projects promote social inclusion and reduce poverty through a wide range of measures, such as multidimensional social support for people experiencing material deprivation, improved standards in the provision of social services, support for people with disabilities, and specific measures assisting marginalized groups on the path to more autonomous lives.[53]

Established at the EU level, objectives are two-fold:

- **Convergence**, to promote employment and create new jobs in Regions where development is lagging. It covers all EU Regions with a GDP per capita less than 75% of the European average. In Italy, the Regions such as Basilicata (as a transitional measure), Calabria, Campania, Puglia and Sicily fall under this objective;
- **Regional competitiveness and employment**, to foster the dynamism of the economic fabric. It covers all the EU Regions which are not involved in the convergence objective. In Italy, Abruzzo, Emilia-Romagna, Friuli Venezia-Giulia, Lazio, Liguria, Lombardia, Marche, Molise, Piemonte, Toscana, Valle d'Aosta, Veneto and Sardegna and the autonomous Provinces of Bolzano and Trento fall under this objective.

In Italy, the ESF is funding 16 Operational Programmes of the Regions and of the autonomous Provinces for **Objective 2 – Regional Competitiveness and Employment** – and 5 Operational Programmes for **Objective 1 – Convergence**. These Programmes offer a wide range of opportunities to develop human capital and ease integration into the labor market (e.g. training, job orientation, support to labor services and women's employment, interventions for disadvantaged people and active ageing).

Beyond the Regional Operational Programme (ROP), there are also three National Operating Programmes (NOPs). The Ministry of Labor and Social Policy, the MA for the ESF in Italy manages:

- **NOP System Actions**, **Convergence** and,
- **NOP Governance and System Actions, Regional Competitiveness and Employment**

[53] http://ec.europa.eu/esf/main.jsp?catId=386

The above-mentioned NOP systems meet the need to create a unitary intervention in training policies, in employment and inclusion, in collaboration with the activities of the ROP.

The Ministry of Education, University and Research manages the **NOP – "Skills for the development"** – that supports the innovation of the education and of the training systems, to achieve a wider participation in education and training and improve its quality, and to promote the administrative efficiency of the Education System.

Also in the Italian case, according to some of microfinance institutions and professionals, getting access to ESF appears to be difficult if not impossible: national and regional authorities have the chance to manage the ESF but in most of the cases, they seem **not completely aware of the role of the microfinance institutions and their services**. They tend to invest on more traditional and 'classical' ideas, such as boosting employability[54]. In fact, as already mentioned in the second section, in some cases **MAs and MFIs are not completely aligned on the goals to be pursued** which is confirmed by the previous statement.

In spite of the difficulties in accessing ESF funds and those encountered by MFIs, it is possible to identify three different case studies concerning Italy which can be defined good examples of cooperation and coordination between different actors: the first case is Fondo Futuro, the Regional Fund for Microcredit and Microfinance of Lazio Region, which has involved many private actors, among which MFIs; additional two cases involve a financial intermediary, Fondazione Welfare Ambrosiano, and a national OP, Città Metropolitane (Metropolitan Cities) which - although not strictly related to ESF funds usage by MFIs - are **examples of good practice of cooperation between public and private entities**.

4.4.1 FONDO FUTURO – LAZIO REGION

The first Italian case analyzed is "Fondo Futuro," which is **a special section of the Regional Fund for Microcredit and Microfinance promoted by Lazio Region**; the other section is called "Liquidità Sisma" (Earthquake Liquidity) due to the earthquake that hit central Italian regions on August 24th, 2016. Lazio Region already supported microcredit during the previous programming period 2007-2013 through the establishment of a specific financial instrument. Fondo Futuro has been further replicated in the current programming period.

The Regional Fund for Microcredit and Microfinance was established through a regional law (Regional Law n. 7 of July 14th, 2013) in the framework of the previous programming period (2007-2013). A successful experience, Fondo Futuro recorded high performance levels and ensured the uptake of available resources to meet territorial demand. The instrument was easy to access and SMEs enjoyed favorable loans conditions, which have

[54] ESF Market Failures for Microfinance in Europe. Findings "short mapping", European Microfinance Network – Microfinance Centre

guaranteed the success of the programme.[55] As a result, Lazio Region decided to replicate the project in the new programming period for 2014-2040. **The Regional Fund is a part of the Operative Regional Programme 2014-2020 that promotes inclusive and sustainable growth**. As a result, Lazio Region has emphasized **employment, education and research**. As indicated by article 3 of EU Regulation n. 1303/2013, the intervention has five axes.[56] The Regional Fund focuses on the first axis: Axis 1 – Employment.

The Operative Regional Programme budgeted EUR 902.5 million for the five axes, of which EUR 414.1 million is dedicated to Axis 1 – Employment. The ESF provides 50% of the total amount while the remaining part is co-funded by national and regional resources.

The 2014-2020 Fondo Futuro financial instrument provides loans to **start up a business and is targeted towards micro-SMEs**, including VAT number holders, as well as to entrepreneurs who cannot access traditional financing. Overall, the Fund has EUR 31,5 million that can be used for financing self-employment projects, start-ups or new projects for existing enterprises. Loan amounts range from EUR 5.000 to EUR 25.000 with a 1% interest rate for a maximum duration of 84 months. The Regional Fund foresees a special fund for existing microenterprises that were hit by the earthquake on August 24th, 2016. In this case, financing ranges from EUR 5.000 to EUR 10.000 with a 0% interest rate to be repaid monthly.

The primary beneficiaries for this financial instrument include:

- People under 35 or over 50 (for microenterprises, the age of the legal representative will be considered when assigning the loan);
- Low-income individuals (microenterprises, the income level of the legal representative will be considered);
- Individuals who have taken part in other regional initiatives, i.e. “Torno subito”, “In studio” and “Co-working” (for microenterprises, the status of the legal representative will be considered);
- Disadvantaged workers;[57] and,

[55] Retrieved from http://www.regione.lazio.it/binary/rl_formazione/tbl_evidenza/FOR_id31_Fondo_Futuro_Liquidit__Sisma_Allegato_Sintesi_VEXA_giugno_2017.pdf (April 29th, 2019). P. 11

[56] The objectives of the Operative Regional Programme are realized within the framework of five intervention axes: Axis 1: Employment; Axis 2: Social inclusion; Axis 3: Education and training; Axis 4: Institutional and administrative capacity; Axis 5: Technical assistance. The total financial allocation of the ROP ESF Lazio 2014-2020 is 902.534.714 Euros. The community contribution is 50% of the total (451.736.077,55 Euros), the remaining 50% is covered by national and regional resources.

[57] Article 2 of 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 Text with EEA relevance: workers with mental and physical disabilities, individuals who has not been in regular paid employment for the previous 6 months; young aged 15-24 or who has not attained an upper secondary educational or vocational qualification; people over 50; lives as a single adult with one or more dependents; workers in a sector or profession in a Member State where the gender imbalance is at least 25 % higher than the average gender imbalance across all economic sectors in that Member State, and belongs to that under-represented gender group; member of an ethnic minority within a Member State and who requires development of his or her linguistic, vocational training or work experience profile to enhance prospects of gaining access to stable employment;

- Women (for microenterprises, the status of the legal representative will be considered).

The loans cover 100% of eligible expenses, i.e. establishment expenditures, operational expenditures, investments and cost of human resources. Loans are disbursed by financial intermediaries that have an agreement with Lazio Innova. Lazio Innova is an in-house society of the Lazio Region in collaboration with the Chamber of Commerce and is the result of the **reform process** of Lazio's societies dedicated to innovation, credit and economic development as indicated by the Regional Law 10/2013. Final beneficiaries applying for a loan need to contact one of the financial intermediaries established by convention with Lazio Innova and follow the loan process. To become a loan disbursing entity, an organization must sign an agreement ("Accordo Quadro") and a related Activity Statement ("Scheda di Attività").

According to the interviewed Managing Authority, Lazio Region, this financial instrument has enjoyed a positive response from young people and prospective start-ups. In the first years of the project, more than 40% of the financed micro-enterprises were new companies. Moreover, a primary goal of **the MA, Lazio Region, is to boost entrepreneurship and self-employment**.

In addition to the MA, the Agency for Territorial Cohesion has established a special office for coordinated actions using financial instruments within the ESF and provides regular meetings to address critical issues in the implementation phase of the financial instruments, including other instruments managed at the national level to support the creation of new companies using venture capital.

In sum, Fondo Futuro is an initiative of Lazio Region coherent with the ROP Lazio and ESF directives that promotes sustainable and inclusive growth. Fondo Futuro highlights the cooperation between private and public organizations since the project goals are set jointly. However, the financial intermediaries do not always feel fully and directly involved by the MA in the design and implementation of the microcredit schemes. As a result, this aspect should be considered in the development of future projects.

Financial intermediaries in Fondo Futuro

Fondo Futuro involves several financial intermediaries stakeholders. These FIs need to be accreditated to take part into the programme. The involved actors, including MFIs, are the folowing:

- Artigiancassa Spa;
- BCC – Banca di Credito Cooperativo di Roma;
- BCC – Banca di Credito Cooperativo di Velino
- COFITER
- CONFESERFIDI Soc. Cons. a r.l.;
- Fidimed soc. coop.p.a
- Fidimpresa Lazio Società Cooperativa per Azioni;
- COOPFIDI – Confidi Unitario per l'Artigianato e la P.M.I. Soc. Coop. Cons.;
- FIN.PROMOTER – Finanziaria Promozione Terziario S.c.p.a.;
- Microcredito Italiano Spa

4.4.2 FONDAZIONE WELFARE AMBROSIANO

The second case we examined is an alternative funding scheme by **Fondazione Welfare Ambrosiano**, a public-private company (30% private and 70% public – owned by Comune di Milano and the Chamber of Commerce). It is a non-profit institution that has been operating since 2011 and promotes initiatives focused on workers (and their families) living in the Milan area. Targeted recipients find themselves in a temporary situation of difficulty and discomfort originating from particular events and are at risk of slipping into poverty.

Fondazione Welfare Ambrosiano was established in September 2009 by the City of Milan, the Metropolitan City of Milan, the Chamber of Commerce, three of the major trade unions in the country: Confederazione Generale Italiana del Lavoro (CGIL), Confederazione Italiana Sindacati Lavoratori (CISL) and Unione Italiana del Lavoro (UIL).

The non-profit targets residents (or those who work in the Municipality of Milan) falling within the "grey areas" of the social protection system and for which there are no existing forms of public or private protection. It offers **proactive support**, which attempts to intervene with an individual before the temporary difficulty becomes a chronic situation. The support offered by the Foundation is **not of an assistance nature**, i.e. grants.[58]

Within the bounds of microcredit and microfinance, Fondazione Welfare Ambrosiano offers three services:

- '**Credito Solidale Sociale**' (Social Solidarity Loan)
- '**Accompagnamento all'imprenditorialità**' (Support to Entrepreneurship)
- '**Bando agevola microcredito d'impresa**' (Encouraging Business Microloan).

