

- ESF
- EUR 100 million
- Loan
- Individuals, micro-enterprises, cooperatives
- Campania, Italy

*... providing non-bank-able and disadvantaged individuals access to credit ...*

# ESF Microcredit Fund Campania

Case Study



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

## Abbreviations

EIB	European Investment Bank
EIF	European Investment Fund
ESI	European Structural and Investment Funds
ESF	European Social Fund
FIs	Financial Instruments
GDP	Gross Domestic Product
MA	Managing Authority
MC	Monitoring Committee
OP	Operational Programme



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# 1 Summary

The Campania region has been deeply hit by the economic and financial crisis, with a consequent increase in unemployment. The crisis has particularly affected the young and the most disadvantaged people in a region that already had a great number of structural problems. As a consequence of the increasingly difficult economic environment, small and medium-sized enterprises (SMEs) are facing stringent limitations to credit access. Banks have adopted stricter criteria for credit, which has increased the number of non-bankable individuals.

Against this background, the Campania region launched the Microcredit Fund at the end of 2011, with EUR 100 million of resources committed from the European Social Fund (ESF) regional operational programme (OP). The fund addresses four objectives of the ESF OP under the adaptability, employability and social inclusion priorities. It improves access to finance for young people, the unemployed, women, migrants, and disadvantaged individuals, by providing loans of between EUR 5 000 and EUR 25 000, with 0% interest and no guarantee required.

The results already reflect the effort that the regional administration has made to establish, promote and implement the Financial Instrument (FI). The first call ended 19 December 2012 and had 5,283 applications that requested a total of EUR 119 million. Another EUR 164 million was requested by 6,835 applicants as part of the second call, which ended 16 January 2014. This success was achieved with a solid communication strategy across all 551 municipalities in the region. Participation was particularly high among young people (under 35 years old) and women. The undertakings that submitted applications were mainly sole traders and microenterprises that often requested funding for the purchase of machinery or equipment.

The large number of applicants, all belonging to different target categories, confirms that the decision of the MA to initiate a FI addressed to the needs of 'weak' target recipients was appropriate. The revolving nature of the financial instrument will allow these numbers to increase in the future, further promoting the development of entrepreneurship in Campania.

**Name**

Microcredit Fund (Campania, Italy)

**Funding source**

ESF

**Type of FI**

Microcredit

**Financial size**

EUR 100 million (EUR 58.3 million ESF + EUR 41.7 million national public co-financing)

**Absorption rate<sup>1</sup>**

25.7 % (at December 2014)

**EU leverage<sup>2</sup>**

1.7x (leverage effect of ESF funds)

**Re-investment rate**

Re-investment has not yet started

**Thematic focus**

Microcredit

**Type of final recipient**

Individuals, microenterprises, cooperatives

**Partners involved**

Campania region, Sviluppo Campania

**Timing**

2012 – 2015

**Main results**

2,796 microenterprises

<sup>1</sup> This refers to the absorption rate of all OP allocations for this FI. It is calculated as funds disbursed to final recipients divided by funds available through the OP.

<sup>2</sup> This refers to the leverage effect of EU funds, in this case, from the ESF. It is calculated as total funds available to final recipients divided by the amount of ESF financing.



## 2 Objectives

The Campania region has been deeply hit by the economic and financial crisis. GDP fell by 4.3% between 2009 and 2012, with a consequent increase in unemployment and decrease in consumption. The region was already affected by significant structural problems and significant corruption related to one of the biggest mafia organisations (the Camorra). The crisis has particularly affected the young and the most disadvantaged people. Youth unemployment dramatically jumped from an already high 32.5% in 2007 to 51.7% in 2013, against 40% nationally. Campania had the second highest unemployment rate in Italy in 2013 - 21.5% against 12.2% nationally - and the highest long-term unemployment, with 68.6% of the unemployed searching for a job for more than one year. Moreover, the region also has one of the highest levels of school drop-outs in Italy at 22.2% and the level of poverty has increased in recent years to affect one third of its inhabitants.

As a consequence of the increasingly difficult economic environment, SMEs are facing stringent and rigorous limitations to credit access. Credit to firms decreased in 2013 by 4.3%, and by 3.5% for SMEs. Interest rates on short-term credit have risen in particular for SMEs (from 9.23% to 10.14% between 2011 and 2013, against 7.34% and 7.89% respectively for large firms). There are a greater number of people who are ineligible for credit due to national banks demanding that individuals fulfil more stringent requirements in order to receive loans.

