

Chapter 11

JEREMIE Sicily ESF Social Finance: A microfinance scheme, Italy

JEREMIE European Social Fund Social Finance is a financial instrument designed to improve access to finance for small and medium-sized enterprises and social enterprises in Sicily through a microfinance scheme. It aims to support the creation and development of organisations that promote the economic empowerment of vulnerable workers by facilitating access to the labour market. This chapter presents JEREMIE's objectives, rationale and key activities, together with the challenges faced in implementing the scheme and the impact achieved. It also features the lessons learnt and the conditions for transferring this practice to another context.

Summary

JEREMIE Sicily European Social Fund (ESF) Social Finance is a financial instrument activated by agreement between the European Investment Fund (EIF) and Banca Popolare Etica (BPE). It is part of the larger Joint European Resources for Micro to Medium Enterprises (JEREMIE) framework initiative launched by the European Commission and European Investment Bank (EIB) to improve access to finance for small and medium-sized enterprises (SMEs). The instrument aims to support the expansion of two kinds of enterprises located in Italy's Sicily region:

- SMEs, including micro, small and medium enterprises (MSMEs), operating with a social purpose¹
- social enterprises: operators in the social economy whose main objective is achieving social impact, rather than maximising profits for owners or shareholders.²

JEREMIE Sicily supports the creation and development of SMEs and social enterprises promoting the economic empowerment of vulnerable worker categories by fostering access to, and sustainable inclusion in, the labour market through a microfinance

scheme. The initiative comprises a complete system of integrated services, including fund provision, business development services, coaching and mentoring, business incubation programmes, and education and training. It operates in Sicily, a territory characterised by the lowest employment rate (42.4%)³ of all European regions and the unstable financial situation of public institutions, as well as private and public bodies supporting entrepreneurship.

Managed by BPE, which acts as a financial intermediary and co-ordinator, the initiative draws on a combination of public-private funds to provide microloans. To minimise risks for both beneficiaries and the bank, the consortium has partnered with the “Microcredito Siciliano” guarantee fund to finance SMEs with lower credit ratings. The consortium partners are a diverse mix of financial and non-financial entities performing several fundamental activities: engaging with territorial hubs, co-working and incubation spaces; promoting the initiative within local and regional networks of enterprises, industries and professional associations; and providing funds and non-financial services to support beneficiaries’ sustainable and ethical growth.

JEREMIE Sicily ESF Social Finance is a pilot initiative, which in many respects may be further refined to ensure greater effectiveness and impact. The provision of non-financial services has been vital, and has contributed to defining a new value chain within the microfinance model.

With 1007 applications in total and only 8.14% of the applicants financed, the overall success rate remains relatively low. Not all of the applications were managed by the consortium partners; those that passed the non-financial partners’ preliminary appraisal had a higher (73.5%) success rate, proving the partners’ ability to generate value and define an innovative business model for the microfinance sector.

Key facts

JEREMIE Sicily is a 24-month programme launched in December 2013, with an initial closure date set for December 2015. Its initial budget was EUR 12.4 million (euros): EUR 7.2 million co-financed by the ESF, and EUR 5.2 million to be co-financed by the project co-ordinator, BPE. At the end of 2015, an evaluation of the programme’s performance (BPE, 2015) showed that BPE had approved only EUR 3.8 million in investments⁴ over two years of activity. As a result, the budget was renegotiated and reduced to EUR 5 million, and the closure date postponed to 31 July 2016.

The low performance can be attributed to the rigid assessment procedures imposed on the financial intermediary, resulting in slow evaluation processes (up to 120 days on average). The quality of the applications also had a strong influence: applications that had undergone preliminary appraisal by non-financial partners were considered suitable for assessment, with evaluations lasting up to 60 days; those submitted directly by the entrepreneurs were often incomplete or poor quality, causing considerable waste of time and resources, with evaluations lasting up to 240 days.

The project consortium comprised five partners:

1. BPE: the project co-ordinator, a financial institute comprising a popular base of members who support economic activities with ethical values
2. The Hub Sicilia Aps: a centre for social innovation specialising in business-support services

3. Microfinanza Srl: an advisory company for technical support and financial services
4. Sol.Co. Catania: a consortium of social enterprises promoting innovative forms of welfare
5. Consorzio L'APE: a development agency promoting employment in the co-operative sector.

