EUROPEAN
MICROFINANCE
NETWORK

MICROFINANCE CENTRE

SUPPORTING MICRO-ENTREPRENEURS, SOCIAL ENTERPRISES AND VULNERABLE HOUSEHOLDS IN EUROPE FOR AN INCLUSIVE AND ENTREPRENEURIAL EUROPE

2024

Microfinance: for whom, what and how

Microfinance fills a market and societal gap consisting of people socially or financially excluded from traditional banking services. Microcredits aim at social impact rather than profit.

- **WHO: Micro and small entrepreneurs and vulnerable groups (women, youth, migrants and refugees, victims of natural disasters as a result of the climate crisis)** seeking finance to create their own business or to invest in revenue generating activities/purchase to reach employment and social inclusion.

- **WHAT**:

1) Microloans limited to € 50, 000 in Europe (with an average between € 5, 000 and € 10,000) as an investment in the creation of income generating activities.
2) Non-financial services (training, business development services, coaching and mentoring) to ensure the sustainability of every project.

- **HOW:**

1) Business microloans for the creation or expansion of income generating and job-creating activities or microenterprises.
2) Personal investment microcredits for mobility, green transition and educational purposes with the final objective of accompanying the borrower to (self) employment, social and financial inclusion.

Unlike traditional banking services, **microloans are always accompanied with non-financial services** (counselling, training and mentoring) which ensures the sustainability of the projects financed.

MARKET SIZE: 420 institutions in Europe who offer or facilitate the disbursement of microloans – **169 MFIs** supported **1.3 million active borrowers and a gross loan portfolio of € 5.3 billion in 2022.**

Average **Social Return on Investment (SROI)**: *each EUR 1 invested in microfinance institution yielded EUR 4.04 of benefits for society after two years of revenue - generating activity.*

FOR WHOM? Most vulnerable to reach social and financial inclusion through entrepreneurship and self-employment.

1) **micro-enterprises** (which represent between 90 to 95% of all SMEs in 2022)
2) **vulnerable households** (migrants, refugees, women and youth, victims of climate crisis). As a reminder, in 2022, 95.3 million people in the EU (i.e. 22% of the population) were at risk of poverty or social exclusion.

SUPPORT TO MICROFINANCE SINCE 2007

- **2007**: European Commission's communication on "A European initiative for the development of microcredit in support of growth and employment"
- **2007-2013**: JAMINE + Progress programme - first EU technical assistance programme for microfinance
- **2014-2021**: EU programme for Employment and Social innovation (EaSI) - provided EU financial instruments and grants for microfinance.
- **2021-2027**: InvestEU and the European Social Fund + programmes

WHY AND HOW TO GO FURTHER IN 2024-2029?

Obstacles & suggestions to financial and social inclusion in 2024

Funding gap for microfinance will reach 16.7 billion by 2027 – **35% of the sector would need > 10 million to pursue disbursing microloans.**

Increase the EU funding for social financial intermediaries (under InvestEU) disbursing financial and non-financial services (and appoint also dedicated implementing partners for social investments)*

Delivering Business Development Services (BDS) to microloans beneficiaries represents a high cost for MFIs

Develop **blending instruments, grants and subsidies** at the EU and national level to finance the deliverance of BDS

Heterogenous legal framework

Introduce **best practices** at the EU level to allow the development of microfinance in all countries to reach all micro entrepreneurs and vulnerable households

Financial green transition for micro/small entrepreneurs and vulnerable households

Provide **accessible financing solutions** (green microloans with support from EU Solidarity fund and Social Climate fund) to ensure affordability for vulnerable entrepreneurs and households. Ensure that MFIs have access to further financial instruments to develop own financial instruments and financial services

High interest costs for MFIs to provide microloans and nonfinancial services to microfinance clients leading to high interest rate for microloans beneficiary

Set up mechanisms to reduce the cost of fundings for MFIs with (1) **financial guarantees to commercial banks granting loans to MFIs** to decrease the interest rate charged and (2) ensuring that Loans and equity investments from public sources (e.g. EU fundings) should be priced according to the social objectives and social returns.

