7 Designing effective microfinance schemes for inclusive entrepreneurship

Microfinance has grown rapidly as a tool to help entrepreneurs from under-represented and disadvantaged groups access start-up financing. The largest target client group of microfinance is women, followed by youth, seniors, the unemployed and immigrants. Estimates suggest that the global market is about EUR 124-137 billion and this is expected to more than double by 2027. However, the supply of microfinance has not been able to keep up with demand and annual unmet demand for microfinance is about EUR 14 billion. This chapter discusses how governments can address this gap. It also covers other debates in microfinance such as the extent to which digitalisation should be embraced and how microfinance can be used to support the green transition. The chapter provides policy advice that is illustrated with case study examples.

Key messages

- **Microfinance is an important tool for inclusive entrepreneurship because it provides access to start-up capital to people that cannot access mainstream financial markets**. It is typically offered by Microfinance institutions (MFIs) that are dedicated to serving specific target client groups, but it can also be offered by financial institutions, governments and other actors.
- **The development of microfinance has been rapid**. Worldwide, more than 130 million people have used microfinance for both business and personal reasons and the total loan portfolio will reach approximately EUR 124 billion in 2021. Microfinance markets are the most developed in developing countries. Combined, Africa, Latin America, South Asia, East Asia and the Pacific regions account for about 80% of the global market. In the European Union (EU), the sector has experienced significant growth in the last decade, with financial and technical support from the European Investment Bank (EIB) Group and the European Commission. This experience has shown that microfinance has promoted financial inclusion of the poor, supported their entrepreneurial ambitions and generated employment. The sector is less developed in North America where financial markets are tightly regulated and an abundance of alternative debt instruments are available to entrepreneurs.
- **Further, there is progressive consolidation of a micro-finance ecosystem in the EU**. This is supported by micro-finance networks that spread good practice in the provision of finance to people in vulnerable situations (European Code of Good Conduct for Micro-finance provision).
- **There is significant unmet demand for microfinance in many markets including in the EU**. Estimates suggest that there is currently a gap of about EUR 14 billion per year in the EU (excluding informal businesses).
- **The COVID-19 pandemic had a strong impact on both MFIs and their clients, which threatens to increase unmet demand in the market**. Many MFIs reported operational challenges during the pandemic, including difficulties disbursing funds since the containment measures (e.g. lockdowns, curfews) caused a dramatic reduction in beneficiaries' income as well as difficulties collecting reimbursements and meeting with clients to provide business development services and monitor their activities.
- **Governments need to inject more liquidity into the microfinance market, especially in the EU to address the current liquidity crisis**. In addition, governments can offer greater technical support to MFIs to boost the quality of "soft" support that accompanies loans and improve the alignment of products and services with the needs of entrepreneurs from under-represented and disadvantaged groups**.**
- **Governments can do more to assess the particular needs of countries and regions**. This will ensure that microfinance schemes are relevant for the specific financial and social inclusion needs of the area and more broadly, will support further development of the micro-finance ecosystem in the EU.
- **Governments can use economic recovery packages to address long-term issues faced by MFIs such as the slow adoption of digital tools**. While MFIs should not seek to be fully digital since their business model relies on intensive interaction with clients, there is room to better use digital tools to reach and serve clients.
- **Microfinance can also play a role in supporting the green transition**. This includes supporting entrepreneurs in becoming greener through targeted funds and greater incentives to MFIs for funding green projects (e.g. greater guarantees, interest rate subsidies).

The growing demand for microfinance

Microfinance is an important tool to support inclusive entrepreneurship…

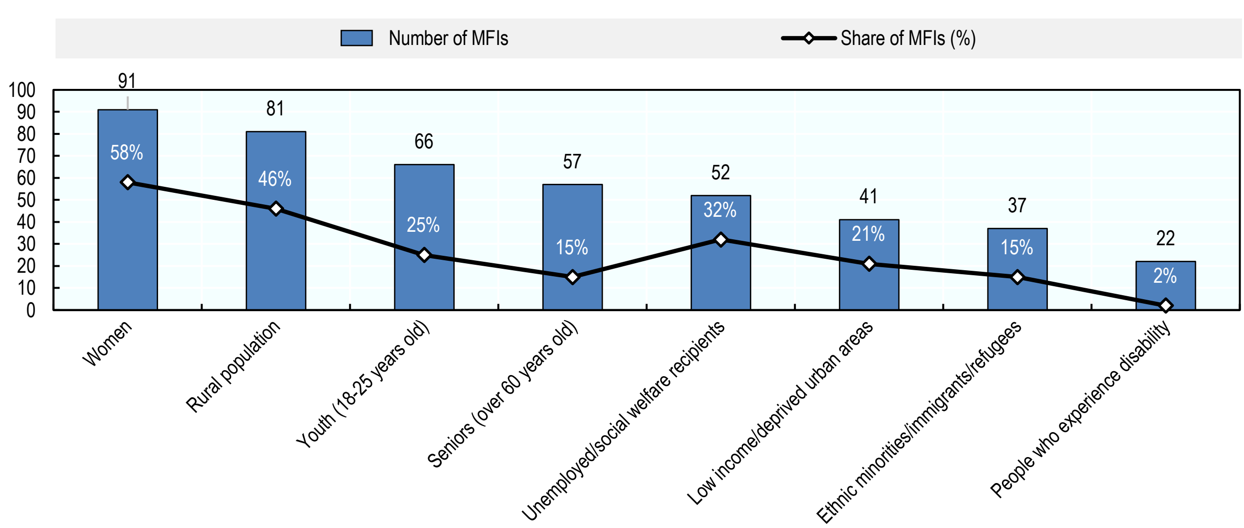
Microfinance plays a critical role in supporting inclusive entrepreneurship through the offering of small loans, financial services and business development services to entrepreneurs. The primary target clients are people who face financial exclusion (see Box 7.1). Many people from these groups lack personal capital, credit history, collateral and guarantees so they are often perceived as too risky for many lenders in mainstream financial markets. Women are the most frequently targeted population group, accounting for nearly 60% of borrowers in Europe (Figure 7.1). People living in rural areas are also an important target groups with 46% of MFIs specifically seeking to address their needs.

The growth of microfinance over the past 30 years has been remarkable. Since the launch of the Grameen Bank in 1977 by Nobel Prize laureate Muhammad Yunus, this model of lending has supported more than 130 million people. There are now more than 10 000 MFIs worldwide. While most MFIs are located in developing countries, they have a strong presence in the EU, especially in Eastern Member States (World Bank, 2019[1]). The total global loan portfolio is currently estimated to be about USD 145-160 billion (approximately EUR 124-137 billion) (MEDICI, 2021[2]; ReportLinker Consulting, 2021[3]) and this could grow to reach about USD 400 billion (approximately EUR 342 billion) by 2027 (ReportLinker Consulting, 2021[3]).

The European Union encourages the development of initiatives such as microfinance schemes focused on financial and social inclusion, job creation and economic growth in general. For example, in many European countries, microfinance is gradually being consolidated as an essential social policy tool for the promotion of self-employment, microenterprise support, and the fight against social and financial exclusion. The EU market is expected to reach about USD 90 billion (approximately EUR 77 billion) by 2027, accounting for about 23% of the global market (ReportLinker Consulting, 2021[3]). Although this growth is below some of the leading markets such as China, growth is expected to be strong in some EU Member States such as Germany.

Figure 7.1. Women and rural populations are the most frequently served client groups

Distribution of MFIs in Europe by primary target client group, 2018-19



Note: Data were tabulated from the European Microfinance Network Survey 2018-19, which covered 156 MFIs. It is possible for MFIs to have more than one target client group.
Source: (Corsi, 2021[4])

StatLink https://doi.org/10.1787/888934281239

Box 7.1. What is microfinance?

Microfinance depends on *microcredit*, a collateral-free loan that is targeted at people who are generally excluded from traditional banking services. This financial exclusion typically stems from low income and unstable income source(s), a lack of adequate collateral and credit history, as well as high administrative costs of small-scale lending and the high costs of enforcing contracts (Hermes and Lensink, 2007[5]; KONO and TAKAHASHI, 2010[6]; Rosenberg, Gonzalez and Narain, 2009[7]; Rosenberg, Gonzalez and Narain, 2009[8]). Within the European Union (EU), microcredit is generally considered to be loans up to EUR 25 000 but some offers can be as much as EUR 50 000. These small loans – particularly when they are used by entrepreneurs – are often bundled with other support services such as entrepreneurship and financial literacy training, coaching and mentoring. Once packaged together with business development services, microcredit becomes known as *microfinance*.