Key figures

In 2013-16, JEREMIE Sicilia received 1 007 funding applications. By July 2016, 82 enterprises (8.14%) had been financed, with an average individual funding of EUR 56 453 and a total budget of EUR 4.7 million (Incorvati, 2016). In May 2014, a EUR 1 million guarantee fund was established to minimise risk for both beneficiaries and the bank.

The Hub Sicilia Aps handled the preliminary appraisal and submission process for 49 funding applications; 36 applications (73.47%) were successfully financed, 9 were rejected by the bank, and 4 were withdrawn by the applicants.

Objectives

JEREMIE Sicily ESF Social Finance is managed by the EIF and co-funded by the ESF under the Regional Operational Programme for 2007- 2013, Axis III – “Social Inclusion” (Specific Objective G). The initiative supports the creation and development of enterprises specifically aiming to improve access to finance for social enterprises and SMEs. It is implemented in Italy's Sicily region, which has a population of more than 5 million; its goal is to make a positive social impact on the territory, particularly with regard to social inclusion.

The initiative's main policy area was providing access to finance through a combination of public and private funds (EIF and ESF, supported by a guarantee fund provided by Movimento 5 Stelle⁵). The partners also provided extensive non-financial services (business development, coaching and mentoring, incubation, acceleration, and education and training) through local business support structures.

The scheme mainly targets enterprises dedicated to furthering vulnerable categories, i.e. people not in education, employment or training; unemployed young people; immigrants; ex-offenders; people with disabilities; and women seeking self-employment. By providing funding, support and mentoring activities, JEREMIE Sicily aims to improve access to employment and foster sustainable inclusion in the labour market by focusing on the following actions:

- promoting self-employment
- creating new enterprises, including co-operatives
- transitioning non-profit organisations into social enterprises⁶
- improving the quality of work and support services for workers and individuals who are not self-sufficient
- strengthening existing enterprises operating in the social sector and pursuing activities targeting social improvement.

JEREMIE Sicily's beneficiaries were SMEs, social enterprises and the stakeholders directly affected by their business activity. The supported enterprises targeted not only financial sustainability, but also environmental and social impact. Thanks to the resources made available to them, they were able to develop or consolidate their organisational structures, start new businesses and hire new employees.

Rationale

The economic recession provoked by the 2008 financial crisis (Azevedo, 2015) resulted in a very difficult phase for Sicilian SMEs and social enterprises in 2013. Although the data collected by Unioncamere Sicilia (2013) on their performance in 2013 shows that the number of new business registrations (29 198) exceeded the number of business closures (28 296), the regional labour market conditions worsened. Istat Labour Force Survey (Istat, 2015) shows that the overall employment rate for Sicily's population decreased by 5.3% in 2013 compared to 2012; only 39% of individuals aged 15-64 were in employment. That same year, bank loans to SMEs and social enterprises operating in Sicily decreased by 3.8% on an annual basis; according to the Bank of Italy, the proportion of red loans rose to 10% (Banca d'Italia, 2014).

When social enterprises compete – even with difficulty – within traditional economic sectors, they have proved successful with regard to access to finance, job creation and distribution of wealth. Financial crises drive the non-profit sector to adopt more cost-effective management models. Shrinking resources are progressively channelled towards more sustainable products and processes, and economic viability is considered together with the environmental and social long-term impact. In such a challenging socio-economic context, developing social enterprises and social innovation processes is fundamental. It requires new policies, incentives and legislative regulation to promote the sector's growth, and facilitate administrative tasks and duties. Social innovation is often one of the benefits generated by the coaching, mentoring and other support services provided by non-financial partners. In Sicily as in other European regions, social innovation emerged in several domains, some of them unexpected.

Banking loans are critical tools for promoting social enterprise. Enterprises that take on loans increase their level of indebtedness and are perceived as untrustworthy, because their operating margins do not always allow them to cover the loan burden. Yet many enterprises cannot rebalance their financial flows through loans, because they cannot sustain the loans costs or provide the organisational and economic guarantees demanded by the banking system. The revolving nature of the JEREMIE Fund helped reach even more entrepreneurs than traditional grant schemes, thanks to its emphasis on social improvement and social inclusion. Sicily was chosen to be a pilot example for other Italian regions, promoting social improvement and social inclusion through microcredit schemes and social microfinance products for SMEs, with the specific goal of fostering employment and growth.