Lack of support to microfinance at the national level (Managing authorities) under ESF + share management funds

Reallocate ESF+ at the EU level to ensure part of the funding goes to social finance

*Survey report EMN-MFC 2023: Microfinance in Europe

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RECOMMENDATIONS TO THE NEXT EUROPEAN PARLIAMENT (2024-2029)

1.SUPPORT THE DEVELOPMENT OF FINANCIAL INSTRUMENTS AND FUNDING OPPORTUNITIES FOR THE MICROFINANCE AND SOCIAL FINANCE SECTORS TO SUPPORT (SELF)-EMPLOYMENT AND SOCIAL INCLUSION

The InvestEU program (2021-2027) was operationally launched in the first half of 2022 with a € 2.8 billion envelop attributed to the social investment and skills window (which covers microfinance and social enterprises). On the ground however, InvestEU did not materialise into a concrete increase of financial instruments for MFIs.

Foreseen to run out by the end of 2024, more funds were made available under the InvestEU envelope for the Microfinance and social entrepreneurship guarantee. However, with the programme running until 2027, we need to ensure that the guarantee remains available for microfinance institutions otherwise they won't be able to operate anymore, and they will have to stop distributing microloans to micro-entrepreneurs and vulnerable individuals who will have no other solutions to get funding to finance their projects.

Under the next Multi-annual Financial Framework, **we would recommend attributing a larger envelope to microfinance institutions and social finance providers and to make sure that the funds are actually directed to microfinance institutions and social finance providers** to develop financial instruments (financial guarantees, grants, subsidies...) that can support the distribution of microloans to micro-entrepreneurs and vulnerable groups.

To further support the development of microfinance tools and their impact on the target groups, further **grants and subsidies schemes should be developed to finance Business development services**.

2. SUPPORT THE GREEN TRANSITION OF MICRO-ENTREPRENEURS AND VULNERABLE GROUPS

The European Green Deal promised to leave no one behind but did not materialise into concrete financial solutions for micro-entrepreneurs and vulnerable groups who cannot afford expensive green technologies (solar panels, electric cars...). In fact, the green transition might turn into **a green exclusion for the most vulnerable groups**. On top of that, the increasing number of natural disaster victims have created an additional category of people who would need swift financial assistance to get back on their feet.

The microfinance and social finance sector can support the green transition and natural disaster relief for their target groups (vulnerable groups, micro-entrepreneurs and social economy enterprises) but for that, they need appropriate financial instruments to support:

a) Awareness raising campaigns and educate MFIs' staff about the benefit of green financial products

b) Develop green financial products that are appealing to the specific needs of micro (social) entrepreneurs and vulnerable groups with green loan products with preferential conditions (with a grant, low interest rates, grace period...).

c) Use funds from the EU Solidarity Fund and the Social Climate Fund to funds microloans instruments for green transition and natural disaster relief projects.
To cover the need for green microfinance over the next 5 years, the sector would need **700 million***.

3. ENSURE THE DEVELOPMENT OF NATIONAL AND REGIONAL SUPPORT SCHEMES UNDER ESF+

The European Social Fund + (ESF +), with a budget of € 99.3 billion for 2021-2027, was meant to support EU's employment, social, education and skills policies. ESF + is managed both by the European Commission and the Member States based on national or regional programmes negotiated for the 7 years period. National and regional policies centred through the development of microfinance tools remain however scarce in ESF + programmes.

To reach its full potential and contribute to the financial and social inclusion, member States should be further encouraged to develop microfinance tools under ESF + and the Commission to deliver centrally managed programmes.

4. ENCOURAGE EU SUPPORT TO MICROFINANCE AND THE DEVELOPMENTS OF BEST PRACTICES

In the European Union, microfinance is characterized by a patchwork of national legislative frameworks. The only EU level non-binding source of regulation for microfinance is the European Code of Good conduct.

Setting up a series of best practices to be applied at the national level would allow the development of the sector across the EU and in the countries where the legislation is either inexistent or restricting microfinance.

5. RENEW THE SMES AND SOCIAL ECONOMY INTERGROUPS AND THE WORKING GROUP ON ACCESS TO FINANCE FOR SMES

Micro entrepreneurs' and social economy participants' interests should be properly represented at the European level. The SMEs Intergroup and the Working group on access to finance for SMEs as well as Intergroup on the Social Economy should therefore be renewed under the next European Parliament mandate.

*Under the InvestEU Social investment and skills, the budget was set at 2.8 billion for 2021-2027. With one quarter of the MFF dedicated to climate and environment, we consider that one quarter of the InvestEU Social and skills window should also be dedicated to the green transition.