Microfinance: an important tool to reach European Cohesion policy's objectives

Vittorio Tavagnutti*

Introduction

This paper departs from the recognition of the enormous potentialities microfinance has in the financial inclusion of disadvantaged stratus of the population, in job creation and support of microbusinesses and, therefore, in the reaching of the thematic objectives 8 and 9 of the Europe 2020 strategy. Accordingly, its aim is to shed further light on what European microfinance is (and its links with the European 2020 strategy) and further describe the funding opportunities available at the European Union level.

The paper will proceed in 3 chapters. In the first one the European Cohesion Policy (that in the present programming period is strongly linked with the Europe 2020 Strategy) will be presented. Moreover, the link between the European Regional Development Fund (ERDF), the European Social Fund (ESF) and thematic objectives 8 and 9 and the link between the latter and microfinance, will be described. The second chapter will be entirely devoted to the description of the European microfinance sector and the opportunities available under the European Structural and Investment (ESI) funds and those made available by the European Commission and European Investment Bank and managed centrally by the European Investment Fund (EIF). In the third chapter the general conclusions will be presented.

1. European Cohesion policy

Before addressing specifically the role of the European Structural and Investment (ESI) funds (that for the 2014-2020 programming period are composed by the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF), together with the European Agricultural Fund for Rural Development (EA-

* Vittorio Tavagnutti is a MA Student at the Università degli Studi di Padova, Italy, and Erasmus Student at the Babes-Bolyai University from Cluj-Napoca, Faculty of History and Philosophy, e-mail: vittorio.tavagnutti@studenti.unipd.it

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FRD) and the European Maritime and Fisheries Fund (EMFF)) and their role in combination with the funds managed by the European Commission and European Investment Fund in the support of microfinance in Europe, it is useful to briefly describe the broader context in which they operate, that is, the European Cohesion policy.

Despite the establishment of the ESF in 1958, initially designed to offset the loss of jobs in the traditional industries by retraining workers (Vladimír Špidla 2008:6) and despite the addition in 1975 of the European Regional Development Fund (ERDF), until 1988 there was no European regional policy. (Leonardi 2006, 157)

As stated by Wallace, "it required the twin stimulus of 'widening' (Greece, Spain, and Portugal), and 'deepening' (the Single European Act (SEA), and the single market programme) to create the pressures for a 'historic' deal to develop the structural funds further. (Wallace, Wallace, and Pollack 2005:218) In fact, at the Community level there were concerns regarding the potential negative outcomes the two aforementioned processes could have had. Namely, regarding specifically the second one, the main worries were related to the possible negative consequences of eliminating controls on the free flow of productive factors and the ability of national governments to manipulate both exchange and interest rates to compensate for internal market failures. (Leonardi 2006, 156-157) It is not a case then that in the SEA itself for the first time the objective of economic and social cohesion was linked with the idea of the reduction of regional disparities. (Wallace, Wallace, and Pollack 2005:218) Later on, in its Communication of 15 February 1987 entitled 'Making a success of the Single Act: a new frontier for Europe', later referred to as the 'Delors I Package', the Commission proposed a new interinstitutional agreement under which Parliament, Council and Commission would agree on a multi-annual financial perspective and budgetary priorities. (Raphaël Goulet 2008:8) Moreover, the Delors-1 package led to a doubling of the structural funds so that by 1992 they would account for 25 per cent of the EU budget. (Wallace, Wallace, and Pollack 2005:218) In the light of the conclusions of the Brussels European Council of 11 and 12 February 1988, the three institutions concluded the Interinstitutional Agreement on 29 June 1988 which established for the first time a five-year financial perspective, from 1988 to 1992 (Raphaël Goulet 2008:8), making it possible to concentrate on long-term objectives. Moreover, the 1988 marked the birth of the principle of partnership, (Vladimír Špidla 2008:6) cornerstone of today's Cohesion policy. The Maastricht treaty further enhanced the role of the structural funds, creating a new fund, the Cohesion Fund. It was specifically designed to encourage economic convergence among EU members through infrastructure investments and was made available to countries with an income below 90% of the EU average. (Maynou et al. 2014:4) In general, between 1988 and 1999 the structural funds underwent a significant expansion. (Wallace, Wallace, and Pollack 2005:218)

An important step forward in the development of the European Cohesion policy was the link with Lisbon agenda, an action plan devised in 2000 by the European Council with the specific purpose of making the EU "the most competitive and dynamic knowledge-driven economy by 2010". Already in the programming period 2000-2006, the Lisbon priorities were indicated as an important point of reference for development strategies, although there were no binding conditions. (Domorenok 2016:4) Despite this fact, however, in this programming period around 80% of the regions have taken these priorities into consideration when drafting their development programmes. (Domorenok 2016:4) The reference to the overall EU objective when drafting projects falling under the European Cohesion policy became then central in the programming period 2007-2013, with the operationalization of the earmarking mechanism. It required in fact 60% of expenditure under Convergence programmes and 75% under Regional Competitiveness & Employment (RCE) programmes to be allocated to certain categories of investment: innovation; the knowledge economy; information and communication technology; employment; human capital; entrepreneurship; small and medium-sized enterprise support; and access to risk capital. (Bachtler and Ferry 2015:1267) Therefore, one witnesses a radical change in the drafting and selection process. In fact, "contrary to the previous period, the so-called mainstream Objectives of cohesion policy are (no more) formulated according to the typology of structural problems that affect regions admissible for community aid under one or another Objective (lagging behind industrial or rural regions, etc), (but) the new definition of the Objectives (Convergence, Competitiveness and Jobs, Territorial cooperation) is thematic and the majority of admissible actions are based on the issues tackled by Growth and Jobs". (Domorenok 2016:4) In other words, in the 2007-2013 period, the scope of cohesion policy have been extended beyond its main objective (reducing the gap between the most and the least developed regions) to comprise actions fostering research and innovation, on the one hand, and social and economic cohesion, on the other, with a territorial coverage that is no more restricted to lagging behind regions. (Domorenok 2016:5)

