

- ESF
- EUR 3.8 million
- Guarantee
- Social inclusion
- Marche region, Italy

*...supporting entrepreneurship and job creation through financial instruments and business development services...*

# ESF guarantee fund for social inclusion

## Marche, Italy

Case Study



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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

## Abbreviations

Abbreviation	Full name
ESF	European Social Fund
ESIF	European Structural and Investment Funds
OP	Operational Programme
SME	Small and medium-sized enterprise



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# 1 Summary

The financial crisis deeply affected both enterprises and employment in the Italian region of Marche. To enhance entrepreneurship and job creation, regional authorities decided to set up and implement a guarantee scheme that encouraged the private sector to provide loans for starting up a business. The financial instrument supported unemployed and disadvantaged people (especially young people and women) by providing guarantees for medium-term loans of between EUR 25 000 and EUR 50 000, with no collateral requirements. Additionally, start-ups received free consultancy and training services in their first year, while a specialised communication company raised awareness among potential final recipients.

One success story is the craft brewery *DueP*, founded by a young food science and human nutrition researcher. Thanks to the guarantee backed by European Social Fund (ESF) resources, he could get the finance to fulfil his dream of using his father's barn to produce and sell beer.

This case study describes how Marche region used a financial instrument to enhance entrepreneurship in the regional ecosystem. The fund was set up under the ESF Operational Programme (OP) 2007-2013 and provided guarantees for a loan portfolio of EUR 16.4 million. In total, 867 start-ups benefited from the loans and approximately 2 200 new jobs were created.

The financial instrument also reduced the need for support from public assistance employment programmes. It was continually adapted to meet the needs of final recipients in a rapidly changing financial and economic environment. Guarantees increased the incentives to lend for the financial intermediary, as did non-financial support that developed the skills of new entrepreneurs. The set-up had to overcome a lack of political will and the 'grant dependency' culture of local stakeholders, while the main implementation challenge was the financial crisis.

Experience led to high expectations, with potential final recipients waiting for new calls to finance their projects. Given this success, and to complement a newly established national financial instrument providing guarantees, the managing authority is designing result-oriented non-financial service support for the 2014-2020 programming period.



## ESF guarantee fund for social inclusion, Marche region, Italy

### THE FINANCIAL INSTRUMENT

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#### Funding source

ESF OP 2007-2013

#### Type of financial support

Guarantees

#### Financial size

EUR 3.8 million OP resources (EUR 1.5 million from ESF and EUR 2.3 million from national public funding)

#### Thematic focus

Social inclusion

#### Timing

January 2010 to August 2015

### ACHIEVEMENTS

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#### Absorption rate

100% of portfolio: ESF and national funding (at July 2015)

#### EU leverage

10.9 times<sup>1</sup>

#### ESIF programme multiplier

4.3 times<sup>2</sup>

#### Re-investment

n.a.

### PARTNERS INVOLVED AND OUTPUTS

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#### Partners involved

Marche Region – European Policies Unit (managing authority)  
Unicredit – Medio Credito Centrale SpA (guarantee fund manager)  
Banca delle Marche (financial intermediary)  
Specialised partners (providers of advisory and communication services)

#### Main output

867 microenterprises benefited from the guarantee at July 2015

- 1 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 16.4 million, divided by the total amount of ESF allocation to this financial instrument, i.e. EUR 1.5 million. It does not include the reuse of resources returned to the instrument.
- 2 ESIF programme multiplier is calculated as the total amount of finance to eligible final recipients, i.e. EUR 16.4 million, divided by the total amount of programme resources allocated to the financial instrument, i.e. EUR 3.8 million. It does not include the reuse of resources returned to the instrument.



## 2 The financial instrument

Marche is a region with many micro, small and medium-sized enterprises (SMEs), based in small settlements. Mostly family-owned, these local businesses are mainly engaged in manufacturing. There are relatively few hi-tech and innovative start-ups in the region and skill levels among SMEs and entrepreneurs are generally low, which is linked to a lack of capacity to absorb innovation.<sup>3</sup>

### 2.1 Rationale

The financial crisis of 2008 led to less employment and production, particularly in the manufacturing sector. In 2010 the regional employment rate was 64%, with 25 000 fewer people employed than at the start of the programming period. Up to 2010, there remained a gap between male and female employment, about 72% for men versus 55% for women.<sup>4</sup> Those who suffered most from the negative impacts of the crisis were the young. Youth unemployment reached a peak in 2009 at 21% compared to 13% the previous year. Together with higher unemployment, the region had more 18-24 year olds not in employment, education or training.