Many types of financial institutions can deliver microfinance. This includes, for example, traditional and co-operative banks, business development banks and other types of financial institutions. However, microfinance for entrepreneurship is most often delivered through specialised microfinance institutions (MFIs). In the EU, MFIs often offer loans at interest rates that are below commercial bank rates due to public subsidies and guarantees (Drexler et al., 2020[9]). In developing countries, however, microfinance is often offered at above market rates since MFIs typically assume the full risk of these uncollateralised loans (i.e. an absence of government guarantees), the value of the loans are smaller and more expensive to service, and capital is generally less available. MFIs in both developed and developing countries commonly offer flexible repayment options.

Businesses or personal microloans are the most common microfinance products provided by MFIs. However, microfinance offered by European MFIs looks different than that offered by MFIs in developing countries. In general, European MFIs offer individual microcredit rather than the collective type of microcredit that prevails in developing countries. MFIs can also offer other financial products and services alongside microfinance, including microinsurance. However, the development of microfinancial services remains limited, both in developed and developing countries.

Microfinance has an important role to play in supporting inclusive entrepreneurship because it can address several market failures. Market failures can create a mismatch between (potential) demand for small loans by entrepreneurs and the supply from MFIs. These gaps typically stem from the following market inefficiencies (Drexler et al., 2020[9]):

- **Information asymmetry**: Lenders have less information about the capacity to repay a loan than the loan applicant. This information gap can be greater when the applicant has little or no financial history, making it difficult for the lender to assess its level of risk. This could result in adverse selection (i.e. risky loans that eventually put upward pressure on interest rates to cover losses) and moral hazard (i.e. overfunding and/or shifting risk from borrowers to lenders).
- **Capacity gaps**: A lack of knowledge, skills, tools and staff in borrowing companies or MFIs can hinder the completion and assessment of loan applications. This can result in incomplete or poor quality applications, as well as inaccurate appraisals that lead to rejections for the wrong reason (resulting in unmet demand).
- **Absence of markets**: There can be insufficient credit provision when certain other systems such as property rights are not fully functional or when assets are difficult to value since these may result in insecure collateral. Lenders may not lend against collateral that has some risk attached to it. This is particularly challenging in the agriculture sector and for informal businesses.

- **Imperfect competition**: A concentration of market power with a small number of microfinance providers could result in upward price pressure and/or insufficient supply of credit. This is most likely to arise in immature markets or countries with limited possibilities for MFIs (e.g. Germany).
- **Public policy**: Government actions can influence microfinance markets in both positive and negative ways, including through the establishment of property rights, regulatory frameworks and offers of guarantees, small loans, insurance, etc. Market distortions can occur when governments operate directly in microfinance markets since many very small MFIs cannot compete against subsidised lending schemes.
- **Country-specific risks**: Several local factors can also influence microfinance markets by influencing the attractiveness of lending conditions. These factors include political stability, trust in the banking system, currency risks, etc.

The main advantage of microfinance relative to other debt products is that it is designed to address the obstacles faced in the credit market. However, it can also help entrepreneurs (and individuals) build a credit history to improve access to mainstream financial products. On the downside, MFIs are unlikely to become self-sustainable because of the higher risk profile of the entrepreneurs they target and require significant policy support. The degree of subsidisation is stronger as the target group becomes harder to reach. In addition, there is also a risk that microfinance could further marginalise these borrowers into a segmented credit market due to social stigma attributed to microcredit clients by mainstream lending institutions.

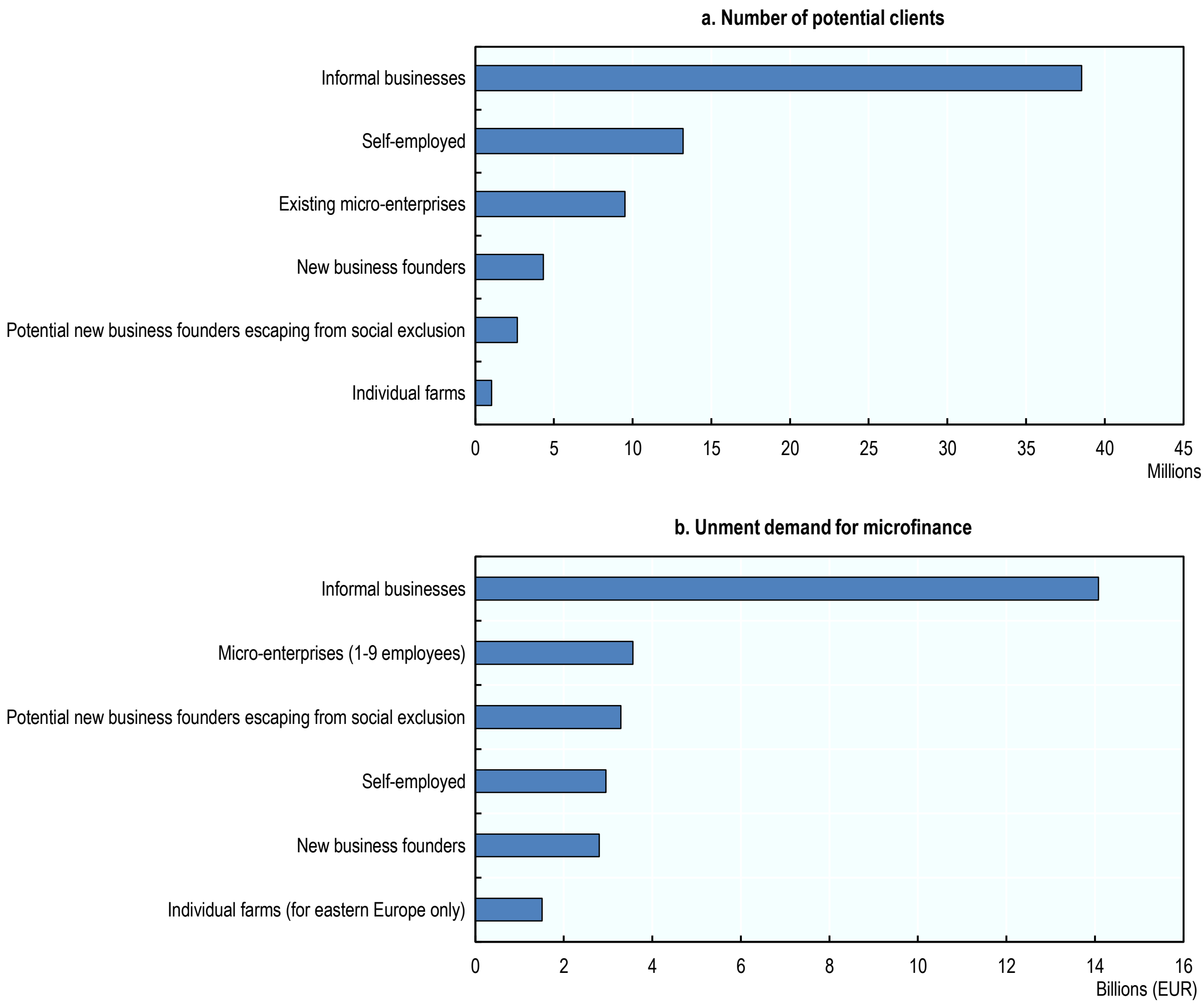
…and there is a significant unmet demand

While microfinance has established itself as an important tool for entrepreneurs, especially those from under-represented and disadvantaged groups, there is significant unmet demand. Recent estimates based on microfinance applications that were turned down suggest that the total volume of annual unmet demand for microfinance within the EU is EUR 14.1 billion (EUR 42.3 billion when informal businesses are also considered) (Drexler et al., 2020[9]). At the Member State-level, the highest estimated value of unmet demand is for Italy (EUR 2.1 billion), followed by France (EUR 1.9 billion), Germany, Poland (both EUR 1.3 billon), and Romania and Spain (EUR 1.1 billion each). In principle, however, some of this unmet demand could be served by the banking sector as well as non-bank lenders such as peer-to-peer (P2P) platforms. This gap in unmet demand expected to grow to between EUR 15.0 billion and EUR 16.7 billion by 2027 (Drexler et al., 2020[9]). This clearly suggests a need to increase the supply for microfinance and related products.