The new rules on the European Structural and Investment Funds for 2014-20 were agreed in December 2013, providing for greater strategic realignment of Cohesion policy with the Europe 2020 strategy, a more integrated approach to programming and a stronger performance orientation. (Carlos Mendez and John Bachtler 2015:1) In order to contribute to the strategy, in the REGULATION (EU) No 1303/2013[1] the European Parliament and the Council selected 11 thematic objectives that shall be supported by the ESI funds (these broad objectives were then translated into priorities that are specific to each of the ESI Funds and are set out in the Fund specific rules) . These are:

1 Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0320:0469:en:PDF

- strengthening research, technological development and innovation;
- enhancing access to, and use and quality of, ICT;
- enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF);
- supporting the shift towards a low-carbon economy in all sectors;
- promoting climate change adaptation, risk prevention and management;
- preserving and protecting the environment and promoting resource efficiency;
- promoting sustainable transport and removing bottlenecks in key network
- infrastructures;
- promoting sustainable and quality employment and supporting labour mobility;
- promoting social inclusion, combating poverty and any discrimination;
- investing in education, training and vocational training for skills and lifelong learning;
- enhancing institutional capacity of public authorities and stakeholders and efficient public administration.
- This list makes it evident how the Cohesion policy definitely moved beyond its original function of "shock absorber" to encompass a larger set of additional functions.

This paper will focus on financial instruments co-financed bu ESI funds and those manage by the EIF related to the disbursement of microfinance services, set up to tackle mainly the objectives 8 and 9.

Before moving on with the section uniquely devoted to microfinance it is useful to present the relationships the ESF and the ERDF, the only funds among the ESI fund to provide financing to microfinance projects have with the relevant thematic objectives.

1.1 ESI funds and thematic objectives

In relation to thematic objective 8, that follows the Europe 2020 strategy's aim to reach the target of 75% of 20-64 year old in employment by 2020, as underlined by the European Commission, ESF it is the European Union's main tool for helping people get a job (or a better job), integrating disadvantaged people into society and ensuring fairer life opportunities for all. (European Commission 2014a:2) More in detail, as outlined in the in Article 3(a) of the ESF Regulation (1304/2013)[2], the ESF will promote employment and support labour mobility through the support of activities regarding: (i) access to employment for job-seekers and inactive people, including local employment initiatives

2 Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0470:0486:EN:PDF

and support for labour mobility; (ii) sustainable integration of young people not in employment, education or training into the labour market; (iii) self-employment, entrepreneurship and business creation; (iv)equality between men and women and reconciliation between work and private life; (v)adaptation of workers, enterprises and entrepreneurs to change; (vi) active and healthy ageing; (vii) modernisation and strengthening of labour market institutions, including actions to enhance transnational labour mobility.

Employment policies include, in addition to the ESF measures, investments to ensure that enterprises can create the jobs which are needed. These investments fall within the scope of the ERDF. (European Commission 2014a:5) As presented in Article 5(8), of the ERDF regulation (1301/2013)[3], the fund's investment priorities comprise: a) supporting the development of business incubators and investment support for self-employment, microenterprises and business creation; (b) supporting employment-friendly growth through the development of endogenous potential as part of a territorial strategy for specific areas, including the conversion of declining industrial regions and enhancement of accessibility to, and development of, specific natural and cultural resources; (c) supporting local development initiatives and aid for structures providing neighbourhood services to create jobs, where such actions are outside the scope of Regulation (EU) No 1304/2013 of the European Parliament and of the Council (1); (d) investing in infrastructure for employment services.

The ESI funds' contribution under thematic objective 9, that is, "promoting social inclusion, combating poverty and any discrimination", is meant instead to contribute to the achievement of the target set within the Europe 2020 Strategy that aims to lift at least 20 million people out of the risk of poverty. (European Commission 2014b:3) Following the Article 3(b) of the ESF regulation the fund supports the following investment priorities: (i) Active inclusion, including with a view to promoting equal opportunities and active participation, and improving employability; L 347/474 Official Journal of the European Union 20.12.2013 EN (ii) Socio-economic integration of marginalised communities such as the Roma; (iii) Combating all forms of discrimination and promoting equal opportunities; (iv) Enhancing access to affordable, sustainable and high-quality services, including health care and social services of general interest; (v) Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment; (vi) Community-led local development strategies. The ERDF, as stated in Article 5(9) of its regulation, will contribute to the realization of the thematic objective 9 through: (a) investing in health and social infrastructure which contribute to national, regional and local development, reducing inequalities in terms of health status, promoting social inclusion through improved ac-

3 Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0289:0302:EN:PDF

cess to social, cultural and recreational services and the transition from institutional to community based services (b) support for physical, economic and social regeneration of deprived communities in urban and rural areas (c) support for social enterprises.

1.2 Microfinance and thematic objectives

Before stating why microfinance in Europe is important in the achievement of the objectives 8 and 9, it is essential to define what European microfinance is and what in general microfinance aims at.

