

THE RIGHT TYPE OF MONEY

Money comes in different forms, and a key part of giving the residents of disadvantaged communities the tools they need to pull themselves up by the bootstraps is to make sure that cash comes with the right support attached. The Sant Cosme Innova project in Barcelona has packaged its loans just so, and many people, predominantly women and members of ethnic minorities, have benefited.

Deprived industrial neighbourhoods, like Sant Cosme in Barcelona, can be found in most European cities. Restructuring in these areas has often cut the number of job opportunities dramatically for local people. In Sant Cosme, the unemployment rate stands at around 25%, but the area still acts as a magnet for migrants, who make up nearly two-thirds of the population. Many local residents are forced to survive through a combination of social security payments and the submerged economy.

This is the context in which the EQUAL project called Sant Cosme Innova decided to test out a particular blend of microfinance and business support as a route out of social exclusion. The problem for the people in these kinds of areas “*is not so much the overall availability of money but the kind of money on offer,*” says Henry McLeish, the ex-deputy prime minister of Scotland who attended the EQUAL conference in Warsaw in February 2005. He says the key issues are “*why the disadvantaged need specific kinds of money, how to ensure that traditional finance providers work together with other actors and how to ensure the economic viability of the co-operation.*”

The European Council has got the message, and when it met in March 2003 it stressed how important microcredit is. The idea is present in the EU’s integrated guidelines for growth and jobs, whose guideline 10 urges improved access to finance for start-ups and existing SMEs.¹ Yet despite this commitment, most of the €1 billion in risk capital that the Structural Funds finance goes to the higher end of the market. This is why the Commission has proposed to make microcredit funds eligible for European Social Fund support as it places greater emphasis on social inclusion.

The main financial partner in the San Cosme Innova is the Fundació Un Sol Món, part of the Caixa de Catalunya savings bank, Spain’s seventh largest financial institution. Through the project, the foundation has shown how financial engineering and financial expertise can be brought in to strengthen policies for the comprehensive redevelopment of urban communities facing multiple forms of deprivation.

The project also provides insights into how the European Social Fund can work in tandem with financial institutions, local authorities and NGOs to build more sustainable jobs for groups such as women and ethnic minorities. This is the only case of EQUAL funds being directly invested in microcredit in Europe and in this sense it provides important lessons for the future.

SUSTAINABLE TOOLS FOR COMMUNITY DEVELOPMENT

“We identified a market gap five years ago, in the sense that there were many people with good business ideas, but without the collateral they needed to get a conventional loan,” says Angel Font, director of Un Sol Món. This led the foundation to launch a microcredit fund. It can now boast of having created more than 1,000 jobs, of which half have gone to women and another half to ethnic minorities. In total the fund has made around 600 loans with a total value of €6 million.

¹ *Integrated guidelines for growth and jobs (2005-2008)*, COM(2005) 141. See http://europa.eu.int/growthandjobs/pdf/COM2005_141_en.pdf

According to an impact evaluation among the clients of Fundació Un Sol Món, 80% of borrowers have become more prosperous and 70% consider that the microloan has stabilised their business.



Maribel opened her own hairdressing salon following a microcredit from Un Sol Món

This is the case of Maribel who had worked as a hairdresser for eight years, mostly in the informal economy. Two years ago she obtained a microcredit from Un Sol Món to open her own salon. *“I am very happy with the business. I have hired two workers and I am planning to open a new hairdresser’s in El Prat de Llobregat,”* she says. Nine-tenths of the

initiatives supported by the microcredit fund are still in business after one year, and

defaults are within normal commercial limits. Default rates for the whole fund are around 6%, and management costs are under the rigorous Structural Funds ceiling of 5%. However, even if a small proportion of the loans are not repaid, the vast majority of public and private investment returns to the fund after a period and becomes available for further rounds of lending. As Isabel Pagonabarraga, the fund manager, argues: *“the public investment helps to create a long-term and sustainable tool for social and community development rather than a one-off gain, as happens with most grants.”*

EQUAL's role in the project was to contribute €150,000 of capital, which was matched by Un Sol Món to create an earmarked fund of €300,000 for direct financial support to business in this particularly deprived neighbourhood of Barcelona. The loans provided through EQUAL are directed at people in Sant Cosme, who are far further from the labour market than most clients.

“More than four-fifths of the clients of the EQUAL fund have an income of less than €15,000 a year, a much higher proportion than our clients in general,” says Ms Paganobarraga. *“EQUAL allowed us to test out more flexible methods suitable for extremely deprived neighbourhoods, groups such ethnic minorities and people in the submerged economy. Since then we have applied many of these methods across the rest of the fund.”* An example of a typical client is a woman, also called Isabel, who was looking after two children on her own. This made it impossible for her to get a regular job. The microcredit provided by EQUAL allowed her to open a tapas bar, which offered her more flexibility to earn an income and support her family.

MAPPING UNKNOWN TERRITORY FOR LENDERS

Although it may seem surprising, one the main reasons for the financial gap at the lower end of the market is that most financial institutions simply do not know much about the real financial needs of the most socially excluded people. In order to find out more about the needs of their potential clients, the EQUAL partnership carried out a survey of local people without stable employment. Eighty per cent expressed interest in self-employment – but none could provide security for a loan, and all needed non-financial support with setting up a business.

The survey revealed that access to banks was not only difficult because of lack of collateral, but also because excluded people lack the confidence and experience to put their case. They are used to being the recipients of social benefits not the clients of financial institutions. One hairdresser who set up a business in Sant Cosme describes the difference between Fundació Un Sol Món and a normal bank as follows: *“With banks it is very different. Fundació Un Sol Món is there to help you, banks have very different aims.”*

Un Sol Món was also able to build up a better understanding of their clients' overall financial situation through close discussions with social services and the personalised programme of advice they carried out with the other project partners. This allowed their clients to present a

viable plan for income earning activity, however modest. The EQUAL partnership also spread the word about microcredit through a series of community briefing sessions.