Against this background, the Marche region - European Policies Unit, as managing authority of the ESF OP, increased promotion of sustainable and quality employment in the region. In particular, Axis II of the ESF OP enabled access to employment for job seekers and inactive people, while also combating gender discrimination.

Under the priority axis, a guarantee fund was set up in 2010 to improve financing for self-employment and start-ups. The financial instrument drew on the experience of the managing authority in providing microloans in support of entrepreneurship during the 2000-2006 programming period (see Chapter 3). In the absence of specific studies, this also highlighted a continuing gap for this type of finance.

### 2.2 Organisational structure

The managing authority entrusted the management of the guarantee fund to Unicredit - Mediocredito Centrale SpA, which specialises in the management of publicly-supported financial instruments. Guarantees were provided for free to all final recipients selected by the financial intermediary and the fund manager was responsible for assessing the aid element involved.

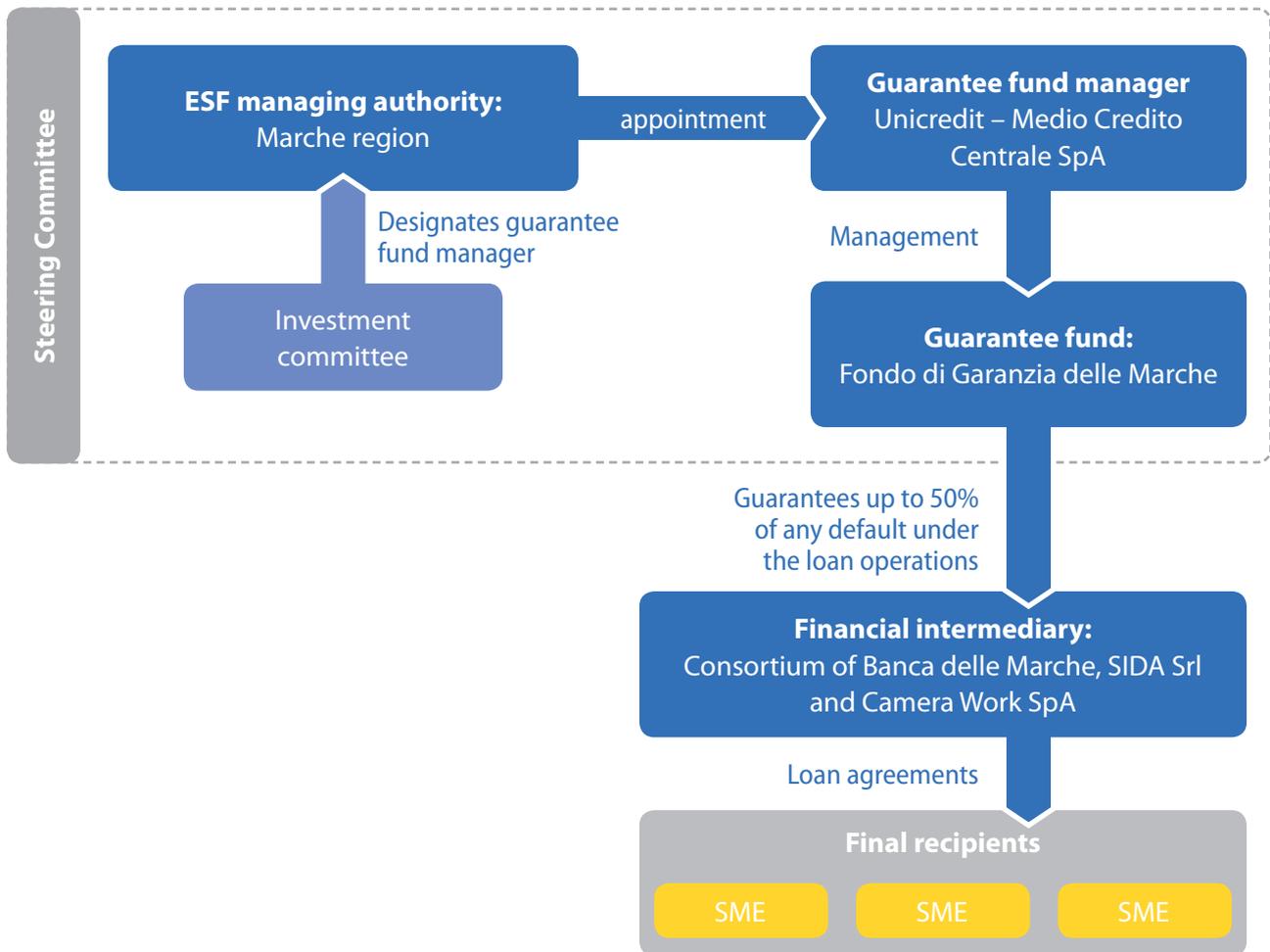
An investment committee was set up with responsibility for the investment strategy and for monitoring implementation based on reporting from the fund manager. The region had the majority of seats in the investment committee which included representatives from the managing authority and the fund manager.