Furthermore, there also appears to be a gap in the non-financial services provided by MFIs. The study (Drexler et al., 2020[9]) estimated the gap in non-financial services using the proportion of MFI activities dedicated to these services and unmet demand for loans. Excluding informal businesses, it is estimated that about 1.2 million clients in the EU are not receiving non-financial services that they would like to access.

Figure 7.2. There is substantial unmet demand for microfinance in the EU

Estimated size of market gaps as of 2020



Source: (Drexler et al., 2020[9])

StatLink https://doi.org/10.1787/888934281258

Microfinance in the European Union and beyond

Microfinance providers in the EU are extremely diverse in size, offerings and objectives…

The microfinance sector is reaching maturity in the EU after more than 30 years, yet the sector is diverse and fragmented. Microfinance services are delivered by various types of institutions operating under different regulatory regimes. Some microfinance providers are entirely dedicated to providing small loans to low-income people. For the others, microfinance constitutes only a small fraction of the entity's financial services. Yet, other institutions engaged in microfinance do not disburse loans themselves but facilitate access to microfinance by supporting the client in the loan application and repayment process or provide guarantees in addition to other non-financial services supporting micro-entrepreneurs.

Microfinance providers come in all shapes and sizes. Nearly 90% of MFIs operate under the legal status of non-governmental organisation (NGO), non-bank financial institution (NBFI), credit union or financial co-operative, while the remaining are other legal forms such as banks, and governmental bodies (Diriker, Landoni and Benaglio, 2018[10]). The majority of microloans are offered by credit unions. Altogether, the European Microfinance Network (EMN) identifies 456 MFIs, predominantly operating as NGOs and NBFIs (Diriker, Landoni and Benaglio, 2018[10]). A profile of the typical MFI in the EU is described in Box 7.2. Certainly, all banks have micro-entrepreneurs as their clients, but the scale of lending to micro-enterprises is not known.

MFIs provide a variety of financial and non-financial products and services. In EU Member States, micro-enterprise loans are the most popular product for about 80% of MFIs, followed by personal loans (64%) (Diriker, Landoni and Benaglio, 2018[10]). Altogether, 52% of MFIs provide both business (micro, SME or agricultural loans) and personal or housing loans. Non-financial services in addition to the financial ones are more commonly delivered by MFIs in Western European countries where 79% of the MFIs engage in this type of support (Diriker, Landoni and Benaglio, 2018[10]).

Many MFIs orient microfinance services to specific target population groups, such as women entrepreneurs. There are several strong rationale for supporting female entrepreneurs with microfinance, such as: gender bias in financial markets, poverty reduction since women are assumed to contribute more to family welfare, and efficiency since women entrepreneurs tend to be more risk averse and are more likely to repay debt. However, women-oriented MFIs differ from other MFIs across key characteristics (Table 7.1). MFIs with a higher proportion of women borrowers are slightly more mature, consistent with previous evidence on European microfinance.

Table 7.1. Women-oriented MFIs are smaller and less profit-driven than other MFIs

	Women-oriented MFIs (%)	Other MFIs (%)
Age (years, mean)	12.3	10.9
Institutional type		
Banks	14.3	19.4
Government body	6.2	8.6
NBFI	37.3	28.2
NGO	40.8	41.8
Others	1.4	2.1
Business orientation		
Commercialised (profit-oriented and/or mission on job creation, micro-enterprise and SME promotion)	30.5	43.2
Non commercialised (non-profit and/or social inclusion and poverty reduction, and financial inclusion objectives	45.1	41.9
N/A	24.3	14.9
Depth of outreach		
Average loan per borrower/GNI p.c.	35.0	68.7
Geographical area		
Western Europe	63.5	61.8
Eastern Europe	36.5	38.2
Staff		
Total number (mean)*	22.5	50.8
Share of women	68.9	58.1

Note: * Data available only for the years 2006-11.
Source: EMN Survey Panel Dataset 2006-15.

Box 7.2. A profile of the "average" European MFI

At least 450 institutions offer or facilitate the disbursement of microloans in Europe. One third of them responded to a biannual industrywide survey financed by the EU in 2017. The surveyed institutions serve just under one million clients, with an outstanding gross microloan portfolio of EUR 3.2 billion. They also provide non-financial support services to 443 825 clients.[1]

Overall, the median MFI in Europe has total assets of EUR 1.71 million, 246 active borrowers, and is about nine years old. It employs five workers, the majority of whom are women (60%). The median loan was for EUR 8 000 to repay in 36 months at an interest rate of 8%.

Women-oriented MFIs are, on average, markedly smaller - the staff size is less than half of their counterparts. They are also more likely to operate as Non-Bank Financial Institutions (NBFIs) and tend to be less profit-driven. These MFIs also appear to have a stronger emphasis on social inclusion, poverty reduction and financial inclusion. Women-oriented MFIs seem to target more disadvantaged categories of clients, as their depth of outreach indicator is half that of other institutions. It is clear that among the surveyed MFIs, those with a higher percentage of women employees translated into more gender-sensitive portfolios. This is consistent with other evidence on the impact of involving more women on the supply-side of financial decision making.

One-fifth of MFIs in the EU specialise in financial services only, with the provision of additional services such as entrepreneurship training or business consultancy being delivered through partnerships with other organisations. Moreover, 46.4% of MFIs report that their main activity is microlending (i.e. accounting for 75% to 100% of their activities), while 19.7% are more oriented to non-financial services (i.e. microlending activities account for less than 5% of their activities). Only 5.2% of MFIs use solidarity groups as their primary lending method. About one-third of MFIs (36%) serve their customers primarily on a local basis while internationalisation is a core activity for only 3% of MFIs.

The median Return on Assets (ROA) as reported by the MFIs is 3% while the Portfolio at Risk (PaR30) is 7.25%. The yield on the loan portfolio is 14.16%.

Note: This figures cited are based on panel data constructed from biennial EMN survey covering 444 MFIs in 34 countries – including MFIs in Eastern European countries that are members of the Microfinance Centre (MFC) – over the period 2006-15.
Source: (Botti, Corsi and Zacchia, 2018[11])

The size of the microfinance sector in other parts of the world varies greatly according to the macroeconomic conditions and regulatory environment. In general, microfinance has a stronger presence in countries where the formal financial system is less developed. Thus, the microfinance sectors in Southeast Asia, Africa and Latin American are much more active than in the EU and North America. In developing countries, microfinance often takes the form of group loans where group members act as guarantors for each other, whereas microfinance in the EU and North America tends to be based on individual loans. Even among developing countries, the regulatory environments vary greatly which has a strong impact on the development of the microfinance sector. See Box 7.3 for further discussion of approaches in selected non-EU countries.

Box 7.3. Microfinance in non-EU OECD countries

United States

The total microfinance portfolio is estimated to be USD 21 million (approximately EUR 18 million) (About Microfinance, 2021[12]). This accounts for only a fraction of a percentage point of the global market. This tiny share is due to the tighter financial regulations and an abundance of alternative financing mechanisms. Nonetheless there is evidence that many MFIs are having encouraging impacts on their clients. This includes, for example, high rates of business operation, reduced material hardship and improved credit scores in the 7-12 month period following a microloan (Schaberg et al., 2019[13]).

Mexico

Similarly, the microfinance market in Mexico is generally considered to be under-developed – especially relative to other Latin American economies. Nonetheless, regulatory changes in the financial sector over the last 10-15 years have led to a rapid growth in credit providers for low-income individuals. The microfinance market has become increasingly competitive, but also more concentrated. In 2015, the ten largest MFIs accounted for 81% of the total market and about 1 500 MFIs shared the remaining 19% of the market (Antón Díaz, 2017[14]). This concentration means that new MFIs need to quickly acquire a sizable healthy portfolio to achieve longer-term sustainability.

There are several unique features of the microfinance market in Mexico. First, the "village banking" model continues to be the dominant approach to microlending. This involves a type of group lending where borrowers act as each other's guarantor rather than the more common model based on individual loans (Women's World Banking, 2014[15]). Second, the vast majority of new loan applicants (74%) already have active loans and many (44%) are already in arrears at their time of application (Graham, Ericksen and Ericksen, 2014[16]) (MFTransparency, 2015[17]).