The Social Solidarity Loan is a **guarantee fund** backed by Fondazione Welfare Ambrosiano's capital. In this model, Fondazione Welfare Ambrosiano, after the evaluation of each individual case, ensures **access to credit for applicants at affiliated banks**. The Foundation enables the provision of a soft loan (with an Annual Percentage Rate of 2,5%) up to a maximum amount of EUR 10.000 and supports the applicants facing economic difficulties through obligatory auxiliary services (such as a household budget or financial education). This support targets workers or residents in the Municipality of Milan in a situation of temporary economic difficulty. It helps to address the primary needs of people and families such as health issues, education, rent, etc. According to the latest figures, Fondazione Welfare Ambrosiano has received a total of 1.449 applications (1.061 for social purposes, 388 for business purposes),[59] for a total amount of EUR 11.236.700 (EUR 6.457.042 requested for social reasons; EUR 4.779.708 requested for business cases). The institution has granted 40% of the social applications (428 files equivalent to EUR

[58] https://www.fwamilano.org/

[59] Consider that, from 1st June 2017, Fondazione Welfare Ambrosiano has not issued guarantees for this kind of loan. All the requests have been channeled to other kind of support (such as 'Encourage business microloan')

2.306.500) and the 24% of the business applications (93 files equivalent to EUR 1.302.500).

The second service, *Support to Entrepreneurship,* **aids applicants in the sustainability assessment of the business idea and in the creation and development of the business plan** after an evaluation of each individual case. In this case, Fondazione Welfare Ambrosiano supports the **preparation of the eventual microcredit request** to affiliated banks. It grants **financial support** to lower the interest rate and make the microloan more sustainable (an interest rate subsidy typically in the range of 3-4% up to a maximum loan of EUR 25.000, disbursed by an accredited bank and secured for 80% by the Ministry of the Economic Development or the European Investment Fund). Finally, the project **supports entrepreneurs from the affiliated banks through personalized mentoring for 18 months, encouraging the development and improvement of the financed activity**. This form of support is addressed to self-employed workers or microenterprises with a registered office in the Metropolitan City of Milan, registered at the Chamber of Commerce of Milan-Monza-Brianza and Lodi, organized in individual form, association, partnership, simplified limited liability company, company cooperatives, and with less than 5 years of activity. It **supports the start-up and development of a sustainable business and facilitates access to business microcredit**.

Finally, *Encouraging Business Microloan*s focuses on **decreasing the interest rate and providing ancillary services for enterprises using microcredit**. The initiative is carried out in two phases. The first phase **supports "productive investment programmes" through the disbursement of non-repayable grants to companies benefiting from the reduction of interest rates on microloans provided by the banking system**. As mentioned earlier, the maximum loan amount is EUR 25.000 and the rate reduction is 3%-4%. The second phase provides **free individual mentoring services to help beneficiaries identify and prevent any critical issues of the financed project from emerging**. **Mentoring services** are carried out through FWA's mandatory meetings with the entrepreneur. Fondazione Welfare Ambrosiano funded EUR 150.000 for the project, which started in 2017. To date, results indicate that 169 aspiring entrepreneurs have been involved: 60 dossiers have been submitted to participant banks or MFIs and 69 applications have been granted for a total of EUR 69.459 (four dossiers are in the grant phase and one grant has been withdrawn).

Fondazione Welfare Ambrosiano also participates in several **calls for tender** issued by local authorities. In these cases, 50% of the benefits are provided by public funds, managed by the Municipality of Milan, such as the costs related to the tutoring and mentoring services provided by FWA.

Since 2014, five calls for tender have been pursued:

- 'Tira su la Cler' (Raise The Curtain), from 2014 to 2016;
- 'Imprese Ristrette' (Small Enterprises), from 2014 to 2016;
- 'Tra il Dire e il Fare' (Between Words and Deeds), from 2015 to 2017;
- 'Startupper', from 2016 to 2018; and,

- ‘Metter su Bottega’ (Set Up A Business), from 2018 to 2020.

These projects include the **creation of a new business in the suburbs**, together with **several kinds of financial aid**. In particular, financial incentives include a 25% pre-financing on expenses (max EUR 25.000); a 25% non-refundable subsidy of the same amount (max EUR 25,000); a guarantee for external financing up to EUR 50.000; and tutoring and mentoring services provided to the entrepreneur.

Fondazione Welfare Ambrosiano assesses the applications, issues financial guarantees after the evaluation process, provides mentoring services, and operates as an intermediary between the Municipality of Milan and the two financial intermediaries involved (Banca Etica and PerMicro). It also supports the applicants in the initial and final deal procedure. The total value of issued guarantees amounts to approximately EUR 1.000.000. 58 enterprises have been supported (15 of which have shut down). From this specific experience between Municipality of Milan, Banca Etica and PerMicro, the Foundation has discovered that entrepreneurs need genuine and more detailed information and that the institution can help the public authority to change its assistive approach Finally, learnings indicate that the initial selection process, together with the monitoring and mentoring services, can help the enterprises to survive.

In summary, we suggest that the **projects carried out by FWA highlight successful examples of cooperation between various entities, including both public (Municipality of Milan) and private (Foundation and Banca Etica)**. **Despite different organizational structures, these entities are cooperating to reach ESF goals, i.e. the economic inclusion of disadvantaged categories of a certain geographical area**.

4.4.3 CITTÀ METROPOLITANE

Related to the model set up through FWA and the initiative to address workers and families living in the Milan area who are in a temporary situation of difficulty and discomfort, **another interesting case is the National Operational Programme "Metropolitan Cities 2014/2020.**" The Multi-fund National Operational Programme Metropolitan Cities 2014-2020 (i.e. PON METRO) implements one aspect of the initiatives **in the framework of European Urban Agenda for cohesion policies**, **attempting to strengthen the role of the big cities and their territories**.

The programme is dedicated to **sustainable urban development** and **aims to improve the quality of services and promote social inclusion in 14 metropolitan areas** (Torino, Genova, Milano, Bologna, Venezia, Firenze, Roma, Bari, Napoli, Reggio Calabria, Cagliari, Catania, Messina and Palermo). The interventions are proposed within an overall strategic framework defined by the National Programming Authority. **The main reason to implement the project as a national programme resides in the ability to deal jointly, and in a coordinated way, with the territorial and organizational challenges that affect these local contexts**.

In our research, we were able to interview the Municipality of Milano, which has explicitly **extended the scope of the implemented actions** by integrating **projects of inclusive finance** and **facilitating the access to financing**. In this sense, it can contribute to **new and innovative financial instruments, which may be integrated into the current programming 2014-2020 as special purpose projects using an agile process to implement projects focused on start-ups, entrepreneurship, and the enhancement and promotion of life-plans**. In response to the territorial and organizational challenges and related to the development dynamics in the metropolitan cities, a number of targets and instruments for the national Urban Agenda have been identified. In this context, an important role is played by the PON METRO, which is intended to quickly resolve some issues that obstruct the urban development in the country.

For this research, we focused on **Axis 3 (TO9): social inclusion services**. The axis targets the most fragile population segments and disadvantaged neighborhoods through services (ESF) and infrastructure (ERDF). Part of the interventions are supported by **active participation** of associations and citizens.

Expected result for this axis include:

- The creation and requalification of 2.270 apartments for families with special social and economic fragility;
- The restoration of 35.600 square meters of unused buildings to be allocated to services in the third sector;
- Integrated educational paths for job, social, educational, health care placement and a housing supplement for 3.904 low-income individuals and for 5.855 individuals with severe forms of distress;
- Integrated programmes for 485 individuals belonging to the ROM, Sinti and Camminanti communities;
- Low-threshold services and emergency social intervention for 1.811 homeless;
- Support to 644 projects implemented by actors in welfare or NGOs involved in these target areas.

The total budget of the programme amounts to EUR 892,9 million, of which EUR 588,1 million comes from the ESIF. The programme prioritizing the less developed regions. Financial allocation for this axis is EUR 217,2 million. With financial support from ERDF in the amount of EUR 445,7 million, the ESF resources amount to EUR 142,3 million. The residual budget uses national co-financing.

Some projects in the PON METRO area of Milan are listed below:

Inclusive innovation hub - Platform for providing training and job services

- Foresees the development of an information platform to enhance offered services with the Hub Action Inclusive Innovation;
- Examples of offered services: public competitions, job offers, enrollment in professional training courses among others

Cooperation welfare services - Support the activation of new services in high socio-economic criticality neighborhood and urban areas

- To activate civil society and social economy;
- To support the creation of new proximity services and territorial animation in disadvantaged areas;
- To ensure improvement of the urban fabric and promote access for disadvantaged individuals

Inclusive innovation hub - New services in degraded areas

- To identify new dyamics of development in the Milan area and improve capacity to measure the results and outcomes;
- Territorial animation and co-design of new services of social innovation projects

To showcase the successful cooperation between different entities, we examine an **interesting proposal co-financed by ESF, promoted by the Municipality and implemented in collaboration with a network of specialized organizations in community development and supporting entrepreneurship and social innovation**: "**La Scuola dei Quartieri. Sono i cittadini che fanno la città**" (School of Neighborhoods: citizens make up the city). The project has two objectives:

- Setting up projects and services designed and implemented by citizens to improve the life of neighborhoods; and,
- Changing the suburbs, valuing the energy, creativity and initiative of inhabitants.

The initiative is based on the idea that **knowledge is the most important social asset** and is inspired by the tradition of Civic Schools of Milan whose roots can be traced back to the 1800s. The project focuses on neighborhoods, encouraging them to inspire and develop projects that can improve the whole city.

The initiative involves municipalities, associations, committees, artisans, merchants and active citizens who collaborate with "the School" in diverse ways, such as reporting community needs, and experiences or displaying ongoing stories or activities, hosting lessons, workshops or meetings, or even by becoming supporters or teachers and helping new projects to start and to grow over time. The School of Neighborhoods conveys **knowledge and practical tools** to transform ideas into concrete, sustainable projects, with the idea that a useful project for the neighborhood may become a job, a business or a life project. The School of Neighborhoods is intended as public, free and open to all, with no age limits or admission tickets, and addresses individuals or groups of people who want to develop something new for the neighborhood, like a single project, a service or social enterprise. The activities of the project are focused on:

- People who want to commit to the community: they participate in open meetings and workshops to discuss problems, features and vocations of the neighborhood;
- People who have an idea or a desire but do not know where to start so they can participate in the basic laboratories to learn how to design; and,
- People who have a project ready to go and want to take action. They can attend a free advanced training course of 10 weeks which may allow them to translate theory into practice, understand the necessary tools and make their social business plan work. At the end of the advanced training course, the most deserving participants are selected to receive a "project grant" up to a maximum of EUR 25.000 to co-finance the first year of activity, together with personalized coaching services, at all stages, from start to finish.

In sum, we emphasize once again the importance of the PON METRO case: it is **an excellent example of cooperation and involvement of decision authorities with beneficiaries, such as citizens and associations**. As a result, this example should be taken as a 'success story' and its working methodology as a role model for future collaboration.

5 TERRITORIAL CASES – POLAND

5.1 MACROECONOMIC CONTEXT

Poland is a Central European country with 38,4 million inhabitants. It has been part of the European Union since 2004 but is not part of the Monetary Union. Its currency is the Polish zloty (PLN).

The Polish economy has been steadily growing over the last 25 years after the fall of Soviet Union. Today, it is the 6th largest economy in Europe. Its GDP was EUR 395 billion in 2013, EUR 430 billion in 2015 and EUR 466 billion in 2017. The GDP growth rate is increasing year over year and is outpacing the average rate growth of the Euro zone and the European Union. The economic recession had a moderate impact on Poland's economy. According to OECD,[60] GPD growth is forecast at 4% in 2019 and 3,3% in 2020.