Microfinance (through the provision of microloans without collateral, insurance, savings and technical assistance services) is specifically directed towards micro entrepreneurs and disadvantaged people who wish to enter into self-employment or to individuals that have personal consumption's needs but face obstacles in accessing traditional banking services due to banks' lending conditions. In other words, the primary target of microfinance institutions (MFIs) are those people that suffer of financial exclusion, defined as the "process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society which they belong" (SWECO, University of Strathclyde – EPRC, et al. 2016a:25)

Moving to the European context, it is important to specify that the EU definition of "microcredit" is twofold: "a business microcredit is a loan under EUR 25 000 to support the development of self-employment and microenterprises (that is, enterprises employing less than 10 people, Ed.); a personal microcredit is a loan under EUR 25 000 for personal necessities such as rent, medical emergencies, or education." (SWECO, University of Strathclyde – EPRC, et al. 2016b:3) While microenterprise lending targets nearly bankable clients (new and existing enterprises) with loan amounts at the upper end of the €25,000 limit, inclusion lending is intended for "unbankable clients", persons who are likely to remain excluded from the banking system in the medium to long term (Brigitte Maas and Stefanie Lämmermann 2013:8), due to bank's lending conditions.

But which are the main causes that led to the exclusion from the financial market of a section of the European population? First of all, the high transaction costs of managing small loans and low profit margins make commercial banks reluctant to lend small amounts. (Brigitte Maas and Stefanie Lämmermann 2013:7) Moreover, in general banks also perceive lending small loans to self-employed persons and micro-entrepreneurs as too risky. Furthermore, people from disadvantaged groups often have neither a business track record nor any collateral. (Brigitte Maas and Stefanie Lämmermann 2013:7)

In general, lack of information regarding the borrower leads to two forms of information asymmetries that could hinder people's opportunity to access financial services. The first one is adverse selection that appears when banks cannot determine whether the borrower's project is low or high risk or whether one borrower is riskier than others. (Unterberg et al. 2014:7) The second one is moral hazard, caused by the financial institution's difficulty in observing whether the customers are making the full effort for a successful investment of the loan amount or engaging in risky behaviour which increases the risk of default. (Unterberg et al. 2014:7) In addition, sometimes the applicant's lack of awareness of their own legal status, financial condition, requirements or financial possibilities for their enterprise, might undermine from the start the individual's integration in the financial system. (SWECO et al. 2016a:28) In some cases there are skill barriers as well. For instance, members of some target social groups (such as low-educated or migrants) may be unfamiliar with business finance concepts that are key to understanding the risks and opportunities associated with a business (SWECO et al. 2016a:28) and therefore essential in order to draft a convincing business proposal. Furthermore, in particular for migrants and ethnic minorities, there can be cultural language and social barriers undermining the development of a close and confident relationship with financial intermediaries. (SWECO et al. 2016a:28)

The financial crisis and the consequent economic recession have then made debt financing even more expensive and difficult to obtain. (Brigitte Maas and Stefanie Lämmermann 2013:7) They have then harmed poorly educated persons more than the well-educated, at the same time threatening the governments' capacity to invest in education and skills enhancement. (SWECO et al. 2016a:9)

It is not a case then that the share of enterprises which perceive access to finance as their most pressing problem is larger among microenterprises than among other SMEs. (Unterberg et al. 2014:8) For these potential microfinance clients it is especially difficult to obtain capital during times of recession. This is even more significant in the case of vulnerable groups such as ethnic minorities or female entrepreneurs. (Unterberg et al. 2014:8)

In conclusion, looking at the aforementioned obstacles faced by individuals and microenterprises and taking into consideration the fact that micro enterprises are reported to make 91% of all business in EU-27 and that 99% of all start-ups falling into the SME category, a third of these are established by unemployed individuals (Baldi, Sadovskis, and Sipilova 2014:4) it is evident how microfinance is central in the European context in order to promote sustainable and quality employment (Objective 8) and to promote social inclusion, combat poverty and any discrimination (Objective 9).

2. The micro-finance sector in the European context

Regarding the lenders, the 2012-2013 European Micro-finance Network's (EMN) survey reveals that among the surveyed institutions[4]4 there is still an high level of diversity. Namely, as stated in the survey, "Non-Governmental Organizations (NGOs) or foundations, non-bank financial institutions (NBFIs), governmental bodies, savings and commercial banks, credit unions, cooperatives, Community Development Financial Institutions (CDFIs), microfinance associations, and religious institutions are active in microcredit provision in Europe and are represented among the MFIs surveyed". (Mirko Bendig, Benjamin Sarpong, and Michael Unterberg 2014:10) It is then further highlighted the fact that among the most common institutional types are nonbank financial institutions and NGOs or foundations, even if a report drafted by the "European Banking Federation's Working Group of experts in the financing of Small and Medium-sized Enterprises" stresses how private banks are still among the main providers of microfinance within the European Union, supplying microfinance services both independently for their own account, and in partnership with other providers, such as public bodies, notably the European Investment Bank (EIB), and specialized Microfinance Institutions (MFIs).[5] (Guido Ravoet (Ed.) 2010:3)

Data from the 2012-2013 survey show the importance of microfinance in the promotion of microenterprises and creation of new jobs that are respectively, with 67% and 58% response rate, the first and the second widespread missions of European MFIs. (Mirko Bendig, Benjamin Sarpong, and Michael Unterberg 2014:37) This is also reflected in the composition of microloans disboursed: in 2013 in fact, 79% of the total value of microloans was issued for business purpose and 21% for personal consumption purpose. (Mirko Bendig, Benjamin Sarpong, and Michael Unterberg 2014:9) This resulted in the same year in the support by the surveyed organizations of a minimum of 121,270 microenterprises and start-ups resulting in an approximate impact of at least 250,000 jobs throughout Europe. (Mirko Bendig, Benjamin Sarpong, and Michael Unterberg 2014:10) As to the amount of money lent, MFIs from the 24 countries covered by the survey disbursed a total of 387,812 microloans with a total volume of 1.53 billion EUR in 2013. (Mirko Bendig, Benjamin Sarpong, and Michael Unterberg 2014:19) It is then possible to note a huge variety also in relation to the potential funding sources the MFIs have. For a long time the provision of funding for European MFIs had been confined to public

4 MFIs from 24 countries took part to the survey. In total, 150 out of 447 MFIs that were contacted1 provided data to the survey, translating to an overall response rate of 34%.