The fund guaranteed up to 50% of any defaults on private loans issued by Banca delle Marche SpA, a financial intermediary with more than 240 branches in the region, mainly serving SMEs and households. The financial intermediary was selected through an open call for tender as lead partner of a consortium that also included Sida Srl and Camera Work SpA, responsible for training and the communications activities respectively. All partners in the consortium are local and have a good understanding of the local business environment as well as the capacity to easily reach final recipients.

3 OP ESF 2007/2013.

4 OP ESF Marche 2007-2013 – AIR 2010, p. 53-63.

Figure 1: Organisational structure



Furthermore, local administrative bodies, such as job centres, professional associations and unions provided a valuable contribution to raise awareness of the initiative. A network of promotional info points across most of the region provided support for applications, free of charge.

### DueP Craft Brewery: Objectives

Pierpaolo Pancioni, a young food science and human nutrition researcher decided to use his father's barn for the production and packaging of home-made beer.

Leveraging mainly private resources, a loan of EUR 15 000 backed by an ESF guarantee partly covered the costs of his business start-up. Other resources came from a previous grant under ESF and a mortgage.

Pierpaolo's idea was selected due to its economic sustainability.



## 2.3 Financial products and final recipients

This financial instrument helps new businesses to start up by guaranteeing medium-term privately-funded loans of up to EUR 50 000 with no collateral requirements.

Figure 2: Financial products



The financial instrument targets women and men who, at the moment of submission of the application, are:

Table 1: Targeted final recipients

<b>Age</b>	Between 18 and 60
<b>Place</b>	Resident for at least six months in Marche region
<b>Status</b>	Unemployed / jobseekers
	Covered under the national scheme for corporate restructuring
	Employed women over 35

The new business owners can be individuals, companies or cooperatives. The latter must have between three and eight employees producing or trading goods and services and be within the requirements of *de minimis* aid.

To encourage the economic viability of start-ups, loans are complemented by guidance and technical support that is completely funded by the ESF operational programme, as a separate operation. At the end of a general orientation phase those interested in applying for the loans are assigned a business tutor, selected from a regional list of business development experts that was established following a public tender. The tutor supports entrepreneurs with their applications and continues to assist them for 12 months after the loan agreement is signed.



## 3 Main features of financial instruments for social inclusion

Building on previous experience with microcredits and adapting to the tightening of credit standards, the managing authority committed EUR 3.8 million from the regional ESF OP to set up a guarantee fund. A specialised company marketed the guaranteed loans through workshops, info points, the internet, events and workshops.

### 3.1 Design phase

ESF resources were already used to support start-ups through loans with no collateral requirements in the 2000-2006 programming period. The idea came from the regional government, which was inspired by microcredit initiatives implemented around the world and the acknowledgement that repayable support could increase the efficiency of assistance to start-ups. A consortium led by Banca delle Marche was selected to provide private loans and non-financial support to start-ups, with ESF used to cover the consortium's costs for loan assessments, mentoring, and promotion.

However, the impact of the financial crisis on the regional economy and a tightening of credit standards made it clear that, without a guarantee, loans to start-ups would be discontinued. This led the managing authority to set up a guarantee fund to share the risk with the financial intermediary, and modify the OP accordingly. A selection process was launched in 2009, which led to a funding agreement with the guarantee fund manager, signed in January 2010.

### 3.2 Set-up phase

Following appointment of the guarantee fund manager, the investment committee was established, with responsibility for the investment strategy. Operational rules were agreed governing the relationship between the fund manager and the financial intermediary.

In March 2011, EUR 1.5 million from the ESF OP was committed to the financial instrument, which in November 2013 was increased by an additional EUR 2.3 million.

