

- ESF
- EUR 34.5 million
- Microfinance
- Social inclusion support
- Lombardy region, Italy

*...increasing the  
capital of cooperatives  
through financial  
instruments...*

# JEREMIE ESF Lombardy region, 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
EU	European Union
JEREMIE	Joint European Resources for Micro to Medium Enterprises, a joint initiative developed by the European Commission (Directorate General for Regional Policy) in co-operation with the European Investment Bank Group and other financial institutions during the 2007-2013 programming period.



## Table of contents

Abbreviations	2
1 Summary	4
2 Description of the financial instrument	6
2.1 Rationale	6
2.2 Governance	7
2.3 Financial products and financial terms	9
3 Main strategies to support social entrepreneurship	11
3.1 Design phase	11
3.2 Set-up phase	11
3.3 Implementation phase	12
4 Achievements and challenges	14
4.1 Outcome	14
4.2 Main achievements	15
4.3 Main challenges	15
5 Lessons learned and outlook	17



# 1 Summary

Set up in 2008, the European Social Fund (ESF) co-financed JEREMIE fund in Lombardy aimed at consolidating and developing the capital of cooperatives while, in parallel, promoting the social inclusion of job seekers. By combining public and private resources, the financial instrument helped to improve the provision of health, social and educational services and assisted disadvantaged people in finding jobs.

The financial instrument provided microloans for an aggregate amount of EUR 31.4 million to 7 850 individual recipients, who, in turn invested in the capital of 526 social cooperatives, representing approximately 30% of the regional total. With support from the financial instrument, the cooperatives were able to improve the existing services, expand business activities and develop innovative projects. Cooperatives achieved better equity ratios and could more easily access additional finance, leading to more disadvantaged people being included into the labour market. The financial instrument promoted sustainable public investment and a new culture of capital investment in the cooperative system. This encouraged members of cooperatives to participate in business activities and improved their sense of ownership, a key factor in strengthening the sector.

Success of the initiative builds on a long tradition of the cooperative movement in the region, which ensured that knowledge of the local ecosystem and the capabilities needed for a smooth and effective implementation were available. There were some difficulties in supporting individuals struggling to pay back their loans, which indicates a need to envisage specific measures in the event that final recipients find themselves in a precarious financial position.

The long practice of public authorities working with the sector ensured that the financial instrument was tailor-made for the needs of the local cooperatives, as well as ensuring that the initiative ran smoothly. Support for social inclusion through financial instruments is envisaged to continue in the 2014-2020 programming period.

## **JEREMIE ESF in the Lombardy region, Italy**

### **THE FINANCIAL INSTRUMENT**

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#### **Funding source**

ESF, Operational Programme (OP) Employment 2007-2013, Axis 3 - Social Inclusion

#### **Type of financial products**

Loans and guarantees

#### **Financial size**

EUR 34.5 million total = OP resources (EUR 8.0 million from ESF, EUR 10.8 million from public national funding) and private resources (EUR 15.7 million from financial intermediaries)

EUR 1.5 million of OP resources were set aside to guarantee financial intermediaries loans

#### **Thematic focus**

Social inclusion

#### **Timing**

July 2008 to December 2015

### **PARTNERS INVOLVED**

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Lombardy region (managing authority)

Finlombarda S.p.A. (in-house Lombardy region financial institution, acting as fund manager)

Four commercial banks (financial intermediaries)

### **ACHIEVEMENTS**

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#### **Absorption rate**

92% of OP resources: ESF and national funding (at September 2015)

#### **EU leverage**

3.9 times<sup>1</sup>

#### **Leverage of public resources**

1.7 times<sup>2</sup>

#### **Re-investment**

Resources repaid would return to the managing authority

#### **Main results**

7 850 final recipients among which 4 291 disadvantaged people, and 526 cooperatives capitalised at June 2015

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- 1 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 31.4 million, divided by the total amount of ESF allocation to this financial instrument, i.e. EUR 8.0 million. It does not include the reuse of resources returned to the financial instrument.
- 2 Leverage of public resources is calculated as the total amount of finance as loans to eligible final recipients, i.e. EUR 31.4 million, divided by the total amount of public resources allocated to this loan instrument, i.e. EUR 18.8 million. It does not include the reuse of resources returned to the financial instrument.