5 The in-depth analysis of the interactions among micro-finance services providers would go beyond the scope of this paper. If interested look at the works of Sérgio Lagoa and Abdul Suleman, Anastasia Cozarenco, Aaron N. Mehrotra and James Yetman

actors, namely governments in the form of Development Finance Institutions (DFIs), public programs with a local development agenda, administration departments or public agencies with the goal to support employment or entrepreneurship. (Unterberg et al. 2014:26) Nowadays, in addition to the already mentioned partnerships among MFIs and private banks (that is, direct funding or savings collection by private banks and provision of BDS services), one can notice the growing importance of the EU-based funding in microfinance. It can be delivered in two ways. Some of these offers are backed by resources of the European Commission (and EIB, Ed.) and are managed centrally by EIF as managing organization. (Unterberg et al. 2014:29) Others are only available at national/regional level backed by nationally/regionally co-financed EU Structural Funds resources (ERDF or ESF) and managed by Managing Authorities (national/regional authorities responsible for the implementation of Structural Funds) (Unterberg et al. 2014:29)

2.1 ESI funds and micro-finance

As stated in chapter 1, the "European Structural and Investment Funds" or "ESI Funds" is a common designation for five European funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), which operate under a common framework (i.e. the CPR) as well as under fund-specific regulations, valid specifically for the single funds. ESI Funds are some EUR 450 billion of EU funding over the 2014-2020 programming period, allocated to Member States and delivered through nationally co-financed multiannual programmes to develop and support actions related to the key Union priorities of smart, sustainable and inclusive growth in line with the objectives of each Fund. (European Commission 2016:8)

As a matter of fact, structural Funds schemes play a growing role to directly finance microcredit provider on the national or regional level in different countries. The funding offered is loan capital in most cases to be used instead of debt finance to refinance loan portfolios. (Unterberg et al. 2014:62) The funds involved are the ESF and the ERDF. While the latter is primarily used for support to enterprises (mainly SMEs), urban development and regeneration, energy efficiency and the use of renewable energy in buildings, the former is used to support self-employment, business start-ups and micro-enterprises. (Brigitte Maas and Stefanie Lämmermann 2013:29) This development is a consequence of the growing popularity in the use of Financial Engineering Instruments (mainly loans, loans guarantees and equity) in the implementation of EU cohesion policy (Kalvet, Vanags, and Maniokas 2012:6), due to their double advantage of having revolving character, as resources can be used over and over again, and of making projects more sustainable and efficient by moving them away from their dependency on grants. (Lopriore and Pati 2012:44) The European Commission then underlines how financial instruments create a multiplier effect (higher for the loans guaranties than for loans and equities), since additional resources come to the funds from national and regional budgets or from banks and other investors. (European Commission 2012:3-4)

Financial instruments co-funded by the ESF were first introduced under Cohesion Policy in the 2000-2006 programming period in the framework of the Community Initiative EQUAL. (Unterberg et al. 2014:29) Then, in the funding period of 2007-2013, and specifically after the Commission's communication 'A European Initiative for the development of microcredit in support of growth and employment' were developed several dedicated national and regional microcredit schemes or funds financed by structural funds. Referring to the initiative funded by the ESI funds, the introduction of JEREMIE in 2007, which facilitated the use of ERDF funds to promote the use of financial engineering instruments and improve access to finance for SMEs, generally boosted the inflow of EU structural funds into the European micro-finance sector. (Unterberg et al. 2014:62) In the present programming period, ESI funded schemes can take the form of direct funding for microfinance like in the case of Germany where a national guarantee fund was set up ("Deutscher Mikrokreditfonds") or programmes that fund support services for the clients of microfinance, e.g. coaching or business development services (BDS). (Unterberg et al. 2014:29)

Before going on with the analysis of the programmes centrally managed by the EC and EIF, it is useful to briefly describe the process that goes from the funds allocation at the European level to the implementation at the local one.

Firstly, at the Member States' level, selected managing authorities are asked to hand in, in April of each year, their National Reform Programmes (NRPs), the National Strategic Reference Frameworks (NSRFs) and the related operational programmes (Ops), in which Member States propose possible project in order to translate at the national level the targets and policy priorities established at the European level (Brigitte Maas and Stefanie Lämmermann 2013:29), that in the current programming period correspond to the Europe 2020 strategy's ones. ESI Funds programmes proposed by EU countries are then approved (or rejected) by the Commission and subsequently implemented by Member States and their regions under shared management. (European Commission 2016:8) It is therefore the ultimate decision of managing authorities in Member States where and how funds are invested at project level within the framework of the relevant programme setting out the specific objectives, results to be achieved and types of action to deliver

them. (European Commission 2016:8) At the sub-national level, after their selection, the Managing Authorities need to conclude funding agreements with the financial intermediary or microcredit provider (Brigitte Maas and Stefanie Lämmermann 2013:39), that, as highlighted by the EMN survey, can be either banks including commercial banks, cooperative banks, and saving banks, or non-bank intermediaries such as NGOs, religious foundations, social equity funds, specialised microfinance intermediaries, and government bodies. However, since these instruments require specialist management teams, there is a widespread use of holding funds as intermediaries between Managing Authorities and financial intermediaries. (Kalvet, Vanags, and Maniokas 2012:6) In other words, a usual management structure envisages the selection by a Managing Authority of holding fund manager, that is responsible for launching a 'call of interest' looking for possible financial intermediaries who will then reach beneficiaries on the ground. (Lopriore and Pati 2012:44) In this case, therefore, is the the fund operator that selects and signs funding agreements with the national/regional financial intermediaries and that then makes a contribution of resources to them. (Brigitte Maas and Stefanie Lämmermann 2013:40)