Against this background, the Campania region launched the Microcredit Fund at the end of 2011, a fund based on considerable resources from the ESF regional OP 2007-2013, which aims to improve access to finance for young people, the unemployed, women, migrants, and disadvantaged individuals. The fund addresses four operational objectives under three different priority axes, as shown below.

## Axis I Adaptability

c.2: 'Supporting the development of spin-offs in the research sector'

## Axis II Employability

e.3: 'Consolidate and expand the incentives for vulnerable segments of the labor market'

e.4: 'Supporting the creation of business by youth and women, especially in cooperative form'

## Axis III Inclusion

g.3: 'Supporting the end of old and new forms of poverty through inclusion in the labour force'

The fund provides loans between EUR 5 000 and EUR 25 000, to be repaid at zero interest and with no guarantees required. It is a response to the difficulties faced by non-bankable and disadvantaged individuals with regard to credit access for starting a business. It facilitates access to credit for microenterprises and supports the spin-off of businesses, improving self-employment for disadvantaged individuals and stimulating economic initiatives and growth.

The ESF Microcredit Fund is supplementary to other interventions in the region. In particular, it supplements the action of JEREMIE<sup>3</sup> Campania, established in 2008 with an agreement between the Campania region and the EIF, by focusing on the so-called 'non-bankable' individuals and supporting new business initiatives.

<sup>3</sup> Joint European Resources for Micro to Medium Enterprises.



## 3 Set up of the financial instrument

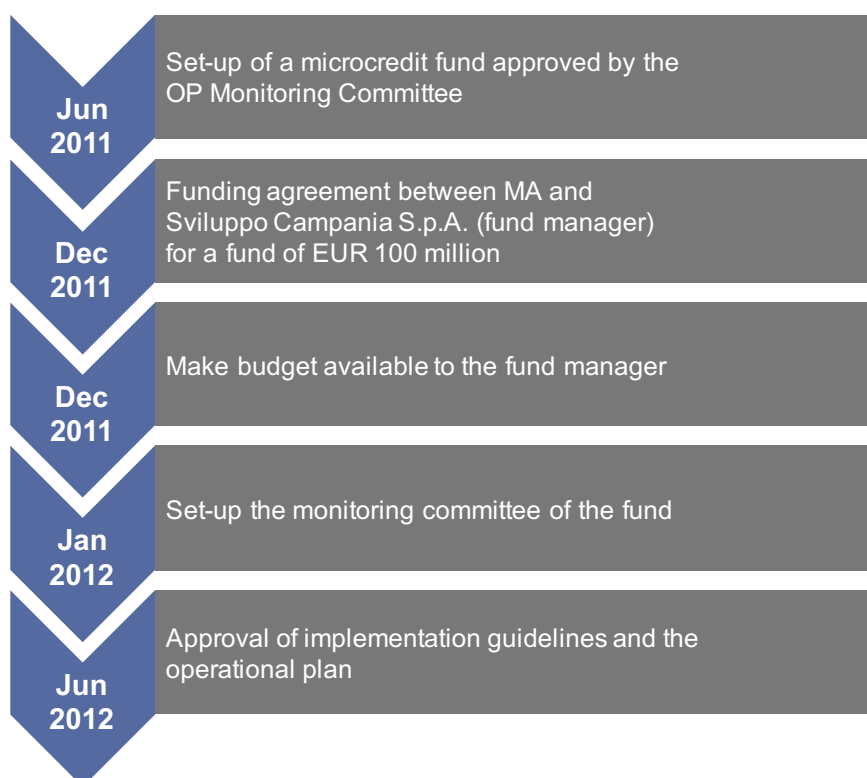
This section charts the FI's journey from its early concept, through its process of establishment and implementation.

### 3.1 Preceding events

The Campania region has had several financial initiatives designed to assist with the needs and measures of OP 2000-2006, aimed at helping disadvantaged individuals to access the market, at stimulating entrepreneurship among young people, at fostering female emancipation and at improving research and innovation programmes in the region.

Therefore, the estimated impact of the microcredit was based on positive past experiences with similar interventions. Moreover, expectations were boosted by positive impacts from financial engineering initiatives that the EIF started in 2000, in cooperation with the European Commission and the EIB in other territories, through direct guarantees, financing and technical assistance.

The table below provides an overview of the main steps before implementation of the fund. Procurement was not necessary since Sviluppo Campania S.p.A. is an in-house provider of the Campania region.





## 3.2 Funding and partners

The main funding and delivery partners are shown in the table below.

Role	Institution/entity
MA	Campania region
Fund Manager	Sviluppo Campania S.p.A.
Other partners	Banco di Napoli S.p.A.