Thanks to reforms and policies supporting jobs and the labor market, the unemployment rate has been decreasing since 2016. In 2016, the unemployment was 6,2%, 4,9% in 2017 and it is expected to be 2,8% in 2020. Moreover, since the 2000s, wage growth has been accelerating and inequality has declined. According to Lewandowski and Magda (2018),[61] reforms introduced between 2009 and 2013 – named "bridging the pension system" – postponed the retirement age and, therefore, increased the share of elderly people participating into the labor market.

According to BAEL (Polish Labor Force Survey),[62] the Polish labor market is still facing some difficulties, such as territorial disparities in employment. For example, in the Mazowieckie province (Szydłowiecki District), the unemployment rate exceeded 25,9% in March 2018 whereas it was 1,9% in Warsaw. In addition, the labor market is subject to seasonality: unemployment rates increase at the beginning and end of the year. Temporary jobs are another problem that has not been tackled by policymakers – temporary jobs represent over 20% of total employment during 2014-2016. In fact, employment protection has dwindled and a new form of contract, i.e. civil law contract, has been introduced. Civil law contracts are not covered by the labor code and, therefore do not offer protection against dismissal, are not covered by the minimum wage, and have less security and contribution payments.

ESF funds for the programming period 2014-2020 cover the OP Knowledge Education Development and the Youth Employment Initiative for a total amount of EUR 4.7 billion.

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[60] Retrieved from http://www.oecd.org/eco/outlook/economic-forecast-summary-poland-oecd-economic-outlook.pdf (February 6th, 2019), p. 174

[61] Lewandowski, P., Magda, I. The labor market in Poland, 2000−2016. IZA World of Labor 2018: 426 doi: 10.15185/izawol.426

[62] Retrived from: https://ec.europa.eu/eures/main.jsp?catId=2789&lmi=Y&acro=lmi&lang=en&recordLang=en&parentId=&countryId=PL&regionId=PL0&nuts2Code=%20&nuts3Code=null&mode=text&regionName=National%20Level (February 7th, 2019)

Labor force participation remains low compared to other EU countries, and income inequalities are higher than other countries. The top 10% of earners receive 4,6 times more than the bottom 10% of earners.

In sum, Poland has a stable and growing economy, although there some labor policies challenges exist.

5.2 MAPPING MFIs

Before introducing the Polish MFIs, it is important to mention that **the country has no unique definition of microfinance institutions and that MFIs were created because of political, economic and social changes during the 1990s** after the Fall of Soviet Union. The microfinance sector has further developed after Poland joined the European Union in 2004.

According to Fila (2018),[63] "the microcredit market in Poland provides for 29% of households with low income and 1,98 million micro-enterprises. 17% of existing micro-enterprises and 83% of the start-ups (those who plan on self-employment) are interested in microcredit. However, only 3% of them are currently using microcredit."

In Poland there are two types of microfinance institutions operating:

- Banking microfinance institutions, i.e. commercial banks and cooperative banks; and,
- Non-banking microfinance institutions, i.e. loan funds, credit unions and others.

Poland does not have any special legal regulations for microfinance providers. While credit and savings operations can only be conducted by legally accredited banks, loans can be given by anybody and there is no cap on interest rates.

Concerning the banking microfinance institutions, there is one commercial bank (FM Bank),[64] which is related to the MFI Fundusz Mikro. Conversely, cooperative banks represent the most banking microfinance institutions. In 2016, there were 558 cooperative banks operating throughout the country, especially in rural areas. The most widely known "traditional" MFIs belonging to this category include: **Fundusz Mikro** (FM) founded in 1994; **Inicjatywa Mikro** (IM), founded as a pilot project of FM and then transformed into an independent MFI in 1996. Other organisations include **Fundacja Wspomagania Wsi** (Rural Development Foundation – RDF), a non-profit organization established in 1999; **Foundation for the Development of Polish Agriculture** (FDPA), a private non-profit institution founded in 1988; the **Canadian-Polish Entrepreneurs Foundation** (CPEF), established by the Government of the Republic of Poland in 1995, under the control of the

[63] Fila, Joanna (June 2018). Microfinance institutions in Poland – towards preventing social and financial exclusion. In Economic and Environmental Studies. Vol. 18, No 2 (46/2018), 531-549, June 2018, p. 537

[64] FM Bank is the first financial institution in Poland to specialise in micro-and small companies. The bank's offer is tailored to meet the specific needs of these customers and is based on surveys that capture customer preferences and the experience of experts who have served this market segment for 15 years. Abris Capital Partners Fund L.P. (special purpose vehicle and the owner of Fundusz Mikro) and International Finance Corporation (IFC) of the World Bank Group, are the main shareholders of FM Bank.

Ministry of Finance for establishment and control of financial operations, and the control of Ministry of Treasury for Supervisory Board Members appointments and the control of the global operations.

Cooperative Savings and Credit Unions (CSCUs) are also present in Poland. Their activity is regulated by the CSCUs Act, which defines credit unions as cooperative under the provision of the Cooperative Law. They provide financial and non-financial services, and they have favorable conditions for their members such as high interest rates on deposits, low interests on loans and low operational costs. They mainly operate in cities. All CSCUs are coordinated under the guidance of the following seven organizations:[65] the **National Association of Cooperative Savings and Credit Unions** (SKOK); the **Central Financial Facility** (CFF); the **Stabilisation Fund**; the **TUW-SKOK Mutual Benefit Insurance Compan**y; the **H&S Software Company**; the **SKOK Credit Union School and Training Centres**; and the **Foundation for Polish Credit Unions** (FPCU).

Another MFI model in Poland is represented by Loan Guarantee Funds that are financed by the government, international donors and the European Union.

Finally, institutions and private individuals can become financial intermediaries as well, which lend money on their account or act as agents.

According to the latest EMN-MFC survey (2018),[66] seven surveyed MFIs reported the following results:

- The average Annual Percentage Rate (APR) is **4,2%** for business microloans;
- In 2017, **4.170 active clients** used business microloans (3,997 in 2016);
- The gross microloan portfolio was **EUR 47.172.899** in 2017 (EUR 45.247.244 in 2016);
- In 2017, **656** business microloans were disbursed in the amount of **EUR 8.880.019** (867 business microloans for EUR 11.224.118 in 2016) .

5.3 OPERATIONAL PROGRAMMES

The following table lists the Operational Programmes for Poland. EU Funding is also indicated. Poland is divided up in provinces (*voivodeship*):

[65] EMN 14th Conference. Chapter 5. Microfinance in Poland. P. 80
[66] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018)

Knowledge Education Growth - ESF/YEI	Wielkolskie Voivodeship - ERDF/ESF	Zachodniomorskie Voivodeship - ERDF/ESF	Kujawsko-Pomorskie Voivodeship - ERDF/ESF
Lubelskie Voivodeship - ERDF/ESF	Lodzkie Voivodeship - ERDF/ESF	Malolskie Voivodeship - ERDF/ESF	Mazowieckie Voivodeship - ERDF/ESF
Opolskie Voivodeship - ERDF/ESF	Podkarpackie Voivodeship - ERDF/ESF	Dolnoslaskie Voivodeship - ERDF/ESF	Podlaskie Voivodeship - ERDF/ESF
Pomorskie Voivodeship - ERDF/ESF	Slaskie Voivodeship - ERDF/ESF	Swietokrzyskie Voivodeship - ERDF/ESF	Warminsko-Mazurskie Voivodeship - ERDF/ESF
	Wielkolskie Voivodeship - ERDF/ESF	Zachodniomorskie Voivodeship - ERDF/ESF	

- The **national OP Knowledge Education Growth** has a budget of EUR 4,689 billion, of which EUR 4,436 comes from the EU budget. It fights structural challenges in employment, social inclusion, health and public administration;
- The **regional OP Wielkolskie Voivodeship** aims to improve economic competitiveness and social cohesion within the Wielkopolska region through the reduction of disparities;
- The **regional OP Zachodniomorskie Voivodeship** increases the competitiveness of the region, ensuring the improvement of the living conditions of its inhabitants;
- The **regional OP Lubelskie Voivodeship** aims to increase the competitiveness of the region and promote social cohesion;
- The **regional OP Lódzkie Voivodeship** aims to increase the competitiveness of the region and improve the living conditions of its inhabitants through the principles of sustainable development;
- The **regional OP Malolskie Voivodeship** aims to increase the competitiveness of the region through the promotion of social cohesion and employment;
- The **regional OP Mozowieckie Voivodeship** aims to increase competitiveness and foster the strengths and assets of the region;
- The **regional OP Opolskie Voivodeship** focuses on sustainable development for smart and inclusive growth;
- The **regional OP Podkarpackie Voivodeship** supports innovation, R&D, technological development, SME and e-services, and encourages social inclusion and poverty reduction;

- The **regional OP Dolnoślaskie Voivodeship** supports enterprises and innovation, a low-carbon economy and development of transport infrastructures;
- The **regional OP Podlaskie Voivodeship** aims to increase employment rates and reduce poverty through better education and infrastructure;
- The **regional OP Pomorskie Voivodeship** supports innovation, R&D, SME and e-services, and promotes social inclusion and poverty reduction;
- The **regional OP Slaskie Voivodeship** supports R&D, support to SMEs, the shift to a low-carbon economy and better transport infrastructures; the ESF focuses on employment, workers' mobility and adaptability of enterprises;
- The **regional OP Świętokrzyskie Voivodeship** focuses on R&D, SME, e-services and the shift to a low-carbon economy;
- The **regional OP Warminsko-Mazurskie Voivodeship** supports R&D and enterprises, focuses on the shift to a low-carbon economy and fosters social inclusion and education;
- The **regional OP Wielkolskie Voivodeship** fosters research, innovation and technological development, entrepreneurship, low-carbon economy and increasing employment and better education;
- The **regional OP Zachodniomorskie Voivodeship** supports better infrastructure, sustainable and quality employment, social development to fight social exclusion and economic growth;
- The **regional OP Kujawsko-Pomorskie Voivodeship** aims to increase of competitiveness and innovation of the region and improve the quality of life for its inhabitants.

5.4 CASE STUDY

Poland is targeting ESF support to help disadvantaged jobseekers and social groups by equipping them with skills and opportunities to find work. Other important objectives include making education more relevant and improving public services.[67] Poland is using ESF funds **to boost the links between science, innovation and industry as well as to train highly qualified workers** as the economy transitions towards technology-oriented sectors. Reforms to the education and training system are under way, and the job prospects of disadvantaged groups are being improved through training and social enterprise.[68]

ESF projects in the field of employment are taking an individual and **demand-driven approach** by focusing on people who find it most difficult to get work. **Personal coaching, professional guidance and emphasis on skill development are helping to improve jobseekers' employability and help them return to the labor market**. In addition, entrepreneurship and self-employment are being encouraged, particularly for young people. **Overall, the ESF is supporting initiatives to upgrade the skills and qualifications of employees to meet the needs of Poland's developing economic sectors**. Employment in Poland has remained strong during the economic crisis. However, there are significant challenges for the future. The employment rate is one of the lowest in

[67] http://ec.europa.eu/esf/main.jsp?catId=393
[68] Poland and the European Social Fund, Social Europe, European Commission

the EU, mostly due to the low number of older people still working. The ageing population also poses a serious threat to the sustainability of public finances. For this reason, the country needs more people to enter the workforce, remain employed for a longer duration, and provide incentives for older people to return to work. Indeed, Poland is targeting a 71% employment rate by 2020.