A financial instrument such as JEREMIE Sicily, which combines soft loans, non-financial services and guarantee funds, helps minimise risks for both banks and enterprises.

Activities

To reach potential entrepreneurs, facilitate network activities and create help desks for final beneficiaries, BPE established strategic partnerships with The Hub Sicilia Aps, Microfinanza Srl, Sol.Co. Catania and L'APE. The goal was to create a network capable of performing four main actions:

- providing financial services
- promoting the programme
- providing non-financial services
- monitoring interventions.

Financial services: as a lending institution specialising in financing social-sector projects and enterprises, BPE managed the lending activities. A portfolio of loans was created for

Sicilian social enterprises, co-financed by JEREMIE Sicily and BPE. In collaboration with its partners, BPE prepared a business-plan template to facilitate submitting loan requests.

Loans provided by the JEREMIE Sicily financial instrument aimed to help both consolidate and start enterprises, as well as improve their quality and professionalism. The priority sectors and areas of activity were: social services, health, welfare and education (also provided by private actors); skill enhancement and support for social enterprises developing innovative projects; and identifying new market opportunities. The loans financed mainly investments in tangible and intangible assets related to starting up new activities. The investments in SMEs focused on promoting initiatives with a high and well-balanced level of financial, social and environmental sustainability. Applications for funding were evaluated on the basis of the following criteria: the investment proposal, planned expenditures, and level of co-financing of SMEs and social enterprises; the economic-financial investment feasibility analysis on a three-year basis; and the project's social impact.

Guarantee fund: in May 2014, a EUR 1 million guarantee fund established by the Italian political movement Movimento 5 Stelle was combined with the JEREMIE programme. The fund, called “Microcredito Siciliano”, was donated to the Sicilian microcredit foundation Fondazione di Comunità di Messina. Its main goal was to facilitate access to credit for SMEs; the fund guaranteed 100% of the loans requested from BPE, ranging from EUR 5 000 to EUR 25 000. In 2015, the guarantee fund helped 15 social enterprises (out of 82) access JEREMIE loans.

Promotion: promoting and disseminating the programme and its products entailed strengthening collaboration with local social enterprise networks, by connecting beneficiaries with established entrepreneurs, foundations and associations; raising awareness through newspapers, leaflets, posters and mailing lists; organising workshops and promotional events on a bimonthly basis (with an average 40-50 participants); and promoting the programme through each partner network.

Non-financial services: non-financial services played a crucial role in ensuring the programme's success. The services, which were available to all potential beneficiaries (although not mandatory), aimed to help enterprises strengthen their organisational structures and facilitate access to credit. Enterprises could apply directly to the financial intermediary, but early-stage MSMEs and social enterprises were advised to apply through help desks.

The services provided by Hub Sicilia aps, Microfinanza srl, Sol.Co Catania and L'APE to Sicilian enterprises included:

- orientation to credit and financial services
- pre-feasibility analysis, selection and evaluation of business proposals
- elaboration and evaluation of business plans
- coaching and other support services.

This approach helped JEREMIE perform well in Sicily, since BPE rejected only 29% of the loan requests. A consortium made up of a financial institution (BPE), innovation centres and non-financial service providers created the right mix of expertise to reach the programme goal. The technical assistance provided by the partners improved the final beneficiaries' access to credit, since 63 requests for credit received positive assessments. It also facilitated the role of BPE in evaluating credit-worthiness: the partners acted as intermediaries between beneficiaries and BPE, reducing the risks for both the bank and the enterprises – proof that an accurate analysis and work on business plans often results in an increased loan-repayment ratio.

Monitoring and evaluation of interventions: Microfinanza srl carried out monitoring activities on a monthly basis, using a set of indicators pertaining to:

- the number of applications funded
- the amount of resources assigned and amount of co-financing by beneficiaries through private resources
- the loan repayment performance
- the social impact of the financed projects, measured through indicators such as the number of jobs created, the beneficiaries' age and the enterprises' mission.

The collected data were used for internal reports.

Challenges encountered and impact

Table 11.1. presents an analysis of the strengths, weaknesses, opportunities and threats facing JEREMIE Sicily.