Fund management has been entrusted to Sviluppo Campania S.p.A., a limited company fully owned by the Campania region. The company supports implementation of plans and programmes for the economic and social development of the region, and it can operate as financial intermediary. FI resources were deposited in a bank account at Banco di Napoli S.p.A., who was selected by Sviluppo Campania S.p.A. to also support tutoring of final recipients. The service is offered free of charge, while the bank can benefit from being mentioned in all the advertising of the FI.

The fund is entirely supplied from ESF and public resources.

Funding sources	EUR
ESF	58.3 million
Public	
- national	33.3 million
- regional	8.4 million
- local	-
Private	-



### 3.3 Implementation

After all the steps necessary to set up the fund were completed, a first call was launched in October 2012. A massive number of participants applied and the fund manager received as many as 5,283 applications, requesting EUR 119 million in funding. However, a very high share of the applications were rejected (60%) due to incomplete documentation (33%), lack of necessary requirements (4%), or as part of the evaluation process, e.g. an existing company that does not envisage an expansion of business activities or inadequate capacity to pay back the loan.



Following results of this first call, Sviluppo Campania S.p.A. decided to provide mentoring to firms and individuals prior to submission of the application, including support in filling out the fund application. This was aimed to reach the broadest audience of potential recipients and minimise the ineligibility of the applications. In addition to providing support through its own staff, Sviluppo Campania S.p.A. trained civil servants of some local authorities interested in promoting FI opportunities in their territories. Moreover, awareness of the FI and support for potential recipients was provided by a camper van 'help desk' that travelled over 27 municipalities around the region (see the flyer below), including Naples and the other main centres of the region. Assistance throughout the application filing process was provided free of charge by this help desk.

As a consequence of this promotional effort, participation in the second call, issued in November 2013, was even higher than before, with 6,835 applications received and EUR 164 million requested and less than 15% rejected due to incomplete documentation.

GIORNO	UBICAZIONE MATTINA ore 10-13	UBICAZIONE POMERIGGIO ore 14-17
19-Nov	<b>NAPOLI</b> ZONA OSPEDALIERA USCITA METROPOLITANA POLICLINICO	<b>NAPOLI</b> PIAZZALE TECCHIO METROPOLITANA CAMPI FLEGREI
20-Nov	<b>AVELLINO</b> PIAZZA KENNEDY	<b>AVELLINO</b> CORSO VITTORIO EMANUELE
21-Nov	<b>BENEVENTO</b> PIAZZA RISORGIMENTO	<b>BENEVENTO</b> STAZIONE FERROVIARIA
22-Nov	<b>AVERSA</b> FACOLTÀ INGEGNERIA, VIA ROMA	<b>AVERSA</b> STAZIONE FERROVIARIA/VIA DIAZ
23-Nov	<b>SALERNO</b> PIAZZA GIOVANNI AMENDOLA	
26-Nov	<b>NAPOLI</b> STAZIONE DI PIAZZA GARIBALDI	
27-Nov	<b>FISCIANO</b> CAMPUS UNIVERSITÀ	
28-Nov	<b>BENEVENTO</b> VIA DELLE PUGLIE	<b>MONTESARCHIO</b> CENTRO CITTÀ
29-Nov	<b>NAPOLI</b> UNIVERSITÀ MONTE SANT'ANGELO/VIA CINTHIA	<b>NAPOLI</b> CENTRO DIREZIONALE
30-Nov	<b>CASERTA</b> PIAZZA DANTE	<b>MARCIANISE</b> PIAZZA UMBERTO I
3-Dic	<b>ARIANO IRPINO</b> PIAZZA PLEBISCITO	<b>MERCOGLIANO</b> PIAZZA MUNICIPIO
4-Dic	<b>GIUGLIANO IN CAMPANIA</b> P. ANNUNZIATA	<b>POZZUOLI</b> ZONA PORTO
5-Dic	<b>CAVA DE TIRRENI</b> PIAZZA DUOMO	<b>SCAFATI</b> PIAZZA VITTORIO VENETO
6-Dic	<b>MADDALONI</b> CENTRO CITTÀ	<b>S. MARIA CAPUA VETERE</b> PIAZZA BOVIO
7-Dic	<b>CASORIA</b> PIAZZA CIRILLO	<b>AFRAGOLA</b> PIAZZA GIANTURCO
10-Dic	<b>TORRE DEL GRECO</b> PIAZZA SANTA CROCE	<b>CASTELLAMMARE DI STABIA</b> VILLA COMUNALE
11-Dic	<b>MONDRAGONE</b> PIAZZA FALCONE	<b>CASTELVOLTURNO</b> PIAZZA ANNUNZIATA
12-Dic	<b>NAPOLI</b> SAN DOMENICO MAGGIORE	
13-Dic	<b>EBOLI</b> PIAZZA DELLA REPUBBLICA	<b>BATTIPAGLIA</b> PIAZZA DELLA REPUBBLICA
14-Dic	<b>NAPOLI</b> PIAZZA GARIBALDI	

### 3.4 Governance

Implementation of the Microcredit ESF Campania is based on a series of decisions and actions involving the MA, the MC, and Sviluppo Campania S.p.A.