Poland has strong regional disparities in wealth and job creation, with outlying rural and urban areas often suffering from low levels of development and fewer employment opportunities. Poland is trying to reduce these inequalities by strengthening regional social and employment services and creating new opportunities for people to upgrade their skills and improve their job prospects. **To boost job opportunities, Poland is encouraging a greater spirit of enterprise, supporting people to start up their own businesses or become self-employed**.

In recent years, the economy has transitioned away from agriculture and traditional manufacturing towards the service sectors and more knowledge-intensive industries. As a result, the type of jobs being created is also changing. Education and training are therefore increasingly important to ensure that people gain the knowledge and skills they need to succeed in this changing economic environment. To this end, Poland is investing further in the reform of the education system and the development of better vocational training opportunities.

Poland has received more than EUR 10 billion in ESF funding for the period 2007-2013. With national co-funding, the total ESF spending on education, training and jobs amounts to some EUR 11,7 billion. In addition to addressing employment, social exclusion and workforce skills, the ESF programme also supports good governance, health-care and rural development. During the 2014-2020 period, Poland has received nearly EUR 13 billion in ESF funding, while national co-funding amounts to some EUR 2 billion. As a result, the total ESF spending surpasses EUR 15 billion.

As mentioned earlier, Poland’s ESF priorities may be summarized in ‘**Equal access to jobs and training.**’ People are considered to be the key strength of the Polish economy and a major factor in increasing the country’s innovation potential. Therefore, ESF funding is helping to modernize both general and vocational training (including adult education). These initiatives help people to adapt to changing demands and to build a culture of lifelong learning. In this effort, ESF actions are targeting groups who need extra help to get training and jobs, such as the youth who need experience and older workers who need new skills. Actions attempt to counteract social exclusion among the unemployed, young people, women, and the disabled and older people. As part of this effort, social enterprise is being encouraged. By 2020, Poland intends to reduce the number of people living at risk of poverty by 1,5 million. Poland is also making considerable ESF investments into the effectiveness and efficiency of public administration and services in an effort to improve services to citizens and jobseekers and create a better business environment.

Although **supporting entrepreneurs** is a primary objective of the ESF, relatively few **cases illustrating the direct access of MFIs to ESF funds exist.** This is also the case for **MFIs serving as a direct channel to distribute ESF funds towards the underserved**. In the first phase research, we only observed a single **example of cooperation between national and regional public/private institutions linking ESF funds to microcredit and non-financial services**.

The successful project was implemented by **KSWP** (National Association for the Support of Entrepreneurship), an institution established in 1995 aiming **to support entrepreneurs, deliver professional training**, and **monitor potential client needs** through cooperation with specialists in various fields. KSWP is an NGO that provides financial services such as business microloans with non-financial services such as entrepreneurship training. Target clients include the elderly, individuals with disabilities, long-term unemployed, low skilled, individuals belonging to ethnic minorities, migrants, and in general all individuals who are in unfavorable social situation.

As of December 2016, the company's gross loan portfolio stands at EUR 52.000.000 and the MFI serves 10.000 clients. The MFI serves rural and urban populations, unemployed people and people on welfare, disabled people, and people excluded from traditional financial services.

KSWP

Mission: To provide help to people wanting to start their own business in the phase of the establishment and during the development by granting loans

Vision: To develop and promote entrepreneurship, competencies, potential and capabilities

What?

Financial services:

- Loans for starting and developing a business (100%)

Non-financial services:

- Training and vocational training;
- Information and advisory service

How?

Supporting entrepreneurship development; actions for decreasing unemployment; granting loans for starting a business; promoting innovations in SMEs; working for sake of convenient access for entrepreneurs to external financial sources; working for equal chances of social development

Relationship to ESF

- KSWP and ESF both support entrepreneurship and self-employment as well as vulnerable categories, i.e. unemployed;
- Helping to elaborate the microcredit scheme "Cash on start" together with the MA Ministry of Infrastructure and Development (MID), the intermediate authority the Mazovia Marshall Office (responsible for the operation and implementation of the financial instrument to the regional government) and its subsidiary, the Mazovian Unit for EU Funds Implementation.

For the purposes of this analysis, we focus on the project "**Cash on Start,"** which targets unemployed and inactive citizens of Mazowiecki. The project offers **loans for entrepreneurial activities across a broad range of purposes such as investment capital, economic turnover, operational costs, the extension or modernization of production and intangible assets related to the project**.

As stated by the Managing and Intermediate Authorities for the Mazowieckie province, **projects in the region support the social economy by increasing the number of jobs created by social enterprises, by providing professional services that help people choose their vocation, and by improving the competencies and professional qualifications of adults** according to TO 9 and TO 10. These actions are in line with the objectives of Europe 2020 and the Development Strategy of Mazovian Voivodeship 2030, i.e. to make the Mazovian Province an "innovative region."

Since the start of social economy projects, and in accordance with TO 9 and TO10, the following results have been achieved (since 2014):

Number of jobs created in the social economy	406
Number of jobs created for individuals in the social enterprise (SE) sector as a result of the activities of the Support Centre for Social Economy (OWES)[69]	346
Number of full-time jobs created in the supported SEs as a result of OWES	105,42
Number of NGOs carrying out payable public benefit or business activities as a result of OWES	45

The project had an **initial implementation stage consisting of assistance, consultancy and entrepreneurial support before distributing the loan**. There is also a one hour predisposition exam for each beneficiary. Beneficiaries also have four hours of personalized **coaching** to help write their business plan. **After the loan is granted, the personalized training continues and applicants select an area of interest: either marketing, economics or taxes**.

These programmes are conducted in groups of five or more beneficiaries. The maximum loan amount is PLN 50.000 (approx. EUR 11.700) with an interest rate of 0,5% with no further fees or commissions. The repayment period is up to 60 months. To access the

[69] The support Center for Social Economy (OWES) is a center based in Warsaw whose offer covers legal consultancy, supporting to business cooperatives, soft skills education, marketing and promotion, business planning and SWOT analysis for social enterprises, and internal training.

programme, participants need to present an unemployment or inactive statement from the government, and they must be a resident of the Mazowieckie Province between the ages of 18 and 64.

In 2013, KSWP was selected to carry out the project. Under the funding agreement, the investment period was between 2013-2015. The total budget was PLN 5.873.030 (with 85% coming from the ESF and 15% coming from national funding). Funds were split between the investment fund (PLN 5.679.060, including fund management costs and fees up to a specified ceiling) and non-financial support services (PLN 193.970).

Several bodies, with varying roles and responsibilities, were involved in the scheme: the Managing Authority (Ministry of Infrastructure and Development – MID) was ultimately responsible for the operation and implementation of the financial instrument to the regional government. The Mazovia Marshall Office was appointed as an intermediate body. This **first level intermediate body** delegated the selected the financial intermediary (KSWP in this case) responsibilities related to contracting, monitoring, payments and settlements, controls, as well as information and promotion under the operation to the Mazovian Unit for EU Funds Implementation (Mazowiecka Jednostka Wdrażania Programów Unijnych, a subsidiary of Mazovia's Marshall Office), which was the **second level intermediate body.** In terms of project delivery, KSWP took a **customer-oriented** point of view, which tailored the services to best serve the needs of the entrepreneurs. It also offered transitional financial support to help the entrepreneurs smooth their path from unemployed to employment.

After the end of the investment period (December 2015), the total amount of loans provided from the beginning of the project in 2013 until the end of 2017 reached PLN 9.000.000 (approx. EUR 2.120.000). During this time, 210 loans were disbursed. Importantly, **the Managing Authority and intermediate body evaluated the achievements of the scheme and decided to renew the project.**

The adoption of financial instruments as a way to channel structural and national funds for microfinance may be considered a more efficient and sustainable alternative than the traditional grant-based financing. Since the product was well-tailored to the specific needs of target recipients, access to microfinance has been progressively improved thanks to the efficient management of the funds and the additional non-financial support provided to the unemployed.

The implementation of ESF financial instruments in the region is overseen by a steering committee, chaired by the Managing Authority, and includes all relevant regional intermediate bodies, including the Mazovian Unit for EU Funds Implementation, and financial intermediaries financed by the Operational Plan.

Following the partnership framework, the monitoring and reporting of the project occurs at three levels. First, KSWP monitors, on a monthly basis and based on the loan agreement, the borrower's business activity status, loan use and repayments, as well as the training and advisory services. Second, under the funding agreement, KSWP sends quarterly performance reports to the second-level intermediate body. These reports detail the delivered support, including the number and value of loans, number of borrowers, management costs and any gains from treasury management. Third, the second-level intermediate body submits quarterly performance reports to the first-level intermediate body that in turn informs the managing authority. The intermediate body controls implementation based on documentation.

Promoting the financial instruments to final beneficiaries was a key success factor of the project. The financial instrument was marketed to potential final recipients by KSWP, who, apart from launching a website, held a series of meetings at the territorial Labor Offices with employees who were in direct contact with the target group. Biannual meetings were also held with the Development Ministry.[70] The financial instrument was advertised at job fairs, in local newspapers, through posters, leaflets and on the internet. At a later stage, information about the loans was spread by word-of-mouth, through the positive opinions of the new entrepreneurs and concrete investment examples. **Support activities such as training courses, seminars, consultations also ensured the success of the project**.

Another interesting case to analyze falls under TO 8. This project "**My Business, My Success**" targets unemployed people aged 50+ from Sosnowiec. By boosting entrepreneurial skills and knowledge, the project **helps elderly folks to set up their own business**. The project addresses a national requirement to get more people aged 50+ into the labor market and to play a greater role in the economy. Co-financed by the ESF, **this project delivered training, counselling and financial support to older people**. 49 people took part in the project's training and advisory phase, including 11 people with disabilities. In addition to learning how to run a start-up, the participants enrolled in coaching sessions to sharpen up 'soft skills' such as self-confidence and organizational planning. The project proved to be a great success: 43 participants established their own companies across diverse sectors such as construction and antique restoration.

The entrepreneurs received a loan of PLN 40.000 (about EUR 9.500) to help them establish their start-up. Bridge financing was also available during the first year of operation (PLN 1.600 per month for the first six months and PLN 1.680 per month for a further six-months). With a total budget of EUR 699.217 and an ESF contribution of EUR 594.334, the project was implemented between September 2012 and October 2014 by Agencja Rozwoju Lokalnego s.a. (Local Development Agency PLC), which delivers local loan funds. The organization was created with its own funds and funds from the Polish Agency for Enterprise Development in Warsaw. The Loan Fund **supports the development of the micro and small enterprise sector by enabling access to external sources of financing**. Thanks to financial support in the form of attractive interest-bearing loans, the Loan Fund effectively finances the start-up and development of entrepreneurs from the Śląskie Voivodeship (province of Silesian).

[70] The Ministry of Economic Development was the office of government in Poland responsible for the economy and regional development. It was created in late 2015 from the split of the Ministry of Infrastructure and Development and dissolved in 2018, after the creation of Ministry of Investment and Economic Development.

In sum, the project benefitted heavily from **good cooperation between the MAs (primary and intermediate) and KSWP as MFI**. Another important aspect was the **offering of non-financial services and frequent meetings between the various actors**, which highlights **the direct contribution of the MFI**. In fact, as mentioned previously, meetings helped to prevent misunderstandings and aligned the various actors on a common goal through a shared strategy.

6 TERRITORIAL CASE – SPAIN

6.1 MACROECONOMIC CONTEXT

Spain is a country located on the Iberian Peninsula with a population exceeding 46 million citizens. It has been part of the **European Union** since January 1st 1986, and is part of the **Economic and Monetary Union** (EMU).