Table 11.1. **SWOT analysis of JEREMIE Sicily**

Strengths	Weaknesses
<ul style="list-style-type: none"> ● Beneficial impact of non-financial services: orientation to credit, preliminary appraisal, assessment of business projects, elaboration and evaluation of business plan, coaching ● Integrated approach, comprising financial and non-financial services ● Strong economic and social impact ● Networking and creation of a community of practice among beneficiaries ● Targeting a wide range of entities, from SMEs with a social purpose to social enterprises as such ● Synergies with a guarantee fund provided by the public sector to foster entrepreneurship ● Peer-to-peer coaching and inspiration, motivational aspects and dedicated training 	<ul style="list-style-type: none"> ● Insufficient resources to cover the costs of non-financial services, mainly covered by the beneficiaries as services paid to non-financial partners or external entities ● Lack of budget provision for awareness raising and training activities on access to finance ● Short timeframe: 24 months, including preparation phases ● High entry barriers (guarantee required on funding, excessive documentation) for enterprises ● ESF procedures too complex and bureaucratic for entrepreneurs ● Rigidity and excessive duration of assessment procedures; lack of flexibility on rules and use of funds ● Lack of integration and communication between financial and non-financial partners. ● Weak monitoring system, lacking Specific Measurable Assignable Realistic Time-bound (SMART) indicators and objectives for the beneficiaries.
Opportunities	Threats
<ul style="list-style-type: none"> ● Fostering self-employment through access to finance and incentives ● Switching from a mindset of grant funding to credit and microloans ● Increased attractiveness of Sicily for young people in search of opportunities ● Opportunity to embrace social innovation as a driver for empowering and enhancing local enterprises' competitiveness ● A new business model for the microfinance sector, wherein banks and non-financial organisations support enterprise growth and scale 	<ul style="list-style-type: none"> ● Frustration of applicants owing to excessive duration of the assessment process ● Short duration of the initiative (24 months + 6-month extension) and abrupt return to previous financial schemes, with higher interest; no amortisation period or support ● Scarce-risk attitude by banks, and reluctance to grant credit to SMEs and social enterprises ● Low recovery rate; absence of resources for the non-financial entities to monitor and support the post-credit phase ● Lack of legislative support for tax reduction, subsidies and incentives for social enterprises

Challenges

In July 2016, JEREMIE disbursed EUR 4.7 million to beneficiaries. The help desk received 1 007 official financing requests; 900 (89%) were discarded before they could proceed to a later evaluation stage. The main reasons were:

- the lack of willingness of the applicants to fill out the detailed information request forms (42%)
- the absence of formal requirements (i.e. enterprise not yet established) (24%)

- the absence of a social purpose (21%)
- the application's incompatibility with the fund's objectives (10%)
- absent or incomplete business plan (2.9%)
- enterprises focusing on ineligible sectors (i.e. agriculture) (0.1%).

At the end of July 2016, the help desks had evaluated 88 requests; 29% were rejected owing to negative assessments of the projects' economic and financial sustainability: funding these enterprises would have aggravated their debt situation, as they would have been unable to repay the loan. The remaining applications (71%) received positive appraisals and were forwarded to the bank for final evaluation.

By July 2016, 82 beneficiaries (including 32 start-ups) had received individual loans averaging EUR 56 423; in other words, only 8.14% of applicants had received funding. This low percentage stems from the help desk's filtering process of the incoming requests, and highlights the complexity of the selection and management processes for soft-loan programmes. Rejecting requests at this early stage helped the bank and the help desk optimise their time and costs. Most of the funded enterprises were co-operatives (36%), limited companies (26%) and sole proprietorships (14%) operating in the social (32%), trade (24%), catering (21%), service industry (14%), tourism (6%) and handicraft (3%) sectors.

The analysis of Sicily's socio-economic context (Part 4) shows that this region, which is primarily characterised by "traditional" businesses, is still at an immature stage of development. Social and innovative enterprises are very scarce compared with the rest of Italy and Europe, and the traditional banking system does not foster their development. Enterprises struggle to obtain financing, and requirements and procedures are often complex and slow. As a result, Sicilian entrepreneurship is stagnating. The main problem, however, is the lack of entrepreneurial education and the absence of an "ecosystem" that can ensure support.