2.2 Programmes centrally managed by the EIF

Outside the ESI funds framework, one can note the creation by the European Commission, jointly with the European Investment Bank, of programmes such as 'Jasmine' to support microfinance institution, the European Progress Microfinance Facility for employment and social inclusion (2010) which provides resources to increase access to, and availability of microfinance – facility now included in the programme for Employment and Social Innovation (EaSI). (Georges Gloukoviezoff 2016:6)

The EC-sponsored overview of the micro-finance sector in the EU (data valid until 2012) shows that in most EU countries centrally managed EU- funding offers only play a minor role in funding MFIs. The share of EU-funding is especially low in Scandinavia where no funding deal with centrally managed EU-resources was realised between 2010 and 2012 and UK /Ireland where only one guarantee deal was reported. In Western Europe the percentage of estimated total funding was 2% while in the more mature micro-finance sectors in Eastern Europe was 4%. In Southern Europe even if the use of centrally managed EU- funding is rising, the percentage is still 3%. (Unterberg et al. 2014:30) It does not mean however, that the role of the centrally managed funds in the microfinance sector is negligible. As highlighted in the same overview (and as it will be shown below), centrally managed EU-backed funding offers can have a central role in the attraction of additional funding from public and private sources into the sector. Especially the integration with EU Structural Funds based funding schemes at the national or regional level can help to mobilise much of the needed funding for microcredit providers throughout Europe. (Unterberg et al. 2014:34)

2.2.1 Jasmine

Jasmine was a programme developed in 2008 by the EC's Directorate General for regional and Urban Policy (DG REGIO) (but managed by the EIF) in response to the great demand for funding to access direct Technical Assistance (TA) support and capacity building among Western as well as Eastern European MFIs. (Unterberg et al. 2014:25) The programme sought to help non-bank microfinance institutions in scaling up their operations and maximizing the impact of microfinance products on microenterprise development and unemployment reduction within the EU through:

- Assessment exercises, which targeted younger and emerging institutions wishing to improve their institutional strength, attract donor funding and enhance their social impact;
- Rating exercises for risk and social impact, which targeted mature micro-credit providers wishing to enhance visibility and obtain new financing; and
- Training courses and consulting to build the capacity of staff or management at financial intermediaries, particularly in the areas of risk management, strategic planning, governance, and management information systems. (Kristin Lang, et al. 2015:5)

These three activities are tightly interlocked and do not have to be conceived separately but as part of a single process. As explained by the EC, the technical assistance to MFIs takes the form of an assessment by a specialized rating agency (that analyses the internal procedures for decision-making and day-to-day management and how the micro-credit provider manages risks) and subsequent training in areas where improvement is needed. (European Commission and Directorate-General for Regional Policy 2010:6-7) In the framework of Jasmine was then developed the European code of good conduct, with the objective of setting out good practice guidelines that will better enable the sector to face the challenges of accessing long-term finance, benefiting funders, investors, customers, owners, regulators and partner organisations. ("JASMINE – European Code of Good Conduct for Microcredit Provision" 2016) In the present programming period it is compulsory to follow it in order to receive European funding. (Dr Pål Vik 2016)

Given the positive impact of JASMINE on the sector, recognized also by the EC in its report *Evaluation of JASMINE Technical assistance: pilot phase*[6], the programmme has been extended in the framework of the 2014-2020 programming period. It was in fact integrated under the fi-compass advisory platform, designed to support managing authorities under the European Structural and Investment Funds (ESIF) and microfinance providers under EaSI. ("JASMINE" 2016) However JASMINE was also the subject of criticism by some MFIs that benefited from its services. For instance, some Western European MFIs reported a lack of consultants experienced in Western European micro-finance operations, while some stated that JASMINE and the implementation of the Code of Good Conduct requires a proper social performance measurement system, but does not offer the funding to finance it. More in general it was underlined how the capacity building measures like JASMINE should be linked to suitable funding to implement the ideas and strategies developed with the consultants. (Unterberg et al. 2014:25)

2.2.2 PROGRESS Microfinance Facility

In March 2010, as a response to the economic crisis (Unterberg et al. 2014:35), the EC's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) established a dedicated Microfinance Facility for employment and social inclusion in the framework of the Progress programme (already active from 2007). It is funded by the Commission and the EIB. The first one contributed with EUR 100 million, of which EUR 25 million have been allocated to the guarantee window. (Karin Attström et al. 2014:11) Under this window the EIF can issue portfolio guarantees to microcredit providers to cover their portfolio losses. The Commission further guaranteed the coverage for eventual losses of EUR 80 million, favouring the attraction of the EIB's money (Riccardo Aguglia 2016), that contributed with another EUR 100 million to be allocated just to funded instruments. (Karin Attström et al. 2014:9) The Project Signing Period of the facility, managed by the EIF, will end at the 7th of April 2016. The remaining funds will then be paid back to the Commission that in turn will use them for the new facility that is planned under the Programme for Employment and Social Innovation (EaSI). (Unterberg et al. 2014:35)

As stated in Art. 2 of Decision 283/2010/EU, the aims of Progress MF are twofold:

6 Precisely, in the overall findings, the EC highlighted how "overall JASMINE Technical Assistance Pilot Phase has met its objective of contributing to the development of the European microcredit sector by: Improving the productivity, professionalism and efficiency of beneficiary institutions; Promoting good governance within the sector; Enhancing its transparency; Developing and promoting industry standards such as the European Code of Good Conduct" (European Commission et al. 2014:iv)

> the first objective is to make microfinance more readily available to persons who wish to become self-employed, start-up a microenterprise or develop existing microenterprises further and that have lost or at risk of losing their job, are facing the threat of social exclusion, are vulnerable persons in a disadvantaged position with regard to access to the conventional credit market, or that have difficulties re-entering the labour market (Karin Attström et al. 2014:8), by enabling microcredit providers in the EU to increase their lending activities. (Unterberg et al. 2014:35)

The other objective is to improve the access to microfinance, mainly by reducing the risk borne by the microcredit providers, so that they can lend to groups who would normally not qualify for financing, because they could not put up sufficient collateral or because the interest rates would have to be very high if they were to reflect the real credit risk. (Karin Attström et al. 2014:8)

Analysing in depth the instruments available under the facility, the maximum guarantee rate covered by the guarantee instrument is 75 % of the underlying microcredit or guarantee portfolio and the intermediary is to remain liable for at least 20 % of the portfolio. (Karin Attström et al. 2014:11) Generally, the guarantee issued by the EIF covers the first loss, but a cap is also agreed for each guaranteed portfolio. In this case, the maximum liability for the European Progress Microfinance Facility is set at 20 % of each guaranteed portfolio. (Karin Attström et al. 2014:11)

In the 2007-2020 programming period guarantees loans UNDER EUR 25,000 for microenterprises were also available under the SMEG of CIP (Unterberg et al. 2014:40), now EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME). Under COSME there will not be any guarantee scheme specifically addressing microenterprises, even if they will remain potential target, since its main target are loans under EUR 150,000. (Unterberg et al. 2014:41)

Moreover, there are 4 types of funded instruments available under PROGRESS MF: the senior loan, the subordinated loan, the risk-sharing loan and the equity participation. The Senior Loan instrument can be used by MFIs as an alternative to existing debt offers in the market. (Unterberg et al. 2014:48) Used for refinancing loan capital (Unterberg et al. 2014:48), it is generally in the range of 5-7 years, depending on the intermediaries' debt servicing capacity. (European Investment Fund, n.d.) Subordinated loans are used typically to enhancing the intermediaries' capital structure. (European Investment Fund, n.d.) As to the risk-sharing loan, a Senior Loan is combined with a risk participation of the facility in the micro credits provided by intermediaries, (Unterberg et al. 2014:48) making it particularly useful for MFIs with a strong social focus. (Unterberg et al. 2014:53)

As of the end of 2014, the EIF has signed under Progress Microfinance EUR 174.2 m in loans and EUR 25 m in guarantees (Kristin Lang, et al. 2015:ii), facilitating the access to and availability of micro-finance for microenterprises. (Kristin Lang, et al. 2015:23) In total (until February 2016) it reached 43 000 borrowers: 45% were unemployed when reached and 69 % were start-ups. (Stefan De Keersmaecker 2016) Moreover, according to the 2014 report *Interim evaluation of the European PROGRESS Microfinance Facility*, 17% of the borrowers surveyed had previously been unable to obtain a conventional loan from a bank, 68% said that they were applying for a loan for the first time (Karin Attström et al. 2014:51), and another 56% assumed that it would have been impossible for them to obtain a loan on similar terms elsewhere. In addition, 43% of those surveyed reported income below the corresponding national poverty threshold (Karin Attström et al. 2014:51) – a significantly higher proportion than the EU average of 18.2% ("REPORT on Implementation of the European Progress Microfinance Facility - A8-0331/2015" 2016), while 17% described themselves as materially deprived – which is almost twice the average for the EU population. ("REPORT on Implementation of the European Progress Microfinance Facility - A8-0331/2015" 2016) However, as further stated in the report, "evidence suggests that Progress Microfinance did not induce microfinance providers to target groups which they were not already targeting before the Progress Microfinance support". (Karin Attström et al. 2014:53) However, there are some cases in which the EIF helped the outreach of new segments. For instance, Adie's Propulsion, which drew on Progress MF's Senior Loan product in order to offer microcredits between EUR 6,000 and EUR 10,000, enabled Adie to reach out segments that were not completely covered by their previous offering. (Karin Attström et al. 2014:9)

The EIF has also played a direct role in kick-starting the operations of some financial intermediaries (Kristin Lang, et al. 2015:23), lending them credibility. (Kristin Lang, et al. 2015:9) As shown by the interim report in fact, as a consequence of the aforementioned leverage effect, Progress Microfinance was also found to help microcredit providers (such as Mikrofond, Qredits, Patria Credit, FAER and ADIE) get access to additional funding. (Karin Attström et al. 2014:67) As a consequence, as further revealed by the report, "financial intermediaries often apply for EIF products and services in order to open financing doors, receive a stamp of quality and attain increased visibility". (Kristin Lang, et al. 2015:9)

Finally, it is possible to find some complementarity between Progress MF and ESI funds. Namely, in Poland, several financial intermediaries have offered ERDF-backed loans (under Jeremie) along with microfinance products supported by