### 3.3 Implementation phase

Final recipients were selected through two calls for proposals, which took place in 2010-2012 and in 2013-2015. The financial intermediary had full discretion to decide on projects, assessing applications based on eligibility and:

- feasibility - the viability of the enterprise based on the business model;
- credibility - the characteristics of the applicant in terms of education and skills, previous experience and reliability;
- sustainability - the capacity for revenues to cover costs over the medium to long term.

Promotion was provided through a wide network of info points covering the region and a road-show. The nine most important cities of the region (Ancona, Jesi, Pesaro, Macerata, Ascoli Piceno, Fabriano, Urbino, Civitanova Marche and Fermo) hosted events to present the initiative, the reference material and the website. The strong ties of Banca delle Marche with the region was instrumental in raising awareness of the financial instrument and in contributing to its success.



## 4 Achievements and challenges

The financial instrument helped unemployed, non-bankable individuals to start new businesses by sharing credit risk under challenging economic conditions. Project proposals were not all of sufficient quality and managing the expectations of final recipients was demanding.

### 4.1 Outcome

In total, 867 microenterprises benefited from the scheme, corresponding to a loan portfolio of approximately EUR 16.4 million and an estimated 2 200 new jobs created. The majority of final recipients are women, with an average age of around 35, and the main businesses are microenterprises for services and artisan manufacturing.

Table 2: Enterprises receiving support

Call	Implementation Period	No. of Loans	
		Actual	Target
1	2010-2012	480	400
2	2013-2015	387	400
	Total	867	800

### 4.2 Main achievements

Access to finance for start-ups is usually hindered by a low quality of information about the business e.g. simplified accounting documents, insufficient credit history and reputation, insufficient collateral and a high cost-to-loan ratio. This hinders credit assessment and post-contractual monitoring.

Guarantees provided under this financial instrument increased the incentive to lend for the financial intermediary. An additional incentive was that the skills of new entrepreneurs were improved through non-financial services. The financial intermediary was risking part of its own resources, which ensured appropriate screening of potential borrowers.

### 4.3 Main challenges

The financial instrument had to overcome a lack of political will and the 'grant dependency' culture of local stakeholders. However, the financial crisis certainly represented the main challenge for the initiative. Unexpectedly harsh and long lasting, the crisis slowed down the process and decreased the impact of intervention as some final recipients were not able to repay their loans. Final recipients in difficult situations were helped with a moratorium on loans and suspension of repayment for a year or more, to reduce the bankruptcy of new enterprises.

Assessment of the credibility and feasibility of the business ideas was burdensome. Both applicants and project proposals varied widely and, notwithstanding the non-financial support, a high number of applications were rejected by the financial intermediary.



Additionally, it was difficult to manage demand expectations from potential final recipients between the different calls for project selection. From the beginning, the success of the initiative created high expectations with potential final recipients waiting for new calls for the chance to finance their projects. However, the complex procedure to select final recipients, which involved public calls for proposals, delayed the process with negative implications for on-going projects.

### **DueP Craft Brewery: Challenges and Achievements**

Pierpaolo Pacioni started his business in 2010. Although it took some time to increase DueP's visibility and sales, in 2012 he built two facilities so the company can now produce six types of craft beer. The production capacity is 500 litres per day.

Pierpaolo is the only full-time employee as he cannot afford further costs. Despite this, the company recently benefitted from the Youth Guarantee programme to employ a young person to develop the sales network and improve communication and visibility, especially on the internet.



## 5 Lessons learned and outlook

The financial instrument allowed the managing authority to tackle market failures related to access to finance and also helped overcome the challenging economic conditions. Overall, the initiative encouraged the move to a logic of repayable support to finance self-employment and entrepreneurship while also strengthening the empowerment and commitment of aspiring entrepreneurs.

Success largely relied on effective promotion, knowledge of the local business environment and the widespread presence of the financial intermediary, which allowed fast delivery of the product. Coaching helped to give credibility to projects when they were assessed by the financial intermediary. It was also crucial in the first few months for each business.

The financial instrument proved very successful and potential final recipients had to wait for new calls to finance projects before they could file applications. However, the complex selection procedure for final recipients caused delays with negative implications for on-going projects.

The financial instrument is likely to be discontinued in the 2014-2020 programming period, due to the recent set-up of a financial instrument at the national level which offers guarantees to providers of microcredits. Under the new circumstances, the managing authority is considering using ESF resources to set up result-oriented professional non-financial services. Entrepreneurs would be helped to draft their business plan by an accredited expert, who is paid through vouchers after the idea is financed. The vouchers would also allow final recipients to benefit from expert advice during the first year of activity.