## 2 Description of the financial instrument

Several actors cooperated in establishing one of the first ESF co-funded financial instruments in the European Union (EU) during the 2007-2013 programming period. Launched in 2008, the JEREMIE ESF aimed at consolidating and developing the capital of cooperatives while, in parallel, reinforcing the social inclusion of job seekers. The risk related to the portfolio of microloans was shared between the resources made available by the Operational Programme and the ones made available by four financial intermediaries.

### 2.1 Rationale

In 2008, when the financial instrument was launched, there were more than 10 000 cooperatives in Lombardy, accounting for 15% of the national total. Social cooperatives play a key role in providing social services and contributing to the integration of unemployed and disadvantaged people into the job market in the region. At that time the sector employed more than 5% of the business workforce and provided goods and services worth EUR 13 billion, or 4% of the region's 2006 gross domestic product. In 2012, 6 000 disadvantaged people were employed by the cooperative system. Of these, 45% were disabled, 20% were recovering drug or alcohol addicts, 17% were affected by mental health impairments, 9% were ex-convicts, and 9% had other disadvantages.<sup>3</sup>

From 1998 to 2007, the number of social cooperatives doubled, reaching 1 421 in 2007. The number of members, 60 000 in 2007, and volunteer members, 6 000 in 2007, also doubled.<sup>4</sup> Social cooperatives accounted for more than 10% of the total cooperative sector of the region in 2008. Between 2008 and 2011, despite the crisis, the number of social cooperative grew by 7.3%, faster than the general trend of businesses in the region. In 2011, there were 1 595 social cooperatives.<sup>5</sup>

Against this background, the managing authority (Lombardy region) set up the JEREMIE ESF under priority axis 3 'Combating social exclusion in labour market' of the ESF Operational Programme 2007-2013, which promotes integration and the employment of disadvantaged people and fights all forms of discrimination in the labour market.

The scheme intended to support small and medium-sized enterprises and non-profit organisations with operations relevant to the priority axis, as it was envisaged from the outset in the Operational Programme. Within the priority axis, JEREMIE ESF was designed to increase the employment of disadvantaged individuals, and support the development of social cooperatives by increasing their capital and improving their capacity to access finance. With EUR 18.8 million of committed resources, the financial instrument has 23.5% of the total priority axis resources of EUR 79.8 million, and 2.4% of the total Operational Programme resources of EUR 796 million.

3 Zaggia, P. (2012) *L'esperienza di Regione Lombardia sugli strumenti di ingegneria finanziaria nel POR FSE 2007-2013*, p. 14.

4 Expert Italia; Ismeri Europa; Kpmg Advisory S.p.A (2012) *Servizio di valutazione del programma Operativo della Regione Lombardia Ob.2 F.S.E. 2007/2013*, p. 24.

5 Expert Italia; Ismeri Europa; Kpmg Advisory S.p.A (2012) *Servizio di valutazione del programma Operativo della Regione Lombardia Ob.2 F.S.E. 2007/2013*, p. 25.

## 2.2 Governance

Overall responsibility for the implementation of JEREMIE ESF rests with the **managing authority** of the ESF Operational Programme 2007-2013 (the Directorate General Education Training and Employment within the Lombardy region).

A **steering committee**, composed of representatives from the Lombardy region (the managing authority and the directorates for Employment and Social inclusion) and the fund manager, ensures that: (a) the investment strategy is pursued, including approving and making any changes to that strategy; and (b) the financial instrument is run effectively. The steering committee also reviews monitoring data and reports from the fund manager and, if needed, formulates recommendations for smoother implementation.

The **fund manager** is Finlombarda, a financial institution fully owned by the Lombardy region. Finlombarda is responsible for selecting financial intermediaries based on the criteria agreed by the steering committee. Moreover, it verifies the implementation of the financial instrument by, inter alia:

- requiring financial intermediaries to provide all information needed for accurate monitoring and reporting;
- examining the documentation, and verifying that lending transactions are consistent with the objectives, budget and activities specified in the investment proposals;
- carrying out on-site visits to the premises of financial intermediaries and/or final recipients to verify compliance and the accuracy of information provided;
- transmitting to the managing authority and to the steering committee an annual report with information on implementation progress and monitoring activities;
- ensuring that information on management and controls of the JEREMIE ESF is included in the ESF Operational Programme information system.