The MA is responsible for ensuring that implementation of the FI complies with applicable Union law, the OP strategy as well as the investment strategy approved by the region. The MA also ensures that the eligible expenditure is correct and the monitoring requirements under the funding agreement and the implementation documents are complied with.



The MA must also approve any amendments to the investment strategy, the operational plan and the guidelines for implementation drawn up by Sviluppo Campania S.p.A. It approves calls for projects and adopts decisions to grant the loan, based on outcomes of the evaluation process carried out by Sviluppo Campania S.p.A. Additionally, the MA approves the FI's annual estimated budget and, if necessary, may issue guidelines and general recommendations to the fund manager to improve the fund and ensure economic growth.

The MC is composed of the head of the Campania region's unitary programming, the MA and the officials responsible for the relevant operational objectives of the programme.

The MC supports the MA for strategic decisions. In particular, it expresses opinions on proposed amendments or revisions to the investment strategy, the FI's estimated budget and on the progress reports verifying that fund manager activity is in accordance with the funding agreement. The MA needs to take into account any opinions of the MC.

Based on information provided by Sviluppo Campania S.p.A., the MC monitors operational implementation and performance, including results and the potential impact on the regional economy. It also verifies the completeness and consistency of information on financed operations, to ensure that the FI is properly and regularly monitored in compliance with EU requirements.

Sviluppo Campania S.p.A. is responsible for managing the FI according to the funding agreement. In particular, it should select suitable final recipients, manage the fund portfolio and ensure management of idle resources. It should also review the strategy, collect all information necessary to meet regulatory obligations, and report on the operations to the MA semi-annually.

## 4 Strategy

This section details the main aspects of the investment strategy and the types of projects financed.

### 4.1 Investment strategy

In order to better respond to the territorial needs of the region, ESF Microcredit resources have been distributed per province using the following indicators and reflecting the objectives of the programme:

- a) residents of the province;
- b) target recipients;
- c) socio-economic criteria: number of unemployed individuals, number of foreign residents, percentage of households below the poverty line, unemployment rate, youth unemployment rate by gender, education level.

Accordingly, priority areas were identified by analysing territorial needs: tourism services, environmental protection and conservation, cultural services, social care, energy conservation and renewable energy, ICT, manufacturing, craftsmanship and local produce improvement, professional activities; and local commerce.

### 4.2 State aid

Fund support was provided under *de minimis* regime.

### 4.3 Financial products and terms

The FI provides loans between EUR 5 000 and EUR 25 000. The repayment plan can be up to 60 months with 0% interest and no guarantee required. Reimbursement is in monthly instalments and payment is via direct debit.

Sviluppo Campania S.p.A. offers tutoring to support the final recipients during the first implementation step. Tutoring lasts six months from the date the contract is signed. The training module and help desk support implementation, funding and administration. Tutoring and assisting businesses in the early stages of their development improves the success and sustainability of the project.



## 4.4 Final recipients targeted

Eligible recipients of the microcredit are individuals or businesses. Individuals must be either EU citizens or permanent residents of an EU Member State; at least 18 years old and must have never committed a crime. Apart from these necessary requirements, the FI targets in particular:

- unemployed people;
- job seekers;
- employees recently made redundant;
- people under 35;
- women;
- immigrants;
- disabled individuals;
- university students;
- disadvantaged workers.

For businesses, the FI targets microenterprises, i.e. enterprises with less than 10 employees and an annual turnover not exceeding EUR 2 million; or third sector enterprises (non-government organisations), and new businesses.