Concerning the **political and institutional framework**, Spain is a parliamentary democracy and constitutional monarchy with a head of government, namely the prime minister, and a head of state, the monarch. The executive branch is represented by the council of ministers and is presided over by the prime minister. Spain is a unitary state, composed of seventeen autonomous communities and two autonomous cities, characterized by different levels of autonomy.

According to Eurostat data, the Spain's **Gross Domestic Product has increased** during the last 7 years. In 2018, Spanish GDP surpassed EUR 1,200 billion. Data from the International Monetary Fund states that Spain's 2018 Real GDP growth rate was 2,7%.

Although the Spanish unemployment rate has decreased since 2014, it still remains relatively high (15,6% in 2018)[71]. The IMF forecasts a further reduction in 2020 and 2021, to 14,3% and 14,1% respectively. Another concern for the Spanish labor market is the **low level of active population compared to the potential workforce**, an observation that could indicate that many people have given up looking for employment. Moreover, Spain is a country characterized by **strong inequalities**. According to data from the Spanish Statistical Office, 21,6% of the population lives under the poverty threshold (EUR 8.500 per year), and the social expenses in the public budget only account to roughly 17% of GDP, compared to an EU average of 20% (Eurostat).

According to OECD estimates, Spain obtains decent results along a few dimensions of well-being in the Better Life Index. Spain achieves more positive results than the average with respect to work-life balance, housing, health, social relations and personal security. On the other hand, Spain underperforms the OECD average for income and personal well-being, civic engagement, environmental quality, education and skills, employment and earnings and subjective well-being.

In Spain, income per capita is equal to USD 23.129 per year (lower than the OCSE average of USD 30.563 per year). There is also a large gap between richest segment of population and the poorest one: the richest 20% earns approximately 7 times the income of the poorest 20% of the population.

Regarding employment, OECD estimates show that about 60% of people aged between 15 and 64 years old have a paid job. As a result, the Spanish employment rate is lower than the average OECD employment rate (67%). By gender, 66% of males and 55% of females have a paid job. A fundamental aspect affecting the employment rate is related to

[71] Source: IMF's DataMapper.

education and skills. In Spain, 58% of adults aged between 25 and 64 years old have completed the high school study cycle (considerably lower than OECD average of 74%).

Related to the usage of the ESF, **Spain is strengthening the labor market to help people find better jobs, ensure fairer living standards and generate more employment opportunities for all EU citizens**. Spain is opening new pathways into work by investing ESF funding into skill development and its education and training system. Measures to boost opportunities and reduce inequalities are particularly directed towards young people and those from disadvantaged groups.[72]

6.2 MAPPING MFIs

Thirteen Spanish organizations are members of the European Microfinance Network.[73] Of the thirteen, seven are defined either as microfinance institutions or microfinance support organizations. The institutions providing financial and non-financial support include:

- **Fundación Montemadrid** is a private non-profit working in social action, education, culture and environment. The organization supports, either directly or through alliances, projects on inclusion, equal opportunities, autonomy and integration of groups and individuals with social problems;
- **Fundación Oportunitas** is an organization offering training, counselling and microfinance services to promote social and economic inclusion through entrepreneurship and self-employment, especially for people at risk of social and/or financial exclusion;
- **Fundació Pinnae** is a foundation promoting activities for vulnerable people or individuals at-risk-of social exclusion, economic promotion, job placement and cultural promotion;
- **Gaztenpresa Fundazioa** is a foundation belonging to the Social Work of LABORAL Kutxa, a cooperative bank in the Basque Country. Its mission is to support the development of self-employment, mainly for young people from a technical and financial perspective;
- **Nantik Lum** is a pioneering and innovative not-for-profit organization, established in 2003, that works on development and research projects in the microfinance sector. Microcredit is used as a tool to facilitate development;
- **Treball Solidari** is an organization that helps women find work. Since 2000, Treball Solidari has been working in South and Central America developing more than 100 projects;
- **Cajamar Caja Rura** is a credit rural cooperative in 43 provinces of Spain;
- **Laboral Kutxa** is a Basque credit union founded in 2012 that provides financial services such as consumer banking, corporate banking, investment and private equity among others; and,
- **ICREF** (Instituto de Crédito y Finanzas Región de Murcia – The Institute of Credit and Finance of the Region of Murcia) is a public entity created in 2007 and operating since 2009 to raise funding in the national and international capital markets on behalf of the Regional Government of Murcia and develop regional and economic and business activities, including the development of SMEs and microenterprises.

[72] Source: European Commission's website.
[73] European Microfinance Network's website

Moreover, there are two Spanish Microfinance support organizations that belong to the European Microfinance Network:

- **Association of Self-Funded Communities** (**ACAF)**, which promotes the creation of self-funded communities. Together, low-income people can fund themselves and access credit without any external help. Its main priority is to expand this proven and efficient methodology throughout Spain and to other European countries; and,
- **The Fundació Privada per a la Promoció de l'Autoocupació de Catalunya** is a private and independent not-for-profit organization created in 1986 to promote self-employment in Catalonia.

Additional actors include two microfinance investors:

- **Bankia**, whose mission is to provide a "high quality service to customers, reward its shareholders competitively, make a positive contribution to the public finances, provide employees with opportunities for professional development, and help to improve the market's assessment and perception of the financial system"; and,
- **Fundación ICO**, whose mission is to "contribute towards and support the development of society." It promotes culture and knowledge in its various spheres of action. For many years, Fundación ICO fostered a close relationship with the microfinance sector in Spain. It supported the efforts of organisations, practitioners and academic groups involved in the constitution of the Spanish Microfinance Association. Fundación ICO encourages the normalisation of microcredit to include a broad range of instruments, addressing the needs of entrepreneurs and micro and small businesses that fall outside of the commercial banking portfolio.

Other EMN members in Spain include "Service providers to the microfinance sector," namely:

- **Asociación Española de Microfinanzas** is composed all relevant actors in the national microfinance sector, including NGOs, Foundations, Saving Banks, Universities, Consultants, Migrant Associations, Women Associations, Disable Associations, Ethnic minorities associations and more; and a bank, **MicroBank La Caixa**, set up in 2007 as the social bank within La Caixa group. It has taken over the microcredit activity of the group.

According to the latest EMN-MFC survey (2018),[74], there are 10 MFIs in Spain. **Together with France and Greece, Spain is among the European countries where the majority of MFIs do not specialize in microlending (<25% of all activities)**. Moreover, **Spain is one of the three countries, together with Italy and France, with the widest spectrum of financial products and services.**

The Spanish MFIs survey in the EMN survey report:[75]

- The average Annual Percentage Rate (APR) for business microloans is **5,7%** and 6,8% for personal microloans;
- In 2017, the number of **active borrowers was 302.150** (58.619 for business microloans and 243.531 for personal microloans); in 2016, the number of total clients was 264.362;

[74] EMN & MFC, Microfinance in Europe: Survey Report 2016-2017 (2018)
[75] *Ibidem*.

- In 2017, the **gross microloan portfolio outstanding** was **EUR 1.465.721.901** (EUR 1.178.892.157 in 2016), of which EUR 450.780.185 was dedicated to business microloans and EUR 1.014.941.716 was dedicated to personal microloans;
- The **value of disbursed microloans** was **EUR 904.551.963** in 2017 (EUR 818.227.659 in 2016), of which EUR 255.705.660 was for business microloans (EUR 203.786.685 in 2016) and EUR 648.846.303 was for personal microloans (EUR 614.440.974 in 2016);
- In 2017, **147.923 microloans were disbursed** (21.636 for business and 126.287 for personal microloans).

6.3 OPERATIONAL PROGRAMMES

The following section highlights the operational programmes that have been carried out in Spain for the programming period 2014-2020. All programmes are supervised by the Ministry of Employment and Social Security – Unidad Administradora del Fondo Social Europeo (UAFSE), which is the Managing Authority.

At the national level, Spain is implementing the following three programmes:

Social inclusion and social economy - ESF

- To help the unemployed find a job and strengthen the role of social economy

Technical assistance - ESF/YEI

- To achieve management quality control, to conduct studies and quality assessment and to ensure dissemination of ESF actions

Youth employment - ESF/YEI

- To implement Youth Guarantee

Each Spanish region has a regional ESF programme. The following table summarizes the Regional Operating Programmes. The main objectives to be achieved through the implementation period can be summarized as follows:

- Reducing difficulties and poverty, improve education and employment;
- Facilitating access to the labour market;
- Fostering employment and supporting education and entrepreneurship;
- Improving access to the labour market and the quality of employment, together with reducing school dropout rates;
- Increasing access to the labor market and reducing poverty, to improve education and employment;

- Fighting social and employment exclusion of disadvantaged populations;
- Contributing to achievement of Europe 2020;
- Helping the unemployed find a job, promoting active employability and raising the level of workers' skills; and
- Increasing employment opportunities, addressing those at risk of social exclusion and modernizing public service.

6.4 CASE STUDY

In some cases, interviewees reported that **accessing ESF funds may be particularly challenging, considering the availability of information and the complexity of the application process**. Other research[76] suggests that it may be difficult to identify a suitable programme to make use of ESF funds and there may be too many actors involved on local, regional, national and European level, which makes it more complicated to develop a common objective and suitable programme.

However, our research focuses on a case that demonstrates successful **cooperation between microfinance and the ESF**. We analyze the Spanish case of ”Xarxa Emprèn,” funded by the regional government of Catalonia using 50% of ESF funds to **support non-financial services**.

[76] ESF Market Failures for Microfinance in Europe. Findings “short mapping”, European Microfinance Network, Microfinance Centre

Xarxa Emprèn is a public-private network of entities that provides **support and mentoring services** (up to 3 years) to people who want to set up a company in Catalonia. The project operates within the framework of the Catalunya Emprèn programme of the regional government of Catalonia. The network involves more than 150 entities and 500 technical experts in the region. Since 2013, more than 35.000 people have used Xarxa Emprèn services, and Xarxa has supported the creation of more than 4.500 companies.

Xarxa Emprèn offers a wide range of services to promote entrepreneurship and the creation of new companies in a favorable environment. We summarize two different types of services: general and specific services.

General services are provided by all entities involved in the initiative, and include items such as:

- **Information and guidance**: all entities of the Emprèn Network offer information and guidance on the process to create a company. The informative service usually starts with a face-to-face and personalized interview. During this first session, the business project is explained, and doubts are raised on the problems that the beneficiary needs to solve. The entities of the Xarxa Emprèn, through active listening, identify beneficiaries' needs and inform them about the services available to development the business idea;
- **Advice**: entities of the Xarxa Emprèn provide advice on business ideas, the basis of the business, and its differential features. They stress taking time to think about the business idea and how to improve upon it. Xarxa Emprèn has developed a specific process named 'The IDEA Test.' The IDEA test is a tool that helps the beneficiary think about his/her own project and the way he/she wants to develop it. Several questions are provided to rethink the process of starting a business and to help in identifying the main strengths and weaknesses of your proposal. The IDEA Test is an individual exercise to help the people to consolidate their own project;
- **Training**: a wide range of training helps people to improve their skills and abilities in business management and ensure the success of the future company. Training activities are offered in different areas, such as negotiation techniques, time management and delegation, aspects of the legal-fiscal area, economic and financial planning, communication, marketing, brand strategy, technology, etc. The sessions are given by expert professionals with experience and deep knowledge in teaching; and,
- **Consolidation**: this advisory service is for companies younger than three years that have received the support of an entity of the Xarxa Emprèn to carry out their business plan. The aim is to reduce the chances of failure for these businesses and improve their competitiveness. This monitoring service carries out an analysis and assessment for the start-up of the business project with respect to the initial business plan. In case weaknesses are detected, strategies and action plans are designed. This follow-up includes the following topics:
    - General business strategy;
    - Economics and finance;

  - Commercial and sales techniques and/or marketing;
  - Internal organization and HR;
  - Corporate relations;
  - Provision of some technical assistance in a specific subject;
  - Participation in some training action;
  - Support in some delicate management; and,
  - Contact with any entity, agency or specific institution, programmes or services of the public administration, institutions, etc.