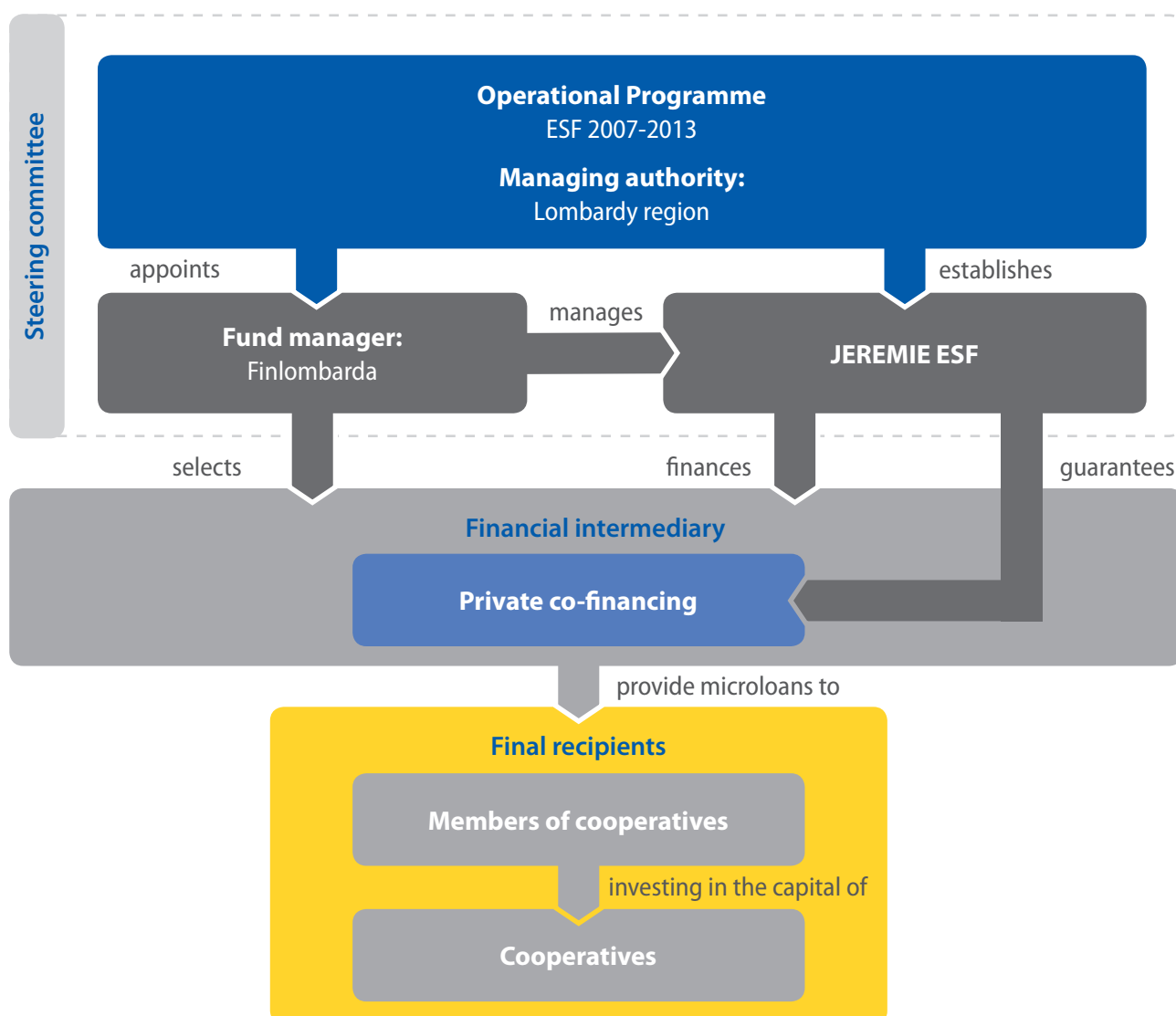
**Financial intermediaries** are responsible for:

- assessing microloan applications;
- managing the contractual relationships with final recipients, including the provision of finance;
- marketing the product; and
- reporting to the fund manager.