Progress MF. (Kristin Lang, et al. 2015:25) Moreover, the report *Interim evaluation of the European PROGRESS Microfinance Facility Evidence of this study,* suggests that - apart from ESF-programmes in Poland and Romania providing microfinance - ESF support complementary to Progress Microfinance mainly pertains to training and business development services. (Karin Attström et al. 2014:78) However, the report further reveals how, as a consequence of the difficulties encountered by the financial intermediaries in establishing collaboration and of the lack of information on ESF funding, the potential synergies between the ESF and Progress MF microloans were not fully exploited. (Karin Attström et al. 2014:79) It is therefore suggested the need for a stronger strategic approach in the Member States to coordinate Progress Microfinance and ESF support activities. For instance, it is here proposed to outline the principles of complementarity of ESF and Progress Microfinance already in the OPs. (Karin Attström et al. 2014:79)

2.2.3 Programme for Employment and Social Innovation (EaSI)

As mentioned above, the successor of Progress MF is the EU Programme for Employment and Social Innovation (EaSI). Developed by DG EMPL, it will underpin the implementation of the Europe 2020 Strategy in the field of employment, social affairs and inclusion, supplementing the ESF. (European Commission 2014c:3) Namely, as stated by the EC, "EaSI's priority activities in 2014-20 will help the Member States to modernise their labour markets and social security systems and increase their rates of employment, in particular among young people. Other important tasks will involve supporting job creation, promoting a highly skilled workforce, encouraging adaptation to change and the anticipation of restructuring, enhancing geographical mobility and promoting social innovation". (European Commission 2014c:3)

EaSI builds on the microfinance support provided under Progress MF and Jasmine and goes beyond the previous mandates by providing funding up to EUR 500,000 to develop and expand social enterprises (therefore, it will deliver services also outside the microfinance realm) and funding for capacity building in financial intermediaries, in the form of Jasmine-type activities provided by the EIB under fi-compass's dedicated work stream, EaSI Technical Assistance (EaSI TA). (Kristin Lang, et al. 2015:5) More in detail, EaSI integrates and extends the coverage of three existing programmes managed separately between 2007 and 2013 (European Commission 2014c:7):

PROGRESS (Programme for Employment and Social Solidarity), which supported the development and coordination of EU policy for employment, social inclusion, social protection, working conditions, anti-discrimination and gender equality;

EURES (European Employment Services), a cooperation network between the European Commission and the Public Employment Services of the Member States that encourages mobility amongst workers;

PROGRESS Microfinance, which (as described in the previous section) aims to increase the availability of microcredit to individuals for setting up or developing a small business. Under EaSI it will be managed together with the social entrepreneurship window.

The overall budget of EaSI 2014-20 is EUR 919 m, 61% of the budget will be allocated to the first axes, 18% to the second and 21% to the third. (Unterberg et al. 2014:35) The EUR 193 m managed under the microfinance and social entrepreneurship (MF/SE) axes, funding will be evenly spread between microfinance and social entrepreneurship, with a minimum of 45 % going to each. Cross-cutting projects will account up to 10 %. (European Commission 2014c:19) Differently from Progress MF, 50 % of the funds will be devoted to guarantees services and 50 % is allocated to funded instruments (Riccardo Aguglia 2016), while EUR 9 m will be used to fund institutional capacity building (Unterberg et al. 2014:36) Moreover, the estimated leverage effect of the EaSI is 12 (Riccardo Aguglia 2016), sensitively higher than the Progress MF one, that was approximately 5. (Kristin Lang, et al. 2015:9)

Regarding the first axes, even if it is not specifically focused on micro-finance, the Commission communicated that around 8-9m EUR of this specific budget could be used to support microcredit providers, based on Article 16 (3b) of the proposed regulation of EaSI, which provides "support with regard to capacity-building of national administrations […] and microcredit providers;". (Unterberg et al. 2014:36) Therefore, as far as micro-finance is concerned, it will mainly support technical assistance with Jasmine-type activities (now instead managed, as stated before, by the fi-compass platform).

2.3 Beyond financial instruments: Business Development Services

The European Microfinance Network in its bi-annual survey shows that the great majority of microfinance providers in Europe do offer support services to their clients in addition to the financing. (Brigitte Maas and Stefanie Lämmermann 2013:52) In fact, in addition to the lack of funds, micro- and small entrepreneurs' business growth is frequently hindered by non-financial factors such as inadequate business management skills, lack of information and poor market access. (Stefanie Lämmermann and Gerrit Ribbink 2011:3) Moreover, administrative tasks common to all enterprises weight heavily on SMEs' balance, since they have limited resources. (Stefanie Lämmermann and Gerrit Ribbink

2011:3) The role of BDS is then particularly relevant within the European economic system, whose bureaucratic requirements and complex fiscal, regulatory and accounting systems could undermine the birth and survival of microenterprises and self-employment initiatives. (Costantini et al. 2016:127) Their role is even more essential in Western Europe, where there is a specific focus on the (re-)integration of excluded people that might lack entrepreneurial and management skills (Stefanie Lämmermann and Gerrit Ribbink 2011:14) In addition, BDS provision might be fundamental for people belonging to specific groups facing interlocking disadvantages, such as minority groups or women (in this case nonfinancial services may include also linguistic literacy, IT literacy, specific initiatives aimed at women's empowerment and the provision of essential goods). (Costantini et al. 2016:129) Therefore, it is possible to state that access to business development services (BDS) is a key aspect for the success of a microfinance project (Brigitte Maas and Stefanie Lämmermann 2013:52), contributing to the lower default rates it is possible to note in the microfinance sector in comerison to the commercial one. (Jorge Ramirez 2016)