Specific services are only provided by some of the entities, and include items such as:

- **Procedures to start the business**: this specific service facilitates the creation of new companies and the effective startup of activities through the provision of information services, documentation processing, advice, training and support on business financing. It also includes guidance on filling out and presenting the documents and meeting the requirements of various regulations.
- **Mediation for access to financing**: involved entities help beneficiaries understand financing issues, e.g. the kind of resources they need, how to finance a project, and where financial resources can be found. This service supports the entrepreneur during the funding phase to find the best financial solutions according to the type of project and facilitates the processing of applications. This service includes advice and mediation on existing financial products in the market, whether internal/external, such as:

  - Capitalization of unemployment;
  - Loans;
  - Lines of guarantees;
  - Microcredits;
  - Subsidies;
  - Tax incentives;
  - Awards and contests;
  - Other alternative financing systems;
  - Digital literacy;
  - Advice for ICT business projects;
  - Coworkings and business incubators;
  - Business transfer services; and,
  - Second opportunity services.

In some cases, **once the beneficiaries have been provided with this kind of mediation for access to financing services, and after the entrepreneurs' business plans have been revised, beneficiaries may achieve the 'certificado de viabilidad'** (an attestation of business sustainability that certifies the feasibility of the entrepreneurial project and that the entrepreneur has attended an individual training and mentoring path. This certification facilitates the relationship with a bank or a microfinance institution. In a sense, this kind of service (with the certification annexed) 'fast tracks' customers with the involved financial institution.

Other services may also be provided, such as specialized territorial services.

All general and specific services are targeted towards:

- Entrepreneurs who want to start a business in Catalonia;
- Entrepreneurs with a project to expand their activity that requires a process of analysis and reflection, that generates new jobs or makes important changes, as if it were a new company; and,
- Entrepreneurs and companies in bankruptcy, to restructure their business project.

Access to the services includes the choice of an entity, which can provide the above-mentioned support services based on the territorial location or on the services it offers. Once the entity is chosen, and the request for advice is completed, the entity will contact the beneficiary within a maximum period of 7 days to arrange a first appointment or supply the needed information.

All entities in Xarxa Emprèn are accredited and comply with requirements to ensure quality services. As mentioned earlier, several factors help the beneficiary to decide the most suitable option, such as **proximity** (there is an entity in each regional district and local advisory bodies that guarantee a wide knowledge of the territory and its peculiarities); **accessibility for entrepreneurs** (entities of a social initiative that offers support with an added value to entrepreneurial people); **professional sector** (professional associations provide added value by accompanying entrepreneurs in their professional field); **legal form** (some entities are specialized in advising cooperatives or self-employed workers); and **innovation and research** (companies with a scientific or technological base can find added value to entities linked to the university system or by locating in technology parks).

This specific territorial case clearly illustrates how the ESF can be a **strong financial instrument to support job creation and help people to build their own path to employment**. For this reason, the budget proposal of the European Commission for 2021-2027 contains a chapter entitled "**Investing in people, social cohesion and values**" with EUR 139.5 million. This chapter includes a new instrument that will group the European Social Fund, the Youth Guarantee or the Fund for European Aid to the Most Deprived (FEAD). Through these types of funds, a successful project like Xarxa Emprèn can be possible. To date, Xarxa Emprèn has advised more than 35.000 potential entrepreneurs.[77]

The Xarxa Emprèn network involves more than 150 entities and 500 technical experts in the region. Considering time constraints, our research directly involved only one entity: **Autoocupació. Autoocupació** provides services to entrepreneurs operating in Barcelona, Tarragona, Girona, and Lleida. The entity provides information and motivation for self-employment, personalized guidance to entrepreneurs, business plan advice, business management training, feasibility analysis of the business project, support in the search for financial resources, microcredit, support at the start of the activity and mentoring for the consolidation of the business. Target beneficiaries are young people between 18 and 35 years old.

[77] A European budget for investing in people, Tarradellas F., European Commission, 2019

AUTOOCUPACIÓ

Who?

The company promotes self-employment as an attractive alternative to work and facilitates access to financial resources, and offers help to consolidate existing businesses.

The company provides business creation and development services, training courses, mentoring activities, and funding support.

How?

The company provides beneficiaries the necessary information to create and consolidate a business and accompainies clients throughout the entire process. It also provides intermediation services with financial institutions to facilitate access to bank or MFI financing under market conditions. It also contacts private investors who may be interested in investing start-up capital, with potential growth, knowledge and contact networks.

Relationship to ESF

- Autoocupació and ESF both aim to reinforce the capacities and capabilities of those wanting to start up a business but do not have the instruments;
- Autoocupació provides BDS to boost entrepreneurship similar to ESF.

To conclude, the project Xarxa Emprèn and the specific role of Autoocupació illustrates **how successful cooperation between MAs and MFIs can be implemented when offering non-financial services, a critical element when dealing with disadvantaged people who need additional support**.

7 TERRITORIAL CASE – BELGIUM

7.1 MACROECONOMIC CONTEXT

Belgium is a country located in Western Europe with a population of more than 11 million citizens. It has been part of the European Union since January 1st, 1958, and it is part of the Economic and Monetary Union (EMU).

Belgium's **political and institutional framework** is a federal constitutional monarchy. The king is the head of state and the prime minister is the head of government in a multi-party system. Decision-making powers are not centralized, but divided between three levels of government:

- The federal government;
- Three language-based communities (Flemish, French and German-speaking);
- Three regions (Flanders, Brussels Capital and Wallonia).

Brussels, together with Luxembourg City and Strasbourg, is one of the three official seats of the European institutions.

According to Eurostat data, Belgian **GDP** has been increasing since 2009, recently surpassing EUR 400 billion. Data by the International Monetary Fund states that the Real GDP growth rate was 1,5% in 2018.

Unemployment in Belgium resorted to its pre-crisis level sooner than most other OECD countries, but then rose significantly again in 2012 and has only recently began to decline again. At 6,8% in April 2018, the unemployment rate was still above its pre-crisis level and 0,9 percentage points above the OECD average. However, lower unemployment is projected and expected to reach pre-crisis levels by the end of 2017 and half the gap with the OECD average by the end of 2018[78].

As in most other OECD countries, the labor force participation rate in Belgium is above its pre-crisis level, although still low by OECD standards. As elsewhere, there is a rise in the participation rates of women and older people (55-64). This rise has offset the decreases for youth and prime age men. Additionally, according to OECD estimates, Belgium performs better on well-being (e.g. Better Life Index) than most countries. In fact, Belgium ranks near the top across a number of measures such as the work/life balance, income and wealth, civic engagement, education and skills, personal well-being, health, social relationships and personal security. However, Belgium's environmental quality underperforms the OECD's average.

In Belgium, average income per capita is equal to USD 29.968 per year (lower than the OECD average of USD 30.563 per year). There is also a large gap between richest segment of population and the poorest segment. **The richest 20% of the population earns around 4 times the income of the poorest 20% of the population**.

[78] OECD, "Employment Outlook 2017 – Belgium", 2017

When it comes to the employment, OECD estimates show that more than 62% of people aged between 15 and 64 years old have a paid job. The Belgian employment rate is lower than the average OECD employment rate (67%). Gender wise, 66% of males and 58% of females have a paid job. Belgium benefits from good education and high skills. 75% of people aged between 25 and 64 years old have completed high school (slightly higher than OECD average of 74%).

The **European Social Fund is devoted to improving skills and social cohesion in Belgium. The regions are cooperating to boost skills and create job opportunities while social inclusion measures are being developed both cross-regionally and locally as needed**.

7.2 MAPPING MFIs

To map Belgian MFIs, we first introduce the legislative framework of the country.

Concerning the legislative framework, there is no specific regulatory framework for business microcredit provision and personal loans fall under the framework of the Banking and Consumer laws.[79]

Related to the supervisory framework, the lending activities of non-bank financial intermediaries are not supervised by any government institution; only banking financial intermediaries are supervised by the government financial agency (FSMA – Financial Service and Management Authority). As a result, in terms of data protection, non-banking financial institutions are not obliged to share client data with the credit bureau and don't have access to data from the credit bureau. However, one of the principal developments of the Existing Framework for Non-Bank Microcredit Provision concerns initiatives that are underway to ensure that non-bank financial intermediaries have access to the National Bank data.

Regarding financial products, all NBFIs are allowed to disburse business and personal microloans without limit. Regarding business microloans, there is no interest rate cap although there is a cap of about 18% per annum on personal microloans.

Incentives to provide microcredit in Belgium are offered by dedicated national/regional level funds that operate through guarantees and funds for on-lending (senior loans). No incentives exist in the form of tax deductions for individuals that provide financial support to microcredit providers.

Concerning Inclusive Entrepreneurship and Microenterprise Development, **there are no simplified administrative procedures in place for entrepreneurs, and the government is not running any educational campaign to enhance inclusive entrepreneurship and microenterprise development**.

In terms of public support, however, there is a welfare bridge to support unemployed

[79] (2016) "EMN - Legislative Mapping Report – BELGIUM"

people (up to 12 months) in the transition towards self-employment. Moreover, business development services are publicly subsidized and entrepreneurship education has been included in the secondary educational curriculum.

As stated in the report *Socio-Economic impact valuation of the Activities of a Micro-Finance Institution In Belgium* by Flandroy, De Four and Spasov, "In Belgium, the microcredit industry is characterized by the presence of the government and the absence of the banking industry. The only banks present in the microcredit industry are BNP Paribas Fortis and the Dexia Foundation, which respectively sponsor microStart and Crédal. The remaining microcredit actors are being funded by the government."[80]

EMN members based in Belgium include:[81]

- **MicroStart** is a microfinance institution that is part of a group created in 2010 to finance and support those excluded from the banking system (jobseekers, recipients of help from Public Social Welfare Centres, self-employed, etc.), to create or to develop a small independent business;
- **Hefboom** is a Credit union/Financial cooperative. An independent financial cooperative founded in 1985, Hefboom promotes the creation and development of socially responsible enterprises in Flanders and Brussels by providing loans (and equity) and financial and non-financial advice;
- **BRUSOC** is a subsidiary of the Brussels Regional Investment Agency (SRIB-GIMB) and supports self-employed people, small enterprises and social economy projects. The microloans range from EUR 1.250 to 25.000 to entrepreneurs starting or developing their own business;
- **Credal** is a cooperative offering ethical investment and alternative loans for community projects, sustainable enterprises, "un-bankable" and low-income individuals, and support to entrepreneurs. Its mission is to promote a more equal and supportive society;
- **Socamut** is public limited company whose mission is to facilitate credit access to investments and working capital for enterprises that do not have collateral and do not have access to loans.