They also provide the 50% co-financing on the individual microloans, matching JEREMIE ESF resources. The selected financial intermediaries are Banca Popolare di Sondrio, Banca Etica, Banca Popolare di Bergamo and the Confederation of Credit Unions of Lombardy. The latter is an associative entity representing 37 mutual banks operating in Lombardy.



Figure 1: Organisational structure of the financial instrument



### Support for families – Farsi Prossimo Onlus, Milan:

#### Objectives

JEREMIE ESF fund supported Farsi Prossimo Onlus, a social cooperative established in 1993 that provides social, health and educational services throughout the regional territory.

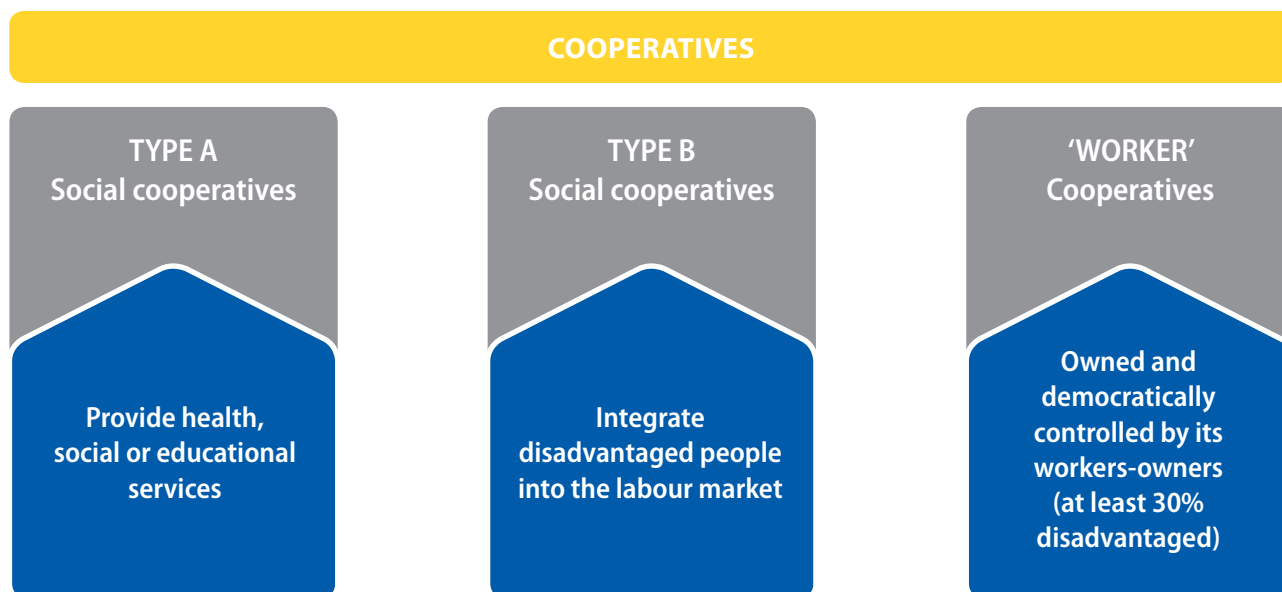
The funds, which amounted to EUR 200 000 and came from JEREMIE ESF microloans applied for by the members of the cooperative, were used to support new mothers with material and psychological needs that were living in disadvantaged conditions.



## 2.3 Financial products and financial terms

The financial instrument provides microloans to individuals, who use the money to invest in the capital of several types of cooperatives, as described in the figure below.<sup>6</sup> Therefore, final recipients are members or future members of the cooperatives, who receive microloans of EUR 4 000, with funding provided, in equal parts, by the JEREMIE ESF fund and the selected financial intermediaries.

Figure 2: Targeted final recipients of the financial instrument



The JEREMIE ESF component is provided at zero interest and features a single repayment at the end of a five-year period (a 'bullet' component). It can be cancelled if the final recipient remains in the co-operative for at least five years and complies with all contractual obligations.