There are several challenges to the further development of microfinance in Mexico. One of the challenges is that there are many MFIs in densely populated areas. New entrants are increasingly turning to rural areas for customers, but this increases the costs of servicing the loans (Antón Díaz, 2017[14]). Second, consumer credit has acted as a substitute for micro-enterprise lending. Third, there are regulatory disincentives for large financial institutions to enter the microfinance market (Women's World Banking, 2014[15]). There are also some demand-side factors, including low levels of financial literacy and high levels of over-indebtedness (Women's World Banking, 2014[15]).

Colombia

The microfinance sector in Colombia is the largest in Latin America, both in terms of the number of total active borrowers and in outstanding loans. Lenders include commercial banks, commercial finance companies, financial co-operatives, loans and savings co-operatives and NGOs. The sector has developed rapidly since its inception in the early 1980s. This scaling-up has been driven by strong partnerships between key governmental, non-governmental and private sector actors (MFTransparency, 2015[17]).

The regulatory and supervisory framework is built around deposit taking and non-deposit taking MFIs. The Financial Superintendence of Colombia (SFC) is the main regulatory body that oversees deposit taking microfinance service providers. MFIs that are co-operatives and saving and loans associations are overseen by the *Economia Solidaria Superintendency*. However, the majority of NGO MFIs do not fall under any regulatory body. In addition, a legal framework on consumer protection for the financial sector was implemented in 2009 (Law 1328). It aims to promote transparency but again, this does not cover the vast majority of unregulated NGO MFIs (MFTransparency, 2015[17]).

…and regulatory frameworks vary greatly across EU Member States…

Non-bank financial institutions are the most common legal form of MFIs in the EU, and also globally. In general, legislation on microcredit activities in the EU seeks to formalise the operations of non-bank actors that are not obligated to comply with full banking regulations. Nevertheless, the regulatory framework for microcredit activities varies across countries according to contextual factors related to history, economy and financial system development. There is no EU-wide legislative framework for microfinance provision but the European Code of Conduct for Microcredit Provision provides a self-regulatory framework (Box 7.4). Instead, national legislation provides the conditions under which microfinance can be provided.

Box 7.4. European Code of Good Conduct for Microcredit Provision

The European Code of Good Conduct for Microcredit Provision was established in October 2011. It defines a set of standards for the microfinance sector in Europe and serves as a self-regulation tool and quality label for MFIs. It targets MFIs that provide business loans of up to EUR 25 000 to micro-entrepreneurs or self-employed persons. Signing up to or endorsing the Code is a pre-condition for accessing EU funding for microfinance under the EU Programme for Employment and Social Innovation (EaSI) and InvestEU.

The Code was developed based on recognised best practices in the sector in close consultation with stakeholders and updated through a consultation process in 2019. The updated Code was formally adopted in October 2019 and came into force on 1 January 2021.

The objective of the update was to fine-tune the existing clauses in the Code, taking account of the changes intervened since its first establishment. This includes some amendments to reflect changes in the market and to better reflect the diversity of European MFIs in terms of size, legal structures and national regulatory frameworks.

Source: (European Commission, 2020[18]; European Commisison, 2021[19])

There are three main scenarios of regulatory and legislative frameworks for non-bank financial MFIs in the EU (Figure 7.3). One approach is to use specific microcredit legislation in the national law with a distinct category for microcredit providers. Several EU Member States and EU candidate countries use this approach: the earliest in France (2001), Bosnia and Herzegovina (2006), Kosovo (2008), Romania (2009), Italy and Portugal (both 2010), Montenegro (2017) and Greece (2020). Microcredit activity is restricted to commercial entities in Portugal, Romania and Montenegro, and to not-for-profit organisations in France. A mixed approach has been followed in the remaining countries. The supervision of non-banking MFIs is entrusted to national central banks in all the noted legislations. Microcredit regulation in France, Italy, Kosovo, Bosnia and Herzegovina and Portugal introduces a distinct category for non-bank MFIs. In the first three countries, the regulation is part of banking law. Interestingly, in Romania and Montenegro, microcredit is regulated in the NBFI law, as one of the financial products potentially offered by them. Two contrasting approaches to microcredit regulation are presented in Box 7.5.

Figure 7.3. Regulatory approaches in Europe, including EU accession countries

1. Specific microcredit regulation	2. NBFI regulations cover microcredit as a product	3. MFIs must partner with banks
• France (since 2001)	• Belgium	• Austria
• Bosnia and Herzegovina (2006)	• Finland	• Germany
• Kosovo (2008)	• Hungary	
• Romania (2009)	• Ireland	
• Italy (2010)	• Luxembourg	
• Portugal (2010	• Romania	
• Montenegro (2017)	• Spain	
• Greece (2020)	• Sweden	

Source: (Ruesta and Benaglio, 2021[20])

Box 7.5. Examples of approaches to microcredit legislation in the EU

Italy

The Italian banking law reform in 2014 introduced the definition of microcredit activities and created a register of MFIs managed by the Bank of Italy. MFIs are allowed to operate as specialised microcredit operators if complying with additional conditions, namely the lack of real guarantees, the provision of non-financial services and monitoring of clients (Art. 111). The Italian legal framework enables a broad array of legal types to provide microcredit: non-profit organisations (e.g. associations, foundations, mutual aid societies, local and governmental agencies, social co-operatives, non-profit co-operatives), banks, non-bank financial institutions (for-profit organisations regulated under Article 106 of the banking law) and mutual financial operators (co-operatives with specific by-law conditions) provided that they adhere to the criteria of Art. 111.

The Italian law formally differentiates between business and personal microloans in terms of maximum amount (EUR 40 000 for personal microloans with a possible additional EUR 10 000 for the first business microloan cycle) and microloan term (7-10 years for personal loans and five years for businesses). Both products must be accompanied by non-financial services. The interest rate cap is set according to Italian anti-usury legislation.

Advantages of this approach:

- Distinguishing between business and personal microloans concerning terms, conditions and formal purposes allows for a more tailored approach to different target groups.
- Recognising specific categories of non-bank legal forms that operate in the sector can encourage their direct participation without any forced partnership with banks and increases the supply of microfinance.

Disadvantage of this approach:

- Conservative and restrictive regulation on non-bank actors may impede access to the sector.

Romania

The current law on non-bank financial institutions (Law on Non-Bank Financial Institutions no. 93/2009) regulates all non-bank financial activities, including MFIs as well as leasing companies, mortgage companies, credit unions, consumer lenders. The National Bank of Romania is responsible for regulations, supervision and registration of all non-bank financial institutions. MFIs do not have any distinct legal status compared to other non-bank financial institutions. There are no limits for business or personal microloans size. Only for-profit organisations are allowed for microcredit provision and credit unions are authorised to disburse only personal loans to their members.

Advantage of this approach:

- The lack of limits for microloan size and interest rate ceilings can enhance the possibility of attaining financial sustainability for MFIs.

Disadvantages of this approach:

- Only credit unions are authorised to collect savings as an alternative source of funding, which reduces the range of microfinancial services that MFIs can offer.
- The inclusion of microcredit in a broad range of financial products that NBFIs can offer implies the lack of a distinct status for MFIs and of a formal definition of microcredit.

A second approach to regulating microcredit is to use regulations for NBFIs to cover microcredit as one of the regulated products. Non-bank microlenders can disburse loans even with the lack of a proper microcredit legislation in Belgium, Ireland, Luxembourg, Spain, and Sweden, where non-bank lenders operate under the national consumer law. In Ireland, only one non-bank provider operates in the absence of general regulation of microcredit activities due to a specific mandate from the government to lend to micro-enterprises. In Finland, the law on crowdfunding allows non-bank MFIs to operate. In Hungary, an exemption in the banking law allows non-profit, semi-public entities to disburse microloans under a national programme on microcredit.

The third approach to regulating the provision of microcredit is to require non-bank actors to partner with a regulated bank, which is found in Austria and Germany. In Austria, the banking law formally forbids NBFIs from offering credit while lending activities in Germany are restricted to banks, forcing non-bank actors to act as agents. In Germany, restrictive requirements set by the banking law for non-bank lenders make it impossible for them operate in the market.

The fragmented nature of the regulatory environment for microcredit provision across Europe can lead to a variety of microcredit lending practices. Regardless of the regulatory approach, minimum capital requirements differ substantially from one country to another. In France and Italy, such a limit is not provided for not-for-profit organisations in the main regulation. Restrictive regulations in the form of constraining minimum capital requirements or interest rate ceilings may result in legislative barriers to the operational viability of non-bank microlenders. The crucial role of minimum capital requirements as a potential barrier to NBFI access to a regulated microcredit sector is emphasised by the Portuguese case: the threshold set by the law is so substantial (EUR 1 million) that only commercial lenders are involved in the national microcredit sector. This shows the potential undesirable effect of a restrictive regulation in which microloans end up being disbursed only by banks in partnership with social purpose organisations.