The Committee of Donor Agencies for Small Enterprise Development in its "Guiding Principles for Donor Intervention on BDS for Small Enterprises" outlines two types of BDS, operational and strategic. While under operational services are labelled those services needed for day-to-day operations (information and communication, management of accounts and compliance with regulations), strategic services address medium and long-term issues related to a business' market access or competitiveness. (Stefanie Lämmermann, Elisabeth Zamorano, and Philippe Guichandut 2007:8) BDS services could be further divided into 3 clusters: client development, entrepreneurship development and business development Services. Client development services are those services aimed at raising awareness among clients of their basic business or (personal) financial situation. Generally aimed at preventing harmful situations, they are mainly directed to clients are in survival mode. (Stefanie Lämmermann and Gerrit Ribbink 2011:7) The purpose of entrepreneurship development services is instead helping individuals to start their own business and raising awareness on entrepreneurship as a career choice, plus basic business skills training. Clients seek to set up a business as a conscious choice, not so much out of necessity. (Stefanie Lämmermann and Gerrit Ribbink 2011:7) Thirdly, with business development services MFIs essay to support existing small businesses to improve their operations, with the services ranging from business advice to technical skills training and linking entrepreneurs to markets. (Stefanie Lämmermann and Gerrit Ribbink 2011:7) Moreover, Harper proposes the division of BDS in physical, social, natural and human. (Stefanie Lämmermann, Elisabeth Zamorano, and Philippe Guichandut 2007:8)

Far from being a fruitless listing exercise, the variety of possible classifications is in itself a testimony of the large spectrum of services commonly included in the BDS, consequence of the extremely differentiated needs the final beneficiaries have. One of the challenges faced by the European MFIs derives precisely from the extreme variety of services they should provide. Nowadays it is in fact very difficult for them to adapt to the needs of their clients, especially as new types of entrepreneur and new types of business are emerging. (Stefanie Lämmermann and Gerrit Ribbink 2011:3) This led a portion of the financial intermediaries (namely those that did not have the skills in themselves to provide the given service) to establish a partnership with another entity, giving birth to the so-called "linked model". (SWECO, University of Strathclyde – EPRC, t33, and infeurope 2016b:18) Among the European MFIs it is then possible to find two additional models: the parallel model, in which services are offered by the same organization but managed separately (in this case specialised staff has direct control over each service) and the unified model, where financial and business development services are included in a hybrid product provided by the same staff. (SWECO, University of Strathclyde – EPRC, t33, and infeurope 2016b:18)

Finally, it is important to underline that in general such support services are hardly sustainable. Therefore, financial intermediaries most often rely on the European Structural funds such as ESF and ERDF support. (Stefanie Lämmermann and Gerrit Ribbink 2011:14) Moreover,- many microfinance organisations in Europe have chosen to work with volunteer coaches.- (Brigitte Maas and Stefanie Lämmermann 2013:59) Furthermore, an emerging trend is the use- of internet as a tool for business support. (Brigitte Maas and Stefanie Lämmermann 2013:61) For instance, the online platform "MicroMentor" (www.micromentor.org), has matched more than 3,000 entrepreneurs and mentors with impressive results: more than 60% of the mentoring relationships contributed to both revenue and employment growth at less than 90% of the industry average cost of delivering these services. (Evans 2011:11) Social networks such as Twitter, Facebook and YouTube can, in addition, provide tools that can encourage collaboration, discussion and learning from entrepreneurs and aspiring entrepreneurs. (Evans 2011:13)

However, the provision of BDS alone is not sufficient for the success of a microfinance project. In fact, it is in general perceived the need to improve the regulatory framework dealing with microentrepreneurship and self-employment. For instance, the loss of state subsidies when a former unemployed sets up a business (as happens in some countries) could be a disincentive in the creation of new businesses. (Jorge Ramirez 2016) In doing so, since self-employment, entrepreneurship and microfinance are at the crossroads of several policy fields: employment policy (integration of the target groups into the labour market), social policy (for what the fight against exclusion of disadvantaged persons is concerned and economic policy (Brigitte Maas and Stefanie Lämmermann 2013:20), at the national level it is necessary a tight collaboration between ministries and departments. (Jorge Ramirez 2016)

That is why, as stated by Gloukoviezoff, "(microfinance) has a positive transformative impact for some clients but not for all. (…) (In fact), it is a tool in the toolbox to tackle poverty. It is neither the only one nor the best one, but it can be particularly effective." (Georges Gloukoviezoff 2016:26)

In conclusion, in addition to the financial support (provided by European, national or private institutions), the presence or absence of the aforementioned features, both at the microfinance provider and national levels, marks the difference between microfinance as a potentially useful from an useful tool to increase disadvantaged people's life conditions.

3. Conclusions

This article has sought to further our understanding regarding the links between microfinance and the achievement of the thematic objectives 8 and 9 of the European 2020 strategy that is underlying the European Cohesion policy for the programming period 2014-2020. Namely, it was stated its central role in the financial and labour inclusion of disadvantaged people and microenterprises, for whom is very hard to receive a loan from commercial banks.

Moreover, the financing opportunities available at the Union level for the microfinance operators were described. Specifically, it was firstly highlighted the growing role of the ESF and the ERDF in financing microfinance project, consequence of the growing popularity in the use of Financial Engineering Instruments in the implementation of EU cohesion policy (result of their double advantage of having revolving character and of making projects more sustainable and efficient by moving them away from their dependency on grants). Moreover, the paper further described the EIF-managed programmes (Jasmine and Progress MF, now under the EaSI and ficompass platforms) and highlighted the important role they have (together with ESI funds) in the direct financing of microfinance projects and most of all in the attraction of private funds, consequence of the credibility they are able to give to the microcredit operators that take advantage of their services.

Finally, it was stressed how microfinance can be a really helpful tool only if matched with business development services and only if national policies are drafted taking into consideration the multi-faceted nature of microfinance, that is at the crossroad of different policy fields (namely economy, employment and social policies).

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