The private component involves monthly repayments to the financial intermediary based on a fixed interest rate (an 'amortising' component). Defaults from the amortising component are partially covered by a guarantee (EUR 1.5 million of total Operational Programme resources committed to the financial instrument) provided free of charge by the JEREMIE ESF for up to 80% of the individual loan and up to 10% of the total own resources made available by the financial intermediary.

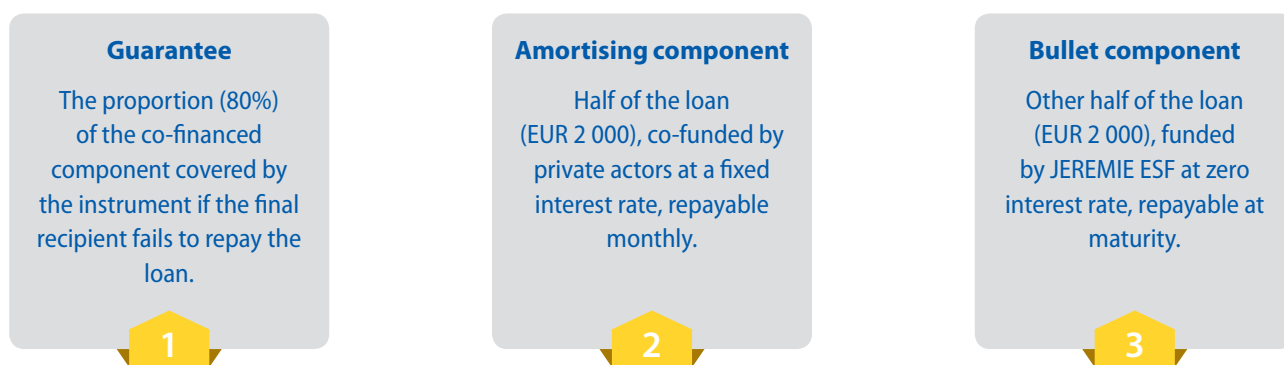
A maximum of 50 members can be funded per cooperative, up to EUR 200 000, in order to ensure compliance with *de minimis* aid provisions.

6 Under Italian Legislative Decree No 381/1991 on the discipline of social cooperatives, social cooperatives shall pursue the general interest of human development and social integration of citizens through:

- the management of social and health services and education services (type A);
- the performance of different activities – agricultural, industrial, commercial, or services - to promote the inclusion of disadvantaged people in the labour market (type B).



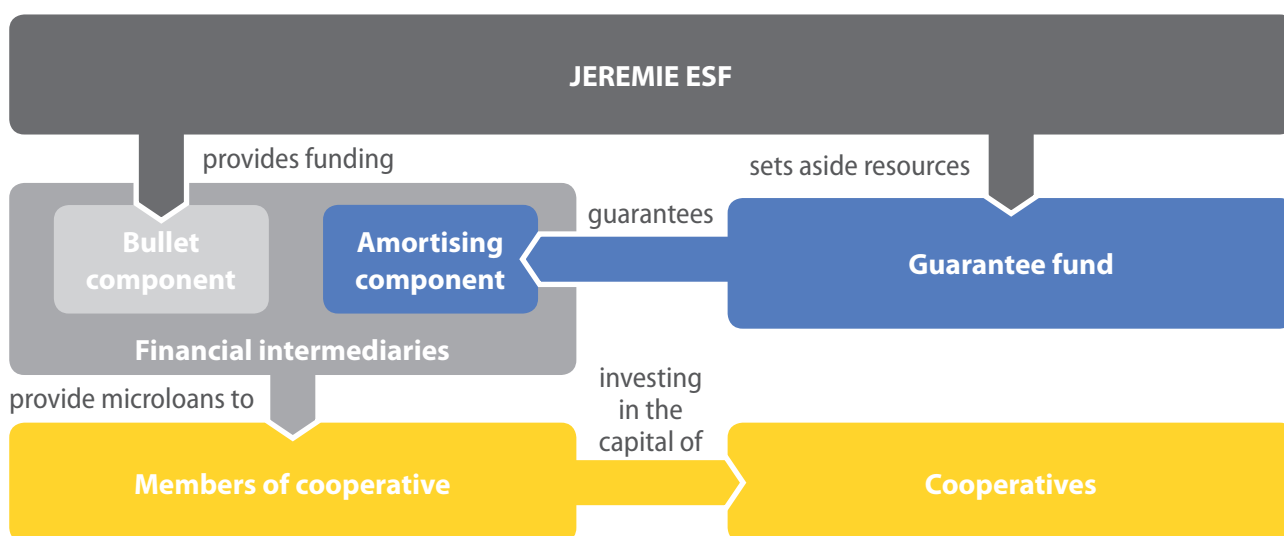
Figure 3: JEREMIE ESF microloan components