…and the EU is increasing investments in the sector

The EU has supported the development of the microfinance sector dating back to the 1990s. However, it was not until the 2007-13 programming period when its use became more widespread as part of the EU policy toolkit for the realisation of the “Lisbon Strategy for growth and jobs” and the promotion of social inclusion (European Commission, 2007[21]). The foundation for current instruments was laid during this period, notably through three programmes: JASMINE (Joint Action to Support Microfinance Institutions in Europe), JEREMIE (Joint European Resources for Micro to Medium Enterprises) and European Progress Microfinance Facility (EPMF).[2] During this period, expenditure on supporting microfinance schemes accounted for approximately 5% of the total European Regional Fund resources and this increased in subsequent programming periods (European Commission, 2020[22]). Support was further strengthened in the 2014-20 period under the framework of the Europe 2020 strategy for growth and jobs. The EU Programme for Employment and Social Innovation (EaSI) has become one of the main programmes to support microfinance with a budget of EUR 919 million for 2014-20. Its main objectives are to increase access to, and the availability of microfinance for vulnerable persons and micro-enterprises in both start-up and development phase, build up the institutional capacity of microcredit providers and support the development of the social investment market and facilitate access to finance for social enterprises. It has three axes, including one on Microfinance and Social Entrepreneurship, which supports: i) microcredit and microloans for vulnerable groups and micro-enterprises, and ii) social entrepreneurship.[3]

The new programming period 2021-27 will bring some major changes to the way that microfinance is structured and supported. The InvestEU programme will replace the European Fund for Strategic Investments (EFSI) and also bring together 12 other EU financial instruments, including EaSI. The size of the relative EU budgetary guarantee to support investment and access to finance across the EU is EUR 38 billion, of which EUR 4 billion will target the policy area Social investment and Skills, including a budgetary guarantee for microfinance, whereas the ESF+ will cover grants and advisory support for microfinance. InvestEU is expected to achieve EUR 650 billion of investments by attracting additional public and private investments. InvestEU will also be flexible in terms of adjustments to market and policy priorities changes over time.

Box 7.6. Micro-finance under InvestEU 2021-27

“The Social Investment and Skills window will support microfinance and social enterprises. In the case of microfinance, a microloan (or microcredit) means a loan of up to EUR 50 000. The provision of investment amounts of up to EUR 500 000 for social enterprises will in particular be encouraged, while larger amounts of up to EUR 2 000 000 will also be targeted to foster their expansion and scaling up”.

“As regards microfinance, the policy objective is to promote quality, sustainable employment and social inclusion by supporting job creation and income-generating activities, in particular for persons in vulnerable situations who wish to start up or develop a micro-enterprise, including on a self-employed basis.

In addition, financial intermediaries active in the microfinance space must ensure the provision, directly or indirectly, of non-financial services such as business development services (mentoring, coaching and training), which are an integral part of microfinance. Conditions such as the cost of borrowing (including the lending rate) and collateral requirements for microfinance directly or indirectly supported in the framework of InvestEU must reflect the benefit derived from the support and must be justifiable with regard to underlying risks and the actual cost of funding related to a credit.

As a pre-condition for InvestEU Fund support, financial intermediaries providing microfinance must sign up to (in the case of non-banks) or endorse (in the case of banks) the ‘European code of good conduct for microcredit provision’ to ensure high ethical lending standards in terms of, among others, governance, management and customer protection. Financial intermediaries shall seek to prevent individuals and undertakings from becoming over-indebted by, among others, taking into account their repayment capacity and ensuring an affordable cost of borrowing”.

Source: (European Union, 2021[23])

Challenges faced in the wake of the COVID-19

The COVID-19 pandemic heavily disrupted MFI's financial and non-financial activities…

The COVID-19 pandemic has created several immediate challenges for MFIs with simultaneous disruptions on both the demand (i.e. client) and supply (i.e. capital) sides of the market. These major disruptions threaten to reduce the important role in providing liquidity to micro-entrepreneurs, especially those from groups that are under-represented and disadvantaged in entrepreneurship. It is also important to recognise that the client group has been disproportionately impacted by the virus in terms of personal health (Horton, 2020[24]).

Many MFIs reported operational challenges during the pandemic. They include difficulties disbursing funds since the containment measures (e.g. lockdowns, curfews) caused a dramatic reduction in beneficiaries' income, difficulties collecting reimbursements since clients were generating much less revenue, and difficulties meeting with clients to provide business development services and monitor their activities. Underlying all of these operational challenges are two issues. First, MFIs themselves have been impacted by containment measures that have restricted business activities. Second, MFIs continue to rely heavily on face-to-face interactions with clients. For example, loan officers require personal meetings with beneficiaries, both to make loans and to collect repayments, and most of all to support them and to define sustainable relief strategies to overcome financial, economic, and social difficulties that are vital in times of crisis. MFIs, more than other financial institutions, rely on "social capital" or "organisational capital" that implies trust between institutions and customers, transparency in communication, and the prioritisation of beneficiaries' needs.

There was an immediate impact on portfolio and risk management. Globally, the quality of the loan portfolio of MFIs started to decrease at the beginning 2020 Q2. According to the CGAP interactive dashboard,[4] the PAR-30[5] (i.e. loans in arrears for over 30 days) of responding MFIs increased on average from 8.8% before COVID-19 to 12.5% in December 2020. The rise in portfolio at risk in the pandemic is even higher for small MFIs and for those that target female entrepreneurs – PAR-30 in December 2020 was 17.6% for small MFIs and 14.0% for those that targeted women entrepreneurs.

Within the EU, the impact of the COVID-19 pandemic on MFIs was uneven. It appears that MFIs based in Western EU Member States suffered a higher deterioration of portfolio quality (as measured by PAR-30) than those in Eastern Member States (Dąbrowska, Koryński and Pytkowska, 2020[25]). This result can be explained by the greater focus on small early-stage businesses and start-ups by the MFIs in the West, which have a lower probability of surviving the crisis. However, the survey also found that MFIs in Eastern EU Member States demonstrated a greater readiness for dealing with the pandemic and resilience in their internal operational and governance structures (Dąbrowska, Koryński and Pytkowska, 2020[25]).

The difficulties experienced by MFI clients have made it more difficult for MFIs to repay their own investors and funders, and to cover their ongoing operational expenses since they have had difficulties generating revenue. The employees of MFIs have also been negatively impacted because some loan officers have performance-related pay. This type of pay is typically viewed as an incentive that rewards them for new loan disbursements and the repayment of existing loans. However, this has introduced a new stress since the difficulties faced by clients due to the COVID-19 pandemic is reducing employee earnings. This has created difficulties for many MFIs that have established policies that create a moratorium on loan repayment to assist their clients.

MFIs have responded to the COVID-19 pandemic by adjusting their products and the way that services are delivered. This includes delivering business support services (e.g. training, coaching and mentoring) through online platforms and the introduction of new products that are designed to provide liquidity during the crisis and/or support the pivoting of business activities to post-crisis opportunities (Box 7.7). Many of these new products have been supported by funding from national and local governments. This includes, for example, actions by the Italian Government to mitigate the impact of the COVID-19 pandemic on the microcredit sector by introducing a moratorium on loan repayments, a guarantee of up to 80% of the loan amount and an increase in the maximum amount for business microcredit from EUR 25 000 to EUR 40 000.

…and reduced the ability of borrowers to repay loans…

The COVID-19 pandemic has had a strong impact on entrepreneurs. One of the consequences has been an increase in demand for credit within microfinance markets, in terms of both the number of borrowers and the loan amounts (Brickell et al., 2020[26]). However, many MFIs began to avoid issuing new loans and additional credit for existing clients to preserve their own liquidity. A similar, but less severe strategy was to orient microloans to clients in sectors that were less impacted by the pandemic. Thus, there has been a credit crunch for microfinance borrowers and this has led to an increase in financial and social exclusion of the most marginalised groups.

