

The right type of money

Sant Cosme in Barcelona faces challenges familiar to many old industrial neighbourhoods across Europe. Restructuring has dramatically cut the number of job opportunities for local people and unemployment stands at around 25%. Migrants make up nearly two-thirds of the population. Many local residents are forced to survive through a combination of social security payments and the informal economy.

The EQUAL project "Sant Cosme Innova" was set up to test a particular blend of microfinance and business support as a route out of social exclusion. A survey of local people without stable employment revealed that 80% of them were interested in self-employment, but that getting access to a loan to start a business was virtually impossible. Most people not only lacked the necessary collateral, but also the confidence and experience to put their case to the bank.

Understanding and supporting clients through partnership

The project partnership brought together a large financial institution – in this case Fundació Un Sol Món, part of the Caixa de Catalunya – with the local social services and other frontline support workers. A non-governmental organisation specialised in providing employment advice to disadvantaged people (Fundación FIAS) offered mentoring services, helping clients along the path to self-employment. This division of work between the partners of the project provided a model for microfinance initiatives.

The basic product offered by Un Sol Món 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 each person's needs 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".

No collateral was required. The only guarantee was the solidity of the business plan prepared in conjunction with Pla d'Actuació de Sant Cosme, the EQUAL partner specialised in providing business support and guidance to disadvantaged groups. They developed a simplified form to collect and evaluate all the relevant financial information about the business idea. 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.

Long-term commercial viability is crucial

The microcredit fund set up by Un Sol Món has now made around 600 loans with a total value of €6 million. An estimated 1 000 jobs have been created, predominantly benefiting women and ethnic minorities. And according to an impact evaluation among the clients, 80% of borrowers have become more prosperous and 70% consider that the microcredit has stabilised their business.

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.

Ninety per cent 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%. Even if a small proportion of the loans are not repaid, the vast majority of public and private investment returns to the fund and becomes available for further rounds of lending.

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.

New businesses need simplified procedures

The EQUAL project clearly helped to improve access to finance and support. But still many businesses are unable to take the leap into the formal economy. The local authority of Sant Cosme and Fundació Un Sol Món have



Microcredit from Un Sol Mol helped this new business start-ups in Sant Cosme

therefore recommended simpler administrative procedures for becoming self-employed, and mechanisms to allow 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.

These experiences reflect the statements presented in the EU's integrated guidelines for growth and jobs, whose guideline 10 urges improved access to finance for start-ups and existing SMEs.

"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 Isabel Paganobarraga, the fund manager. "EQUAL allowed us to test out more flexible methods suitable for extremely deprived neighbourhoods, groups such ethnic minorities and people in the informal economy. Since then we have applied many of these methods across the rest of the fund."

A more detailed version and other EQUAL success stories can be found at: http://europa.eu.int/comm/employment_social/equal/activities/search_en.cfm

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