The three components are inextricably linked and designed to improve access to finance for members of cooperatives, while sharing and mitigating the risk for financial intermediaries. This ensures that private resources find the financial instrument attractive, providing significant leverage, which would be difficult to otherwise achieve for microloans.

The five-year repayment period is relatively long for microloans, and this was determined to be the most suitable to the needs of the sector. The five-year period to benefit from debt cancellation also promoted longer-term employment opportunities for cooperative members.

Figure 4: Overview of the financial products offered



## 3 Main strategies to support social entrepreneurship

The financial instrument was designed based on a market analysis, after which the managing authority appointed the fund manager. During two rounds, four financial intermediaries were selected to provide the microloans, which ensured that the financial instrument had a wide reach and allowed to leverage private resources.

### 3.1 Design phase

The managing authority and the fund manager signed a memorandum of understanding in April 2007 under the JEREMIE framework, establishing a common line of action. The memorandum called for an analysis of the supply and demand with regard to financing, which could identify gaps relevant to ESF priorities and the respective priority actions. Given the pioneering nature of the initiative, all stakeholders helped to clarify the needs of final recipients and identify market failures.

The Operational Programme was approved in November 2007 and Finlombarda was appointed as fund manager in July 2008. The signature of the funding agreement in October 2008 officially established the JEREMIE ESF.

### 3.2 Set-up phase

In early 2009, the steering committee was set up, followed by the approval of the investment strategy. This clarified, *inter alia*, the target recipients and financial products, as described in section 2.3.

In April 2009, the fund manager initiated the selection of financial intermediaries, based on the criteria established by the steering committee. The first call for tenders, for an initial amount of EUR 10 million, required the applicants to commit an equal amount from their own resources. The call, promoted through the *Official Journal of the European Union* and the national press, also required selected financial intermediaries to disburse the funds within 24 months from the draw-down of the funds. Applications were received from Banca Popolare di Bergamo and the Confederation of Credit Unions of Lombardy and both were selected as financial intermediaries.

A second call was launched in September 2010 for an additional amount of EUR 9 million, which included unused funds from the first round. The selection criteria required applicants to have a strong knowledge of the territory coupled with a widespread presence in the region through an extensive branch network. Applicants were also required to describe the distribution activities that they intended to use including marketing, media relations and institutional promotion, timelines and the related tools e.g. brochures, leaflets, posters, events, conferences and seminars. Additionally, building on the experience of the previous call, the maximum period that financial intermediaries had to disburse the funds after draw-down was shortened to 12 months. The disbursement time was also reduced to 90 days. Seven financial institutions submitted applications, but only three were selected: Banca Popolare di Bergamo, Banca Popolare Etica, and Banca Popolare di Sondrio.



The timeline for the set-up is described in Table 1.

Table 1: Design and implementation of the financial instrument

Time period	Action taken
February 2009	Set-up of the steering committee
March 2009	Approval of the investment strategy
April-October 2009	Selection of financial intermediaries (first call)
October 2009	Agreement between Finlombarda and the two selected financial intermediaries
September 2010 - May 2011	Selection of financial intermediaries (second call)
August-September 2011	Agreement between Finlombarda and the three selected financial intermediaries

### 3.3 Implementation phase

Two calls for proposals for final recipients were launched, with the first microloans disbursed in December 2009. An information campaign included regional seminars for cooperatives and the distribution of material such as information leaflets. Strong links between the financial intermediaries and the cooperative system were as important as the marketing campaign. It allowed potential applicants to be targeted and informed about the financial instrument quickly, e.g. by organising informal meetings.

By June 2015, financial intermediaries had received a total of 9 338 applications, of which 7 850 were accepted, corresponding to EUR 31.4 million of total funding. Defaults were mainly due to the financial crisis but were less than 10% up to June 2015.