Box 7.7. Examples of MFIs adapting their activities during the COVID-19 pandemic

Deferring repayments: MicroStart, Belgium

MicroStart created a three-stage recovery plan for loans and deployed six specific measures in March 2020 to help entrepreneurs with the crisis. From April 2020 to May 2020, the first stage ("mS Express") offered emergency microcredit loans in collaboration with Funds for Good. This included a loan of EUR 2 000 with an additional EUR 1 000 unsecured, interest-free loan and the option of deferring capital repayment for up to three months. All clients were given the option to defer repayment deadlines until July 2020. From June 2020 to September 2020, the second stage ("mS Business") increased the value of loans offered to EUR 12 000 with an additional EUR 3 000 unsecured, interest-free loan with a possible 24-month deferred payment period. Clients also received online access to coaching services, webinars, and trainings. This programme was used by over 600 entrepreneurs. The third stage ("mS Scale-up) began in October 2020 and continued until June 2021 covering loans of up to EUR 20 000 automatically supplemented by an unsecured, interest-free loan with a maximum amount of EUR 5 000 and a possible 24-month deferred payment period. MicroStart also offered a three-month intensive individual coaching programme in addition to the loans in this programme which was used by over 1 000 entrepreneurs. Overall, in 2020, MicroStart granted 583 microcredits in Belgium for a total amount of EUR 4.12 million. More than 400 of these microcredits benefited from the COVID adapted loans with 0% interest. Additionally, 50% of clients benefited from a moratorium as a result of the specific COVID-19 measures.

New loan products: Microfinance Ireland

Microfinance Ireland launched a COVID-19 Business Loan Scheme ("COVID19-2") offering eligible small businesses loans from EUR 5 000 to EUR 25 000 with 0% interest and zero repayments for the first six months. Following the initial six months, reduced interest rates of 4.5% (annual percentage rate) or 5.5% (annual percentage rate), depending on certain conditions, applied for the rest of the loan term. Borrowers received a government rebate of the equivalent of six months interest in Month 13 of the loan period as long as all conditions had been met. Current borrowers of Microfinance Ireland could apply for up to EUR 25 000 in additional loans which were subject to a maximum credit exposure of EUR 50 000 and subject to a maximum exposure under COVID19-2 of EUR 25 000. Loans from COVID19-2 could be used for working capital or required changes due to COVID-19 management and could be repaid in advanced without penalty. Loan application volumes increased 101% with 1 229 loan approvals in 2020. 67% of the total value of EUR 27 million were through the COVID19-2 scheme.

Reduced interest rates and administrative fees: Microlux, Luxembourg

Microlux adapted interest rates and fees to help micro-entrepreneurs negatively impacted by COVID-19. From 15 June 2020, Microlux offered loans of up to EUR 25 000 with conditions including a guarantor for 1/3 of the loan amount. Borrowers received a lower annual interest rate of 4% in lieu of the standard 9% with an extended deffered payment period of up to six months instead of the traditional three months. Administrative fees dropped from 5% to 3% with a minimum of EUR 150 and a maximum of EUR 500. Under the COVID-19 Exceptional Conditions, the repayment period for a loan was set up to 36 months, and loans could be paid back early without penalty.

…and also reignited debates about the dual mission of microfinance

The COVID-19 crisis has reignited debates around the potential trade-offs in achieving the dual mission of microfinance: fighting against financial exclusion (i.e. social performance) and financial sustainability (i.e. financial performance). The most rigorous and comprehensive studies globally suggest that there is a trade-off between sustainability and outreach (Cull, Demirguc-Kunt and Morduch, 2009[27]; Hermes, Lensink and Meesters, 2011[28]) and this is also confirmed in the EU context (Botti, Corsi and Zacchia, 2018[11]). These studies find a trade-off between the MFIs profitability and clients' poverty level – those MFIs serving the poorest clients and a significant share of women clients – are typically less cost-efficient and are often not able to earn enough profit to attract investors or transform into commercial institutions. For example, a study of MFIs over the period 2006-15 found that a growing share of MFIs had a mission that focused on poverty reduction and a decline in the share that focus on the empowerment of women and ethnic minority groups. Over the same period, there was an overall improvement of portfolio quality (i.e. declining PAR-30 and write-off ratio) and cost-efficiency (i.e. decreasing operating expense ratio) (Table 7.2). The Operational self-sufficiency ratio over the period also indicates a high level of operational sustainability. However, the data also show a worsening in profitability measures (i.e. return on equity and return on investment ratios) and the capacity to generate revenues from microloan portfolios (i.e. portfolio yield). This suggests that many MFIs will face a liquidity crunch in the wake of the COVID-19 pandemic. With growing inactivity and unemployment, there will likely be a greater priority placed on social performance within the microfinance sector. However, the experience following the financial crisis in 2008-09 suggests that the sector will have a declining financial performance if a greater social mission is followed.

Table 7.2. Financial sustainability and social impact for European MFIs after the 2007-08 financial crisis

		2010-11	2012-13	2014-15
Social performance	*Target groups - % of the total number of active borrowers*			
	Women	25%	32%	39%
	Ethnic minorities/immigrants	18%	17%	18%
	People with disabilities	1%	5%	6%
	Financially excluded	34%	40%	33%
	Mission statements			
	Poverty reduction	40%	57%	62%
	Women empowerment	36%	29%	32%
	Minority empowerment	31%	20%	20%
Financial performance	PAR30	11.4%	11.0%	10.5%
	Write-off ratio	5.5%	2.1%	5.0%
	Portfolio yield	16.4%	14.8%	14.3%
	Debt to equity ratio	67.0%	63.2%	191.1%
	Operating expense ratio	25.5%	22.2%	16.4%
	Return on equity	12.0%	n.a.	4.5%
	Return on assets	6.7%	9.2%	3.1%
	Operational self-sufficiency ratio	n.a.	96.4%	91.8%

Note: * Data available only for the years 2006-11.
Source: EMN Survey Panel Dataset 2006-15.

Policy actions to prepare the microfinance sector for the future

Governments can play a role in addressing gaps in the microfinance market, including injecting capital into the market to increase supply and supporting MFIs in addressing unmet demand for new microfinancial products and services. While public involvement in microfinance markets risks crowding-out private sector actors, the size of market gaps calls for public intervention (Drexler et al., 2020[9]) Governments have several instruments that they can use to try to increase the supply of microfinance, including directly setting up schemes, offering grants and/or guarantees to MFIs or offering other incentives such as tax reductions to induce new entrants into the microfinance market (Box 7.8). Governments can also support the sector in many other ways, including the provision of technical assistance to address growing gaps between the products demanded and the products offered and to improve the quality of non-financial services offered.

Box 7.8. Setting up a microfinance scheme

Policy makers are faced with several important choices when setting up a microfinance scheme. One concerns the Fund operator, which can either be selected through a public call for tender or be chosen without any tender among existing public institutions with experience in Fund management. The first option has the advantage of drawing on the most cost-effective solution to the government. The second option will ensure better coherence between the Fund's operations and the government's strategic objectives.

A second choice regards the financial intermediary organisation that will deliver the scheme, which can be an *ad-hoc* government body or be chosen among existing players in the credit market (e.g. commercial banks, non-bank financial institutions, credit unions, etc.), generally through a call for tender. The first option will have the main benefit of building an organisation tailored to its mission, but which will have high overhead costs, especially if the microfinance scheme is only temporary. The second will have the main advantage of leveraging on the expertise of players already active in the credit market, but who may not devote the same level of attention to microfinance than to their other activities.

Microfinance schemes require paying attention to distribution of costs among participants, namely government, providers and clients. There are several fixed costs involved in a microfinance scheme, including the loan capital, operating and refinancing costs, loan assessment and monitoring costs, etc. Additional services such as interest rebates, financial advice and education, and business development training also imply costs for microfinance providers.

Microfinance schemes are, therefore, unlikely to become fully self-sustainable, and policy makers should expect a strong element of subsidisation. This will be especially true for programmes for disadvantaged entrepreneurs who may need complementary services such as interest rebates and business training to be pulled in the scheme.

Source: (Marchese, 2014[29])

Continue to address short-term liquidity pressures

Government support for entrepreneurs during the COVID-19 pandemic was a much needed boost for the economy, but one of the consequences has been a liquidity shortage for MFIs. The COVID-19 pandemic simultaneously disrupted both the demand- (clients' repayments) and supply-sides (access to capital and liquidity) of the global microfinance market. In response, governments have used a range of instruments to support lenders and borrowers in the microfinance sector, including repayment holidays, payment moratoria and credit restructuring. However, this has created liquidity shortages for MFIs and potentially hurt the long-term sustainability of the sector.