This was the first time that a financial institution has actually gone out to meet the residents of a socially excluded neighbourhood like San Cosme. *“It is amazing how people grow in confidence when they feel that they are being treated like serious clients of a financial institution and not just like someone looking for a hand-out,”* says Angel Font.

Using the information they collected, Un Sol Món adapted their products to the financial situation of the clients. The basic product they offered was a small, flexible loan from as little as €600 to a maximum of €15,000 (the average was €8,000) with a fixed 6% interest rate. The specific terms of the loan were tailored to the needs of each person by using ‘step-lending’ methods. Initially, loans were made in small amounts and for short periods, but could be increased in a series of progressive ‘steps’.

The foundation also started to experiment with ‘peer-lending’ methods where small groups of people take collective responsibility for a loan. However the lack of organisation and social capital in the area severely limited collective approaches.

No collateral was required. The only guarantee was the solidity of the business plan prepared in conjunction with the Pla d’Actuació de Sant Cosme, the EQUAL partner specialising in providing business support and guidance to disadvantaged groups. In fact, one of the main lessons of the project is that in these kinds of areas finance must be backed up with a sensitively designed package of mentoring and advice. For example, they found that traditional business plans were too complex for people in such difficult and diverse situations.

SIMPLIFIED SYSTEMS

The business adviser at Pla d’Actuació de Sant Cosme comments that the people who came to them for information were in such vulnerable position that *“they could not wait around for months to prepare a business plan.”* He reports that *many entrepreneurs who were interested in self-employment got discouraged when asked to investigate suppliers, or to compare their prices with their competitors’.* *“We had to simplify all procedures and requirements in order to adapt them to the most excluded communities. We focused on building skills through in-house training, while, at the same time, accompanying and helping the new business”.*

They developed a simplified form which allows them to collect and evaluate all the relevant financial information about the business idea. The partners argue that far more needs to be done to develop new business planning methodologies that are suitable for disadvantaged groups, and particularly those with one foot in the submerged economy.

Un Sol Món also developed a new programme of financial capacity building for their clients, to help them stick to the ‘steps’ associated with the loans and to use the finance as an investment rather than just a one-off hand out. Before receiving the microcredit, one-third of entrepreneurs from Sant Cosme were previously on social security or receiving some form of public subsidy. The microcredit helped them to escape this dependency on public money. Now they survive from their own business. For example, until she received a microloan, Rosario had relied on social security to support her family. Now her travelling sales business is doing sufficiently well for her to employ her husband.

Nevertheless, despite the improvements in financial engineering and support, Un Sol Món found that many businesses were still too vulnerable to take the leap into the formal economy. As the result of their EQUAL experience, the local authority of Sant Cosme and Fundació Un Sol Món made a series of recommendations for simplifying the administrative procedures involved in becoming self-employed, and allowing people to pay the cost of setting up a business in stages. They argue that finance and business services also need to be backed with more progressive tax regimes that smooth the transition from the informal to the formal economy. Unemployment benefit should be extended to cover the early stages of starting a business, and changes in the legal situation of migrant worker are also called for.

EVEN MICROFINANCE NEEDS A PROFESSIONAL APPROACH

The Sant Cosme Innova partnership is made of a local authority (El Prat de Llobregat), two trade unions, an NGO specialised in providing employment advice to disadvantaged people (FIAS), a major social housing agency (ADIGSA) and a large financial institution (Fundació Un Sol Món). This division of labour between the partners of the project provides a model for microfinance initiatives in both Spain and Europe.

Fundació Un Sol Món was set up in 2000 by the social work department of the Caixa de Catalunya, as a way of returning to the original spirit of savings banks, which was to serve the most underprivileged and excluded communities. It provides the partnership's specialised financial expertise. Its staff argue that it is very important to run a microcredit operation as a professional financial concern and not as a charity, and insist that it can become viable in operational terms even with socially excluded clients.

FIAS contributes the expertise in the mentoring required to support disadvantaged groups along the path to self-employment. This kind of support is more labour intensive and more expensive with excluded groups and tends to require permanent subsidy. Nevertheless the support tends to be far less expensive than unemployment benefit.

The local authority of Prat de Llobregat is responsible for the overall development of the neighbourhood and provides the public legitimacy for accessing the Structural Funds required to set up the microcredit fund. In its eyes, one of the main conclusions of the EQUAL project is that *"to reach the most excluded members of society, it is necessary to gain the support of the community organisations that represent them"*.

The EQUAL partnership method has been the ideal tool for bringing in the skills needed to create packages that combine financial and business support. The partnership has also been useful for bringing financial institutions closer to disadvantaged clients through joint work with social services and other frontline support workers.

DP name: Sant Cosme Innova

DP ID: [ES-ES567](#)

National Partners: Ayuntamiento El Prat de Llobregat, Fundación Un Sol Món, Fundación FIAS, ADIGSA, Generalitat de Catalunya, UGT del Baix Llobregat, Union Comarcal Baix Llobregat del Sindicato CONC

Transnational Partnership: TCA 927 Echange d'expérience: création d'entreprise dans les quartiers en difficulté – partner [FR-NAT-2001-10994](#) Appui aux activités génératrices de revenu dans les réseaux ethniques ou commun

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A short version of this "Success story" and other "Success stories" are available on the [EQUAL website](#)