The help desks highlighted the main challenges facing Sicilian entrepreneurs:

- difficulty in properly filling out the request forms
- lack of strategic planning and focus on short-term survival
- low motivation in completing the request, owing to excessive documentation requirements
- difficulty in developing a sustainable business model.

In response to these difficulties, the help desk adopted a different approach: in addition to verifying the formal requirements, it offered coaching and support to improve business plans and motivate the applicants. This proactive approach facilitated access to credit, and supported the creation and development of sustainable businesses, demonstrating the fundamental role of non-financial services in microcredit schemes such as JEREMIE.⁷ Since the programme ended in July 2016, the evaluation process is not yet complete. Unpublished data, however, indicate that each enterprise that received a loan created two jobs on average.

Lessons learnt and conditions for potential replicability

Lessons

In its 2.5 years of operation, JEREMIE Sicily showed the importance of structuring an innovative network to support financial programmes in areas – such as Sicily – with complex social, economic and cultural contexts.

Credits and loans are sensitive processes that can often amplify – rather than alleviate – financial crises. Lenders and evaluators have a great responsibility to understand whether or not an entrepreneurial venture presents the fundamental elements of sustainability that guarantee not only regular loan repayments, but also the use of credit as a lever for successful development. JEREMIE Sicily paid particular attention to these aspects, starting with the vulnerability of individual beneficiaries in traditional financing circuits. As the project was a pilot experience, many aspects can be improved to improve the scheme's effectiveness, particularly by empowering non-financial services.

Conditions for potential replicability

For similar initiatives to succeed in other regions, the following critical factors need to be replicated:

- the activities of non-financial partners, who had a fundamental role both as “filters” and “trust agencies” for the financial intermediary
- due diligence in facilitating the evaluation phase for the financial intermediary, avoiding an excessive workload and significantly reducing application timelines for the beneficiaries
- establishing a solid and structured help desk, with dedicated human resources, an online platform, coaching services and precise monitoring activity.

Finally, the following recommendations and suggestions will help maximise the future impact and effectiveness of such financial instruments:

- design and activate an internal information system, so that partners can easily share and access sensitive data and information, such as the number of deliberate practices, details about the financed enterprises and the ratio of loans repaid
- allocate adequate financial resources to non-financial service partners, which are crucial to ensuring the quality of the initiative
- reduce procedure length and prolong deadlines to strengthen the financial intermediary's operational capacity to evaluate funding requests and remain accountable to beneficiaries
- in addition to other non-financial instruments, engage in credit education, mentoring and awareness-raising, to strengthen the help desk and enhance the project's performance.

Notes

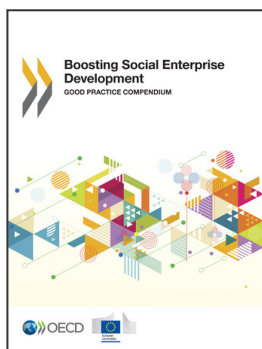
1. Definition of SMEs and MSMEs according to European Commission (2003): medium-sized: staff < 250; turnover ≤ EUR 50 million; balance sheet total ≤ EUR 43 million; small: staff < 50; turnover ≤ EUR 10 million; balance sheet total ≤ EUR 10 million; micro: staff < 10; turnover ≤ EUR 2 million; balance sheet total ≤ EUR 2 million.
2. Definition of social enterprise according to European Commission (2011).
3. According to Eurostat (2015), Sicily is the European region with the lowest employment rate (42.4%) of people aged 20 -64 years (Eurostat, 2015).
4. The rest of the fund was transferred back to the EIF.
5. Movimento 5 Stelle is an Italian party funded in 2009.
6. Some of the potential beneficiaries were non-profit organisations, which have turned into legal enterprises in order to access to credit. This transformation was also possible because their business activities were solid enough to justify the setup of an enterprise.
7. The success rate of the requests evaluated by the help desks and the bank is 73%, as mentioned in Part 2.

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Further reading

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From:

Boosting Social Enterprise Development **Good Practice Compendium**

Access the complete publication at:

<https://doi.org/10.1787/9789264268500-en>

Please cite this chapter as:

OECD/European Union (2017), “JEREMIE Sicily ESF Social Finance: A microfinance scheme, Italy”, in *Boosting Social Enterprise Development: Good Practice Compendium*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264268500-14-en>

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