A number of actions are needed in the short term to ensure the survival of MFIs, notably including an injection of liquidity into the sector. Three main categories of liquidity support measures for the microfinance sector have been advanced especially in emerging markets. They include central bank liquidity windows available to banks, some with priority sector lending requirements attached, or their own targeted liquidity facilities aimed at MSME or microfinance clients; liquidity facilities managed by multilateral development banks and other investors; and credit guarantee schemes (Michaels, Bansal and El-Zoghbi, 2020[30]). Within the EU, one notable recovery scheme was launched by the EIF and the European Commission through the new COVID-19 support measures under the EaSI Guarantee Instrument (EaSI) to enhance access to finance for micro-borrowers, micro- and social enterprises (Box 7.9). However, more is likely needed to help MFIs restructure their debt (Meagher, 2020[31]).

In addition, there is a need to increase the supply of guaranteed and funded debt instruments that are targeted at micro-entrepreneurs, especially the target groups of inclusive entrepreneurship. This is particularly true in the EU Member States with most need and the highest expected growth in demand for microfinance (southern and Eastern Europe). In addition to increasing the supply, it also seems necessary to speed up the implementation of the funding instruments in the short-term (Drexler et al., 2020[9]).

Governments could also consider providing funds for microfinance with softer conditions to target groups of inclusive entrepreneurship. At the financial intermediary level, it appears that not all types of MFIs get access to funding or guarantees and the result is that there is insufficient targeting to clients from vulnerable groups, which are riskier (Drexler et al., 2020[9]). This is primarily due to the difficulty of entering into transactions with innovative providers and the difficulties that smaller providers have with managing appraisal and due diligence procedures (Drexler et al., 2020[9]). The use of softer conditions can address these challenges and encourage financial intermediaries and MFIs to enter into these markets. Emergency liquidity facilities and recapitalisation could be considered by regulatory authorities and central banks to help stabilise the microfinance sector through MFI forgiveness of non-performing loans and prepare for the provision of liquidity management products. The case for strengthening prudential regulation and extending stabilising initiatives to microcredit segments of the financial markets by central banks is even stronger if microfinance is primarily a tool for managing liquidity for their clients.

Governments may also consider providing some relief to MFIs by deferring non-critical supervisory processes (Meagher, 2020[31]). Additional regulation and supervision, also fostered by uncertainty over the microfinance sector prospects, may lead to increasing operating costs for MFIs with unintended consequences over their capacity to serve the most vulnerable categories of clients (Cull, Demirguc-Kunt and Morduch, 2009[27]).

Box 7.9. COVID-19 support measures under the EaSI Guarantee Instrument

As part of the policy response to address the economic disruption caused by COVID-19, the European Investment Fund (EIF) and the European Commission have introduced specific support measures to support micro- and social enterprises for a COVID-19 support period April 2020 - December 2021. The aim of the COVID-19 support measures is to incentivise financial intermediaries to provide microloans to small businesses, mitigating the increase in perceived risk triggered by the coronavirus pandemic, and alleviating working capital and liquidity constraints of final beneficiaries targeted by the EaSI programme.

The new features will be accessible to financial intermediaries selected after an application under a call for expression of interest followed by a due diligence process, that can benefit from guarantees under the EaSI Guarantee Instrument. Financial intermediaries with existing EIF agreements under the EaSI Guarantee will be able to access the new terms of the guarantees upon their request. Micro-borrowers and micro- and social enterprises will be able to apply directly to their local banks and lenders participating in the scheme.

Losses covered by the Guarantee may include interest amounts (excluding late payment or default interest, fees and other costs and expenses) accrued, deferred or capitalised for a maximum period of 360 days. Guarantee coverage will be extended by 12 months, i.e. up to 7 years for microfinance operations and up to 11 years for social entrepreneurship operations. The EaSI Guarantee shall cover losses incurred by the selected financial intermediary at a guarantee rate of up to 80% or up to 90% for COVID-19 involved transactions.

Lessons learned:

- Quick response to mitigate the consequences of the COVID-19 pandemic, through enhanced terms of an existing instrument.
- Due to budgetary constraints, new COVID-19 support measures will primarily serve financial intermediaries who have already entered into a guarantee contract with the EIF and to intermediaries that have been already selected.

Better align microfinance and micro-financial services to changing market needs

Although microfinance markets in the EU are maturing, they continue to evolve to the changing needs of businesses. One of the central elements of microfinance is the provision of non-financial services, which aim to improve the performance of the business to ensure that the microloans can be repaid. Offers vary across MFIs, but often include pre training programmes to help ensure that the client entrepreneur has a basic set of entrepreneurship skills, training modules focussed on specific themes that can be taken after the loans have been issued, individual coaching and business consultancy. In addition, loan officers often have regular check-ins with clients to monitor the performance of the business and the repayment schedule. For an example of how these are implemented in practice, please see Box 7.10 for a description of the non-financial services offered by the Microfinance and Development Onlus Association in Italy.

Overall, there is a need to increase the number of MFIs offering non-financial supports and also improve the quality of supports. About 80% of MFIs in the EU provide supplemental support services such as training, coaching and consultancy, but significantly fewer MFIs in Eastern Member States offer such supports (Diriker, Landoni and Benaglio, 2018[10]). This clearly calls for an increase in the supply of non-financial services, especially since evaluations typically show that the packaging of microloans and complementary support services increases the chances of business sustainability and repayment of the loan (OECD/The European Commission, 2013[32]). There is also a need to increase the quality of the supports since many offers are relatively basic modules (Drexler et al., 2020[9]).

Box 7.10. Example of MFI non-financial services, Microfinance and Development Onlus Association, Italy

Target group: Immigrant entrepreneurs

Intervention type: Micro-credit, training programmes and support services

Description: The Microfinance and Development Onlus Association (*Associazione Microfinanza e Sviluppo Onlus,* "*Microfinanza*") is a non-profit association, which aims to provide financial education to vulnerable populations and to support entrepreneurial activities through microfinance, with offices in Vicenza and Milan (Italy). *Microfinanza* offers financial education training to financially vulnerable population groups, notably those with migrant experience. Other support services include entrepreneurship toolkits – StarToolkit and QEF. The StarToolkit aims to predict and monitor the economic sustainability of social enterprises and guides entrepreneurs through essential steps (i.e. creating a business plan, generating business ideas, forecasting, monitoring framework). QEF is a financial education toolkit aimed at enhancing entrepreneurs' financial capabilities and social capital through training modules. These modules range from exercises and games to practical tools for planning expenses and savings management (i.e. an account book). Online training modules are also available, covering subjects such as monitoring cash flows, expense planning, savings and debt management, accessing finance, entrepreneurship and financial negotiations. *Microfinanza* has been involved with numerous entrepreneurship projects including the recent PIANI project, targeting potential entrepreneurs who have migrant backgrounds in the Turin region. PIANI consisted of four training courses where trainees worked with mentors (i.e. local entrepreneurs) to collaborate and outline new strategies for their own shops as well as how to adapt to their new environment.

Results achieved: The PIANI programme aimed to encourage long-lasting, inclusive and sustainable economic growth (Sustainable Development Goal 8) and ran from 2018 to 2019. Overall, five micro-small entrepreneurs and 20 immigrant entrepreneurs participated.

Source: (Microfinance and Development Onlus Association, 2021[33])

Governments can have a role in strengthening support services through the offers of technical support, including by adding conditions on MFIs utilising public guarantees and subsidies. MFIs can access a range of technical supports, including through EU Structural Funds, which can help them better understand client needs and tailor supports to these needs. It is also possible for governments to require MFIs drawing on public supports to offer a range of non-financial supports as a condition of utilising public support. Finally, governments can help facilitate collaborations between MFIs and specialist entrepreneurship trainers, coaches and consultants. There are many examples of such collaborations where financial support is provided through one organisation and non-financial support is provided through a partner organisation. This can also be facilitated through calls that require partnerships.

In addition, governments can provide technical assistance to MFIs to help them understand untapped market demand for financial and non-financial products. Among the financial services that are not currently widely offered, MFIs are increasingly recognising the potential of microinsurance products and services. Innovative insurance products tailored to the needs of micro-enterprises are emerging and, slowly, the supply is growing, and some innovative products and distribution models are developing, provided, or facilitated by MFIs that co-operate with commercial insurers. This includes for example the microinsurance offered to women entrepreneurs by *Compartamos Banco* in Mexico in Box 7.11. Moreover, micro-entrepreneurs, in particular the more vulnerable, often suffer from a lack of knowledge on how insurance works, or what risks they should seek insurance coverage for, requiring also tailored financial literacy training in order to better understand their specific needs and risks.