According to the EMN-MFC Survey about microfinance in Europe, the surveyed Belgian MFIs report:

- The average Annual Percentage Rate (APR) for business microloans is **6,4%**;
- In 2017, the number of **active borrowers was 3.798** for business microloans (3.303 in 2016);
- In 2017, the **gross microloan portfolio outstanding** was **EUR 26.797.781** for business microloans (EUR 24.466.180 in 2016);
- The **value of disbursed microloans** for personal microloans was **EUR 13.612.189** in 2017 (EUR 12.279.304 in 2016); and,
- In 2017, 1.164 **personal microloans** were disbursed (1.194 in 2016).

[80] (2017) "Socio-Economic impact valuation of the Activities of a Micro- Finance Institution In Belgium"
[81] European Microfinance Network's website

7.3 OPERATIONAL PROGRAMMES

The following section describes the operational programmes that have been carried out in Belgium for the programming period 2014-2020.

Wallonie-Bruxelles 2020.EU - ESF/YEI

- To increase productivity, the employment rate and social inclusion
- MA: Minister Wallonia Government

German speaking community of Belgium - ESF

- To improve the employability of disadvantaged citizens and increase job security
- MA: German-speaking Community Minister

Flanders - ESF

- To support entrepreneurship, social economy, poorly skilled youth and Roma
- MA: Agency for Innovation & Entrepreneurship - Department of Europe Economy

Brussel-Capital Region: investment for growth and jobs - ESF/YEI

- To support better access to work, fight discrimination and better integration of disadvantaged
- MA: Brussel-Capital Region Governement

7.4 CASE STUDY

Belgium is using ESF funds **to improve skills and social cohesion and foster job opportunities**. The development of **social inclusion measures** is under way at both cross-regional and local level as needed.

The Belgian regions are investing ESF funds to **develop workforce skills and bring more people into the labor market, provide education and training, and enhance access to jobs for vulnerable groups**. To boost employment, Belgian initiatives in the frame of ESF funding seek to **provide more guidance to younger and older workers and jobseekers, helping them build the skills and qualifications required**. Additionally, Belgium is **reinforcing social inclusion** and reducing the number of children at-risk-of poverty through social projects for parents. Another way to fight against social exclusion is investment in education to reduce the number of dropouts, and making the skills and qualifications attained through education and training more relevant to work settings, smoothing the transition from school to work for young people.

We focused on the Flanders Region which is involved in the OP supporting **initiatives that increase employment and improve social cohesion,** investing up to EUR 1 billion, of which EUR 600 million are financed through Flemish budget and EUR 400 million come from the EU budget. The OP aims to:

- Stimulate employment and social inclusion;
- Promote innovation and transnational cooperation;
- Support targeted actions for more entrepreneurship and better inclusion of unskilled youngster and Roma; and,
- Assist 250.000 people to find or keep a job, establish a company or participate in vocational training.

This OP involves one MFI, **microStart**, which is an organization **providing microcredit to people who want to start a small business or develop a business that they have already started**. Additionally, microStart provides **free business training and advices (coaching) to its clients, provided by experienced volunteers**.

MicroStart consists of:

- A cooperative company for social purposes (microStart SCRL-FS) that disburses microcredit; and,
- A non-profit organization that supports the cooperative's customers free of charge (microStart Support asbl).

MicroStart was inspired by the Grameen Bank model, adapted to Europe in the late 1980s by Maria Nowak, who founded an association for the right to economic initiatives (Association pour le Droit à l'Initiative Économique – ADIE) in 1988. MicroStart was created in 2010 by ADIE, BNP Paribas Fortis and the EIF. The company offers **professional loans** from EUR 500 to EUR 15.000 for renovations, stock, material, cash fund, guarantees (rent), a vehicle, start-up costs, and the acquisition of a company among others. The loans are offered to individuals who want to **start a business, become self-employed** or **are already entrepreneurs and need financing to grow their business**.

There are six steps to obtain a microloan:

1. Apply online or making an appointment;
2. Register for free training if needed;
3. The project is submitted to the credit committee;
4. Once the project is approved, the contract is signed, and the credit disbursed;
5. Pay back monthly; and,
6. Free coaching.

Moreover, microStart offers **non-financial services** such as:

- **Training** through an E-learning platform, group trainings and sessions, individual meetings with an expert, personal coaching once the credit has been disbursed;
- **Free course for the Business management exam** (Management Access Examination by Central Jury's Management Examination), as anyone wishing to become self-employed in Brussels and Wallonia must have a proof of business management knowledge; and,

- **Unemployment benefits**, as a regulation of October 1st, 2016 allows entrepreneurs to start a business while keeping unemployment benefits for 12 months.

MicroStart is one of the partners of the **AZO! Project** that wants to **guide asylum seekers, recognized refugees and subsidiary protected people towards entrepreneurship**. Since 2015, many refugees have arrived in Belgium and the country has decided to invest in their skills. As a result, refugees are encouraged to start up a business based on their passions and talents. The project is financed by ESF and the Flemish Co-financing Fund (VCF). The project is led by VDAB, which is the public employment service of Flanders, and includes other actors, such as:

- **Stebo vzw,** a social profit organization;
- **Starterslabo**, an enterprise working in the field of launching and supporting start-ups and businesses;
- **Unizo**, the largest Flemish organization for self-employed and entrepreneurs;
- **Smart**, an NPO that assists freelance workers to develop their own activity offering multiple services such as information, trainings, legal advice, a social professional network, co-working spaces.
- **Exchange vzw**, a network connecting North and South through development programmes;
- **Zenitor**, an NPO offering services for entrepreneurs and self-employed;
- **Vluchtelingenwerk Vlaanderen** is the Flemish Refugee Action, which supports asylum seekers and refugees;
- **IDrops**, a social innovation agency for profit and non-profit organizations; and,
- **Agentschap Integratie & Inburgering**, a Flemish government entity working and striving for integration of refugees and migrants.

The project consists of four phases:

1. **Inspirational sessions and Prelabs**: participants are encouraged to discover their entrepreneurial potential being more than “just a refugee”;
2. **Creative Lab**: the second phase is a creative lab where ideas are shared with other participants who brainstorm and decide on their own project that complements their talents;
3. **Design Lab**: ideas are transformed into real prototypes, putting focus on skill building (i.e. digital, creative, cross cultural, etc.); and,
4. **Coaching & Referrals**: at the end of the mentorship and support, participants who want to turn their idea into a real company can request coaching. This service is offered by microStart.

MicroStart, together with its partners, works with refugees to raise awareness and train them about entrepreneurship. Throughout the project, the number of contacts to refugees, delivered BDS-services and microcredits have continued to increase. In terms of outreach, 35% of refugees have found microStart through company outreach and prospecting activities (prospection of employee and/or word of mouth); 41% come from partnership activities in a similar field, as the refugees were already beneficiaries of similar projects.

The project will run until 2020 so the final results are still unknown, but the following tables summarize the **impact** of AZO! Project up to 2018:

	# Contacts	**# microcredits**	**# Accompanied persons**	**# BDS actions**
Total microStart	261	73	92	500
Flanders (since 1/11/16)	169	47	72	337
Total Flanders	234	63	84	469
Wallonia & Brussels	27	10	8	31

MicroStart has adapted its BDS to the demand of clients of different origins. Some examples of adapted BDS are:

- **Business management courses**: starting up and doing business in Belgium. It is the official business management course of the Belgian government but simplified for foreign people and is offered in Dutch-English and Dutch-Arabic;
- **Simplified Business Model Canvas**: it is a simplified scheme that uses understandable language and is translated into Dutch, French and Arabic; and,
- **Individual business ideation and business financing by coaches/mentors**; **Individual mentoring and experts**: refugees get a mentor for at least three months, after which the mentoring is reviewed according to the refugees' needs. MicroStart provides experts on a one- or multiple-time basis, e.g. lawyers, accountants, marketing experts, social media experts and others.

MicroStart has also adapted financial products according to the cultural background of refugees, for example the "option liberté" for Muslims is a credit without interest in accordance with Islamic finance principles or a state institution may act as guarantee.

Moreover, microStart plays an advocacy role for premiums, continued state welfare support during start-up, less the costs at start-up taxes and social contributions and management of empty buildings. **To boost integration, the MFI continues to develop BDS in more languages since it is fundamental to start up and drive a successful business; the dedicated officer combines language-skills and entrepreneurial skills.**

To conclude, **microStart has oriented its strategies to surpass these challenges, such as social mining and outreach to more vulnerable areas, establishing networks with partners and grassroots organizations, integration services and informal organizations**. Young refugees are also targeted through digital tools and services and social media to create specific online networks and communities of refugees.

microStart

Who?

microStart is a leading Belgian microfinance institution (non-profit) created in 2010.

- Created by Adie, BNP Paribas Fortis and the European Investment Fund;
- It has five branches throughout Belgium;
- From 2011 it disbursed 4.076 disbursed and has funded 1.469 start-ups.

Vision: Each human being regardless of his educational background, income, economic position and geographical origin has a right to economic initiative and a right to choose its destiny in our society

Slogan: microStart helps people with more ideas than money

What?

Financial services:

- Small loans from EUR 500 to EUR 15,000;

Non-financial services:

- Free services, tools (E-learning) and advices (coaching and training)

How?

Supporting starters and established entrepreneurs who find it difficult to connect to the regular labour market but have the necessary capacities to do business. Most of the entrepreneurs start small activities such as retail (37%), services (20%), restauration (15%) and transport (10%).

Profile of entrepreneurs funded by microStart

62% were born outside of Europe; 41% are unemployed at first contact; 67% do not have a higher diploma; 23% are younger tnan 30 yo and 20% are older than 50 yo; 82% have an income below the poverty line

Relationship to ESF

- microStart and ESF aim to support entrepreneurship and self-employment as well as vulnerable categories, i.e. refugees and migrants;
- Entrepreneurship as a potential solution for empowerment of refugees fighting the barriers they can encounter when they do want to start up a business or an activity in Belgium.