Financial intermediaries continue to follow up on the microloan portfolio performance, including the repayments and the achievements. Periodic monitoring data and reports are provided to the steering committee, which assesses the financial instrument's capacity to evaluate applications, disburse funds and reach the target cooperatives and disadvantaged people.

The managing authority reimburses certified costs such as staff costs and subcontracting of the fund manager for implementing the financial instrument. These costs have been almost the same as accrued interest. Selected financial intermediaries do not receive remuneration from JEREMIE ESF (zero management fee), and no additional costs are borne by final recipients for loan disbursement, with the exception of a fee of about EUR 10 for processing their application.

An independent evaluator assessed progress and outcomes of the operation, focusing on the financial instrument's relevance, efficiency and effectiveness.

### **Support for families – Farsi Prossimo Onlus, Milan:**

#### **Advantages of the financial instrument**

The JEREMIE ESF contribution enabled Farsi Prossimo Onlus to provide disadvantaged family units located in a specific urban area of Milan with goods and services, home visits, educational support, general assistance and access to the network of services provided in the area, as well as support group meetings for mothers with children aged 0-12 months.



## 4 Achievements and challenges

From the date that the first microloans were disbursed in December 2009 and up to June 2015, final recipients received a total of EUR 31.4 million in funding. The JEREMIE ESF shows how financial instruments can activate structural processes to improve the provision of health, social and educational services and help disadvantaged people find jobs.

### 4.1 Outcome

The first call was for EUR 16.7 million, of which half came from the Operational Programme, resulting in 4 184 investments by June 2015 and new or retained jobs for 2 122 disadvantaged people.

The second call was for EUR 14.7 million, of which half came from the Operational Programme, resulting in 3 666 investments by June 2015 and new or retained jobs for 2 169 disadvantaged people. There was less investment in the second call, partially due to worsening financial conditions, which made financial intermediaries more reluctant to lend.

Table 2: Overview of final recipients of the financial instrument

	First call 2009 (First disbursement)	First call 2009 (Second disbursement)	Second call 2010-2011	TOTAL
<b>Total final recipients</b>	<b>2 156</b>	<b>2 028</b>	<b>3 666</b>	<b>7 850</b>
Number of disadvantaged people (male)	475	351	883	1 709
Number of disadvantaged people (female)	652	644	1 286	2 582
<b>Total disadvantaged people</b>	<b>1 127</b>	<b>995</b>	<b>2 169</b>	<b>4 291</b>
<i>% of disadvantaged people on the total final recipients</i>				54,7%

Overall, JEREMIE ESF resources were used to increase the capital of 526 cooperatives by a total of EUR 31.4 million<sup>7</sup>, including about one third of the social cooperatives in the region. JEREMIE ESF also helped 4 291 disadvantaged people, approximately 54.7% of total final recipients, to obtain or keep jobs.

<sup>7</sup> The remaining committed funds are set aside to cover losses from the guarantees provided, paid as management costs and fees, and partly returned back to the OP as unused resources.

Table 3: Overview of types of social cooperatives assisted by the financial instrument

	JEREMIE ESF
Social Cooperative providing health and social or educational services (type A)	278
Social Cooperative focusing on integrating disadvantaged people into the job market (type B)	184
Workers Cooperative	64
<b>Total amount of capitalised cooperatives</b>	<b>526</b>

The financial instrument contributed to increase the capitalisation of regional cooperatives, improving their access to credit while promoting social inclusion. Additionally, it promoted the idea of sustainable public investment in the region, as well as a new culture of capitalisation in the cooperative system. This encouraged cooperative members to participate in business activities and improved their sense of ownership, a key factor to strengthening the sector.

## 4.2 Main achievements

Through the JEREMIE ESF, cooperatives were able to enhance their services, expand their business activities, invest in renewable energy<sup>8</sup>, or fund innovative projects.

According to independent evaluation studies<sup>9</sup>, **the majority of cooperatives would not have increased their capitalisation without JEREMIE ESF support**. This result is most evident in weaker and less economically structured cooperatives, especially youth cooperatives that work locally and with no recent capital increase. Some 40% of the cooperatives affirmed that the greatest impact of the financial instrument was the fact that they were able to make investments. Around 26% of the cooperatives stated that the biggest success of the initiative was providing them with the means to overcome or mitigate the effects of the crisis.