The Campania region strongly invested in the promotion of the fund, and envisages further improvement of the communication tools:

- the promotional kit: PowerPoint presentations, brochures, posters, audio-visuals;
- the local roadshow: specific workshops on the Microcredit ESF. Roadshows with partnerships are developed by the press office and through advertising;
- local events with institutions and local partners, chambers of commerce, trade associations, professional associations, foundations and third sector agencies;
- advertising: in local and national press and via the web;
- press conferences and briefings;
- updating Sviluppo Campania S.p.A.'s webpage for the ESF Microcredit;
- a toll-free telephone number;
- social media: social network, local media, local television networks;



- travelling help desk: to reach people who find it difficult to get to a traditional help desk. This also provides greater visibility for the initiative;
- direct communication: conferences, workshops, meetings, at the main local stakeholders.

## 4.5 Project types

Selected projects need to be consistent with the priority areas identified by the investment strategy.

Eligible expenses include the purchase of machinery, plant, equipment; adaptation and retrofitting premises; intangible assets such as patent rights, licenses, enterprise development or marketing plans, and internationalisation plans if connected to an expansion of product capacity.

Additionally, expenses for the purchase of raw materials, semi-finished materials, consumables and supplies; utilities and rent for premises used in the exercise of the activity; software updating; professional consulting services (legal, technical, commercial); and staff (if not already supported by national or regional recruitment incentives) are also eligible.

All expenses must be consistent with the business plan and the investment schedule. For existing enterprises, the expenses should be used to expand the business.

Projects must be consistent with the priority areas identified by the investment strategy. The technical, economic and financial viability of the projects are also assessed, i.e. profitability, financial sustainability, capacity to refund the loan, market outlook, as well as the creation of new jobs. Priority is given to microenterprises with a turnover of less than EUR 500 000, to projects promoting social inclusion and to cooperatives.

## 4.6 Changes in Strategy

No changes have been made to the strategy during implementation.



## 5 Achievements

The results reflect the effort that the administration has made to establish, promote and implement the FI.

### 5.1 Output

The first call, ending 19 December 2012, had 5,283 applications that requested a total of EUR 119 million. The second call, ending 16 January 2014, had 6,835 applications asking for EUR 164 million. This success came from a solid communication strategy across all 551 municipalities in the region. Participation was particularly high among young people (under 35 years old) and women. Sole traders and microenterprises with a turnover of less than EUR 500 000 made up the bulk of undertakings submitting applications. FI resources were often requested by local trade enterprises for the purchase of machinery, equipment and for covering operating costs.

The large number of applicants, all belonging to different target categories mentioned above, confirms that the MA's decision to invest in the FI was appropriate. The revolving nature of the FI will encourage more applicants in the future, further promoting entrepreneurship development in Campania.

At the end of 2014, 1,451 loan contracts were signed, for about EUR 35 million of OP contributions committed, while 2,796 final recipients were supported in total.



## Investment in the company Très Chocó

Andrea Genova has spent the last thirteen of his 31 years gaining experience as a maître chocolatier, then working in one of the most famous pastry shops in the city of Naples, Italy.

He launched his own shop, Très Chocó, in December 2013, in what he calls ‘a small French corner in Naples’ to experiment with new delights and the ideas he collected while travelling. Specialities include chocolates with creamy rum or orange, organic chocolate flavoured with ginger and cinnamon, and dark chocolate marshmallows. There are real chocolate ‘works of art’ in his shop, and Andrea is ready to satisfy any craving of his clients: from tailor-made chocolate sculptures to sensational dessert tables for events.

A few months after launching Très Chocó, Andrea was informed by his accountant of the funds available from the ESF Microcredit Fund. He decided to apply as this was considered a good opportunity to purchase additional equipment for his laboratory. Submitting an application was easy, and, after six months, his request for funding was approved. The loan was then provided three months later.

Andrea appreciates the tutoring service offered by the FI, which provides support with any needs related to the ongoing management of the loan. He is also pleased about being invited by the Campania region in events to present the FI, as this is helping Très Chocó to rapidly become one of the most well-known chocolate shops in Naples.





## 6 Lessons learned

### 6.1 Main success factors

Success for the initiative is linked to initiating an FI addressed to the needs of 'weak' target recipients. In addition participation was encouraged by strongly investing in promotion of the FI and by offering free assistance during the application process.

### 6.2 Main challenges

Many of the applications submitted under the first call were rejected because of incomplete documentation or the lack of necessary requirements. Therefore efforts were made by Sviluppo Campania S.p.A. and the local authorities in the region to mentor firms and individuals prior to submission, including support to fill in the application. As a result of these efforts the number of ineligible applications under the second call decreased.

Adjusting the FI to meet ESF requirements, ensuring timely implementation and at the same time meeting all the administrative requirements has also been a challenge.

### 6.3 Outlook

After closure of the OP ESF 2007-2013 FI resources will be re-used for the same objective of promoting regional development.



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