8 CONCLUSION & RECOMMENDATIONS

The table summarizes the main results of the case studies considered in this report:

	Bulgaria	Italy	Poland	Spain	Belgium
Name of Operational Programme and sources of funds	Human resources development – ESF/YEI	POR Regione Lazio – ESF	ROP Mazowieckie voivodeship – ESF/ERDF	Comunidad Autónoma de Cataluña – ESF	Flanders – ESF
Geographical level of intervention	National	Regional	Regional	Regional	Regional
Thematic Objectives	• TA - Technical Assistance • TO10 - Education and training • TO11 - Better public administration • TO8 - Employment and labour market • TO9 - Social inclusion	• TA - Technical Assistance • TO10 – Education and Training • TO11 – Better public administration • TO8 – Employment and labour market • TO9 - Social inclusion	• TA - Technical Assistance • TO1 - Research and innovation • TO10 - Education and training • TO2 - Information and communication technologies • TO3 - SMEs competitiveness • TO4 - Low-carbon economy • TO5 - Climate change and risk	• TA – Technical Assistance • TO10 – Education and Training • TO8 – Employment and labour market • TO9 - Social inclusion	• TA – Technical Assistance • TO10 – Education and Training • TO8 – Employment and labour market • TO9 - Social inclusion

			prevention • TO6 - Environment and resource efficiency • TO7 - Transport and energy networks • TO8 - Employment and labor market • TO9 - Social inclusion		
Total OP budget for 2014-2020	**1.092.248.080,00 EUR** (*of which 938.665.315,00 EUR EU contribution*)	**902.534.714,00 EUR** (*of which 451.267.357,00 EUR EU contribution*)	**2.612.300.177,00 EUR** (*of which 2.089.840.138,00 EUR EU contribution*)	**609.485.690,00 EUR** (*of which 304.742.845,00 EUR EU contribution)*	**1.024.665.509,00 EUR** (*of which 398.502.847,00 EUR EU contribution*)
Name of ESF project	**Risk sharing Micro-Finance facility**	**Fondo Futuro**	**Cash on start**	**Xarxa Emprèn**	**AZO!Project**
Total budget for the project	15,1 mln EUR (1,7 mln EUR first round financing; 13,4 mln EUR second round financing)	31,5 mln EUR coming from ROP ESF 2014-2020	1.368.827 EUR (PLN 5,873,030) split between investment fund (EUR 1.323.618 – PLN 5.679.060) and non-financial support (EUR 45.207 – PLN 193.970)	4,7 mln EUR for 2015	1,5 mln EUR
Start date/End date	2014-2020	2017-2020	2013 – 2019	2014-2020	2016-2018 (but +1 year extension)

Managing Authority	Ministry of Labour and Social Policy	Regional Direction of Education, Research, and Innovation, School and University, Right to Study	Ministry of Infrastructure and Development	Ministry of Employment and Social Security	Agency for Innovation & Entrepreneurship - Department of Europe Economy and VDBA (public employment service of Flanders)
Programme design: Area of intervention (i.e. education, employment, etc.)	Employment	Employment – support to business planning and start-up	Employment	Employment	Employment – support to start-up and BDS for refugees
Types of beneficiaries (main target group i.e. women, migrants, young, etc.)	• People with disabilities (50%); start-ups (50%)	• Microenterprises and entrepreneurs with difficulties in access financing	• Rural and urban population, unemployed, people on welfare, disabled, people excluded from mainstream financial services	• Entrepreneurs who want to start a business in Catalonia; entrepreneurs with a project to expand their activities; entrepreneurs and companies in bankruptcy, for the reformulation of their business project	• Refugees and migrants
Programme implementation: Presence of non-bank MFIs or non-financial services providers cooperating with MFIs	• Yes • SIS Credit (MFI); Mikrofond (MFI)	• Yes • COFITER (MFI); CONFESERFIDI (MFI); Microcredito Italiano Spa (MFI)	• Yes • KSWP (MFI)	• Yes • Autoocupacío (non-financial services provider)	• Yes • microStart (MFI)

<u>Programme implementation:</u> Presence of financial instruments (y/n) and type	• Yes • Loans for working capital (70%) and for investments (30%)	• Yes • Business microloans	• Yes • Business microloans, business loans	• Autoocupacio does not disburse loans	• microStart does not use ESF funds to disburse loans in this project
<u>Programme implementation:</u> Presence of non-financial instruments (y/n) and type (e.g. support to entrepreneurship, financial education, etc.)	• No	• Yes • Tutoring and mentoring	• Yes • Entrepreneurship training	• Yes • Information, guidance and procedures to start the business; advice; training; consolidation; mediation for access to financing	• Yes • Training offer, BDS, free courses for the Business Management Exam

8.1 CONCLUSIONS AND RECOMMENDATIONS

This report has investigated different aspects of the European Social Fund, from accessing its funds to the relationship between financial intermediaries and Managing Authorities. We summarize our main findings about the ESF as follows:

- MFIs can be effectively supported by the ESF through business development services (with grants);
- MFIs are uniquely positioned to deliver on the objectives of MAs and should be involved in the project from conception to delivery. MFIs have business development expertise and are able to reach the poorest clients more efficiently than banks. MFIs can be effectively supported by the ESF through capital support (with guarantees or loans); and,
- MFIs could have a place in future CLLD strategies.

Overall, collaboration opportunities between MAs and MFIs have yet to be realized, and there is substantial work to do on this front:

- The interviewees agree that **the ESF is a concrete and direct source of co-financing to support entrepreneurial non-financial services, such as training, tutoring and mentoring, and guarantee funds**; Interviewees also agree that **the ESF could support the microfinance sector and the financial inclusion efforts in the countries examined in this study** (Belgium, Bulgaria, Italy, Poland, and Spain).

Part of the questionnaire focused on the **ESF application process**. Our findings suggest:

- The major strengths of to ESF application process include the **option to apply via an online platform** (**making access easier and less time-consuming)**, **easy access to various forms of the application**, and **clear criteria for applying**;
- The main weaknesses are related to **the long assessment process**, the **mismatch between financial sources and market needs**. Additionally, the **eligibility criteria for final beneficiaries** applying for a loan could be too confusing;

Regarding the **access to and use of ESF funds**, interviewees indicated that:

- The **access criteria** to financial resources can be **too restrictive for final beneficiaries and is not adjusted to market needs**. For example, one local financial intermediary stated the difficulty to finance people who are already employed (as they are not the target of ESF funds) but who wish to start up an entrepreneurial activity;
- When co-financing is required, MFIs may struggle to use their **own capital investments, i.e. co-financing a prospective entrepreneur**;
- One MFI found **reporting to be very time consuming and suggested that resources dedicated to reporting could be better employed in field activities**. In general, a great amount of time spent on necessary processes, e.g. **reporting and evaluation**, but could be allocated in a more efficient and effective way;
- Although the ESF application is available through an online platform**,** one MFI mentioned that **there have been ICT problems to access the platform when**

registering, highlighting some possible technical issues indirectly linked to the application process;

- One MA indicated that the **local financial institutions do not always know the rules governing the management and implementation of the ESF funds** and play a passive role in the scheme, operating solely as an intermediary organization;
- Despite these difficulties, **interviewees agreed that the ESF has been supportive in every phase** and that, **there have not been particular problems to use ESF funds.**

With the interviews as our foundation, we advance a few recommendations that convey our main findings. First, the **microfinance sector should contribute to new and innovative financial instruments forecast in the current programming period** (2014-2020). The importance of the relationship between MAs and NBFIs should be prioritized as it could increase the impact of ESF programmes in each region, province or State. NBFIs are intimately familiar with their territorial context which is an asset in designing and implementing strategies targeting a more inclusive economy. NBFIs also have core competencies related to financial and non-financial services.

For the next programming period, we suggest that it will be **necessary to focus resources** in a more efficient and effective way **directly to microfinance to achieve ESF objectives**, i.e. to improve employment opportunities and strengthen social and financial integration.

Moreover, **continuing to integrate the national and regional policies with the ESF objectives is fundamental to target beneficiaries and implement the projects in an effective and efficient manner**. In this frame, **cooperation between MAs and NBMFIs is the key to reach these goals since MAs have the resources and competencies to manage the funds whereas financial intermediaries can leverage their local knowledge**.

For example, one interviewee suggested that MFIs could be good ESF consultants for instruments targeting employment and entrepreneurship since they have direct experience with clients and their needs.

With a view towards the future, our research suggests that:

- There is a need to **create and maintain tighter collaboration between the involved actors**, i.e. MAs, MFIs and local actors. Specifically, MAs need to account for **MFIs' viewpoints** during the **definition phase of the project rather than solely during the executive phase**;
- Concerning access to the ESF, some issues need to be solved. On the basis of the current system, **the procedure is biased towards organizations of sizeable dimensions, while smaller organizations are at risk of exclusion**;
- **Microfinance is recognized as a fundamental instrument to achieve the specific thematic objectives. In this sense, MFIs may deliver the objectives of the MA by leveraging their business development expertise and their ability to support underserved communities with innovative instruments.** Assisting

disadvantaged communities who lack access to the traditional banking system **can lead to more effective local community outreach;**

- The **case studies** illustrated in the report demonstrate that **important goals can be achieved through the ESF and these funds can be delivered in efficiently and effectively**;
- The self-organizing of potential microfinance institutions, that otherwise risk being excluded, could **enable MFIs to access the ESF more efficiently**;
- Approaches such as **Community-led local development** (**CLLD**) **should be promoted** among the "authorized personnel" to highlight their effectiveness, while trying to avoid an added layer to the regulatory framework; and,
- More **proactive engagement with MFIs** should be encouraged **to solicit their expertise and opinions**.

Finally, we would like to further emphasize the challenge of contacting involved actors for this study. Directly involving national and regional entities to discuss ESF projects could bring all relevant stakeholders together and more fully capture the **ESF funding environment** and help to define and **achieve a common goal**.

8.2 PERSPECTIVES

What does the future hold for the European Social Fund?

As stated on the European Commission's website, **the ESF and the Youth Employment Initiative (YEI) will be merged with the Fund for European Aid to the Most Deprived (FEAD), the EU Programme for Employment and Social Innovation, and the EU Health Programme to create the European Social Fund Plus (ESF+)**. This fund, part of the budget of European Union for the 2021-2027 period reinforces the existing European Social Fund by making it **"simpler but stronger,"** and, at the same time, more coherent with and complementary to other Funds that provide support to European citizens (e.g. the "Erasmus", the "Asylum and Migration Fund", the "European Globalization Adjustment Fund" and the "Reform Support Programme").

Simplifying the programming and management of this EU instrument attempts to **reduce the administrative burden on national authorities and organizations benefiting from ESF+ measures**.

Key challenges pursued by ESF+ regulation were published on May 30th 2018 include:

- Supporting the **principles of the European pillar of social rights** and implementing recommendations under the **European Semester**, **by tackling, as the "previous ESF," unemployment, poverty and exclusion, and by supporting job seekers, the poor, marginalized and deprived people**;

- Providing a **"helping hand" to youth**: **Member States with a NEET rate above the EU-28 average in 2019 will be required to dedicate an adequate share of ESF resources** (at least 10% of ESF+ allocations under shared management) **to targeted action and structural reforms to support youth employment**;

- Fostering **social inclusion**: the regulation will require Member States to **allocate at least 25% of ESF+ funding to measures fostering social inclusion and targeting those most in need**;

- Supporting Union actions for **social innovation**, mobility and health: **the direct and indirect management strands on Employment and Social Innovation and Health will provide the means to test innovative solutions, support labor mobility in Europe and help modernize health systems in Member States**.

Concerning the structure and budget, the Commission is proposing a **total budget of EUR 101 billion** for the European Social Fund Plus for the 2021-2027 period **in shared management with Member States** (of which EUR 98 billion will be provided through the merged programmes).[82] ESF+ will concentrate on three topics: **education, employment and social inclusion**.

In this report, we have emphasized the importance of implementing the ESF. ESF+ represents an evolution of the current ESF. With the suggestions and recommendations contained in this research, we strongly believe that ESF+ could better target underserved populations. Moreover, ESF+ has the potential to achieve the initial ESF goals, considering the synergies that may come from the integration of the different initiatives and funds (such as the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the EU Programme for Employment and Social Innovation). Together, ESF+ has potential to substantially improve the livelihoods of vulnerable categories.

[82] ESF+ merges: European Social Fund (Total EU Amount 83.924.115.537, based on ESIF 2014-2020 FINANCES PLANNED DETAILS); Youth Employment Initiative (total budget of €8.8 billion for the period 2014-2020); Fund for European Aid to the Most Deprived (In real terms, over €3.8 billion are earmarked for the FEAD for the 2014-2020 period); EU Programme for Employment and Social Innovation (the total budget for 2014-2020 is EUR 919,469,000 in 2013 prices); EU Health Programme (€449.4 million (2014-2020) to support cooperation projects at EU level; actions jointly undertaken by Member State health authorities; the functioning of nongovernmental bodies; cooperation with international organizations). In this sense, the above mentioned programmes provide a total amount of approx. EUR 98,5 billions.

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