Financial intermediaries had the possibility to **work more closely with regional cooperatives**, which helped them to acquire new clients or strengthen ties with the existing ones. This close cooperation eventually reinforced mutual trust between financial intermediaries and the cooperative system. At a more general level, this also increased the interest of financial intermediaries in public policy initiatives supporting the sector, laying the groundwork for future cooperation with regard to their implementation.

## 4.3 Main challenges

The **financial crisis** was certainly the main challenge in the implementation of the financial instrument. Cooperatives performing industrial, commercial, or service activities, and especially the less innovative ones from more traditional sectors, were hit by the sluggish market demand. At the same time, those providing social, health and education services suffered from reduced demand and delayed payment from public administration. These difficulties led to the liquidation

<sup>8</sup> COPIE AFT Manual (2011) Workshop Notes Brussels, 15 Dec 11, retrieved from [www.cop-ie.eu](http://www.cop-ie.eu).

<sup>9</sup> Expert Italia; Ismeri Europa; Kpmg Advisory S.p.A (2012) *Servizio di valutazione del programma Operativo della Regione Lombardia Ob.2 F.S.E. 2007/2013*.



of some cooperatives participating in the scheme and some final recipients were not able to repay their loans.

The common practice of the cooperative system normally supports members having difficulties, but the unexpectedly harsh and long-lasting crisis prevented this from taking place. In addition, specific procedures to support individuals struggling to pay back their loans had not been anticipated, which made it impossible to rescue all final recipients in distress.

Apart from the crisis, the cooperatives recommended less paperwork for activating the financial instrument e.g. the business plan to be delivered to the bank, and for an increase in the maximum number of members per cooperative who could benefit from the financial instrument.

Lastly, the financial instruments took longer than expected to be launched, which was attributed to the experimental and innovative nature of the initiative.

### **Support for families – Farsi Prossimo Onlus, Milan:**

#### **Achievements**

Approximately 50 mothers were assisted by this project, which provided for their material needs and, through the provision of educational services, improved their parenting skills and childcare. It also improved their social networks and access to maternity support services available in the area.

The cooperative is paid by the public administration for providing the services, and additional funds come from donors.



## 5 Lessons learned and outlook

Launched in 2008 as one of the first ESF co-funded financial instruments in the EU, the JEREMIE ESF supported access to finance for cooperatives and their members in the social sector. It provided medium-term funding to approximately one third of the social cooperatives in Lombardy, contributing to job creation and the social inclusion of disadvantaged people.

JEREMIE ESF activated a number of changes that are expected to continue after the financial instrument has been wound up. First, it increased the capitalisation of cooperatives, with a lasting improvement in their credit standing and access to finance. Secondly, it encouraged a culture of capitalisation among cooperatives, leading to more conscious and active participation of members in business life and in making strategic choices. Thirdly, it promoted the idea of sustainable public investment in a sector usually supported through grants. Lastly, it helped build closer ties and mutual trust between the financial and social sectors of the region.

The involvement of all stakeholders from the start of the initiative was essential to its success. In particular, close cooperation between the fund manager, the managing authority and final recipients during the design phase allowed the financial instrument to be better tailored to the needs of the sector. Extensive coverage of the territory by the selected financial intermediaries, their in-depth understanding of the local environment and strong links with the cooperative sector increased the range and efficiency of the initiative.

The financial instrument builds on the capacity of the cooperative sector to operate in the local ecosystem, due to a long tradition of involvement in the region. The regional authorities also had a high sensitivity to the needs of a sector considered crucial to promote social inclusion. In addition, the financial instrument benefited from long-running cooperation between the public authorities and the social sector, which ensured that design and implementation ran smoothly. A well-established cooperative sector should be carefully considered when assessing the feasibility of setting up similar initiatives.

For the 2014-2020 programming period, financial instruments may have a stronger focus on target groups such as youth that are not currently studying or undertaking employment or training (NEET), or on encouraging cooperatives to undertake specific development and innovative projects. Increasing attractiveness for co-investors is also a high priority in the ongoing dialogue between the stakeholders.

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