Box 7.11. Microinsurance, *Compartamos Banco*, Mexico

Target group: Women entrepreneurs

Intervention type: Microcredit and microinsurance schemes

Description: *Compartamos Banco* is a Mexican microfinance institution. Since opening in 1990, *Compartamos* has since expanded to Guatemala and Peru and offers group and individual microfinance credits and microinsurance. Many of their services are targeted towards women and 90% of their 2.2 million clients are women. If offers three microfinance credit schemes (below) that can be packaged with microinsurance:

- Women's Microcredit programme is a group credit given to at least 10 women aged 18 to 98 years old;
- Merchant Microcredit programme is a group credit for a minimum of 5 individuals, women or men, aged 20 to 98 years old;
- Individual Microcredit scheme is an individual credit offered to a business owner with a minimum of six months experience and aged 20 to 79 years old.

Compartamos currently offers four primary insurance schemes to those enrolled in one of the above microcredit schemes. The *Basic Life insurance* is a free insurance benefit to clients who renew their microcredit loans to protect them against unexpected situations which may adversely affect their family, while the *Let's Share Protection* is a voluntary insurance to protect against unexpected health expenses. The other two programmes are the *Theft insurance scheme* and the *Magenta insurance*, which provides insurance for motor vehicles and offers a digital platform to store digital data on the vehicle. In addition to offering insurance products, *Compartamos* has invested educating its clients about insurance since financial literacy levels are often very low.

Results achieved: Since 2016, insurance product uptake has fluctuated, decreasing from the initial 12.4 million policies sold in 2016 (4.9 million active) to 11.8 policies sold (4.2 million active) in 2018. Insurance coverage continued to rise in 2019 with 18.3 million policies sold and 7.2 million active policies but the COVID-19 crisis reversed some of the progress made. In 2020, there was an 18.6% decrease in policies sold (16.7 million) and an 8.5% decrease in active insurance policies (5.9 million).

Source: (Compartamos Banco, 2021[34])

Leverage the benefits of digitalisation

The COVID-19 pandemic has strengthened calls for digitalisation within the microfinance sector. Most MFIs suffered great disruptions to their operations during the past two years due to a heavy reliance on delivering services to clients through face-to-face interactions, some of which could have been avoided if digital practices were more prevalent. Governments have encouraged the use of digital payments through measures to facilitate the use of digital payments during lockdown (e.g. reduction or removal of fees, relaxed know your customer procedures, increased transaction limits) and to provide longer-term support for fintech players and financial innovation (Boakye-Adjei, 2020[35]).

Increasing the level of digitalisation of MFIs' products and processes can have many benefits, especially for non-bank MFIs. First, digitalisation can be used to broaden outreach to unbanked entrepreneurs to expand the customer base. Second, there is potential to reduce operating costs by implementing cost-efficient management solutions such as the use of electronic signatures (Box 7.12). Third, it can diversify the products and services offered by MFIs so that they can better compete with fintech companies that are increasingly operating in the same markets. However, only a limited number of MFIs within the EU have implemented digital solutions and these have been focused on making the lending process more efficient and building interfaces to interact with clients (Pytkowska and Korynski, 2017[36]).

This renewed push for digitalisation creates both opportunities and challenges for MFIs. Many MFIs view the current context as an opportunity to explore new ways of working. This includes, for example, using big data for monitoring the beneficiaries, adopting new communication methods with clients, exploring new outreach approaches to new clients, piloting digital disbursement of loans, innovating with digital savings products, and improving remote customer service (e.g. delivering business advice and financial education). About one-third of MFIs have expanded call-centre operations or digital channels during the pandemic, and slightly less than one-third have implemented new digital channels (Zetterli, 2020[37]). Moreover, about 40% of MFIs are reported to be doing "at least some" transactions over digital channels, although just one in seven are conducting at least 30% of transactions digitally, and a sizeable one-quarter are not doing any digital transactions at all. This is consistent with another international study of MFIs that found that MFIs across 47 countries are using technology to face the crisis (ADA, Inpulse and Grameen Crédit Agricole Foundation, 2020[38]). About half (48%) of MFIs interviewed indicated that they are using existing digital solutions and 31% have implemented new technological solutions for communication with customers and the management of financial products and services. The use of digital solutions to maintain communication and work activities with employees is also relevant. 82% of MFIs interviewed use online meeting solutions and 57% use an online document sharing solution (mainly MENA and LAC partners).

While this increased use of basic digital technologies may signal an openness to further adopt digital practices, products and services, there are a number of risks for MFIs. First, the low-income and underserved clients that utilise MFIs are likely to have low levels of digital skills and access to mobile devices. Therefore, the digitalisation of MFIs may lead to market skimming that further exacerbates inequalities. This would go against the primary function of MFIs in addressing financial exclusion. Second, these new models of fintech that ensure faster, easier, and more cost-effective lending could lead to an over-indebtedness of more fragile micro-entrepreneurs. Third, the digital transformation of MFIs may lead them into more direct competition with fintech and tech companies that are increasingly moving into microfinance markets.

To fully implement the benefits of automation and digitalisation and address increasing competition from new providers, governments may need to provide support to both MFIs and their clients. The transformation of MFIs will require investment in technologies and tools, as well as in boosting the skills of their staff. Governments can support this upskilling with short training programmes and technical assistance for MFIs. In parallel, capacity building programmes that increase digital literacy for entrepreneurship among interested people from MFI target client groups is needed.

Box 7.12. Adie's e-Signature for better delivery of microfinance services, France

Target group: Adie is a non-governmental organisation supporting access to entrepreneurship and employment for individuals who cannot access credit from mainstream sources (e.g. rural populations, urban populations, the unemployed, women, ethnic minorities, immigrants, youth). It provides financial services (i.e. business microloans, personal microloans, insurance), while also providing non-financial services (i.e. entrepreneurship training, mentoring, e-learning courses).

Intervention type: Introduction of a simple electronic signature or “e-signature”.

Description: The purpose of an e-signature is to demonstrate to a third party that a document has been approved by the client. It is a reliable mechanism and Adie’s experience suggests that MFI clients do not typically encounter difficulties using the platform. The main motivation for introducing e-signatures was to improve the efficiency of the loan process, but it also reduces paper waste. The system also helped to ensure business continuity during the COVID-19 pandemic when face-to-face meetings were not possible.

The system implemented by Adie was developed by an external provider, which was selected based on several criteria such as ease of implementation, user experience and document storage processes. The costs associated with this platform are based on the number of contracts digitally underwritten and pricing is often digressive, starting at about EUR 1 per signature. An external provider was selected over the development of an internal system due to the short-term resources and capacities needed, and to ensure compliance with the relevant national and EU regulations. The implementation of this e-signature system was accompanied by a training programme for loan officers who manage the loan contracts with clients.

Results achieved: Adie’s e-signature was used for over 40 000 documents (e.g. contracts, micro-insurance contracts, guarantor’s agreement) in 2020. While client feedback has been positive, both digital and manual signature options will be maintained. Efforts to make e-signatures legal for guarantee acts and other types of contracts are underway as are initiatives to increase security through ID verification steps, one-time passwords and timestamping.

Source: (European Microfinance Network, 2021[39])

Use microfinance to support green entrepreneurship

Many governments have embedded environmental policy objectives in their economic recovery packages and microfinance can play a role in achieving these objectives by directing more funding to green entrepreneurs. Numerous policy actions continue to push for greater investment in sustainable activities, including economic recovery plans (OECD, 2021[40]) and green action plans such as the European Green Deal (European Commission, 2021[41]) that outline steps towards reducing greenhouse gas emissions and decoupling economic growth from resource constraints. Such broad policy agendas are relevant for microfinance because the transition to renewable energy and decarbonisation processes also affects economic activities of micro-enterprises and vulnerable groups that will need support for the implementation of sustainable ways of doing business.

Surveys suggest that there is a large interest among MFIs in the EU in providing green products and services. Green loans are offered by 21% of MFIs and are specifically designed either for financing energy efficiency, renewable energies and/or for environmentally friendly activities (European Investment Fund, 2020[42]). MFIs can provide loans to entrepreneurs to develop green products and services, developing new green business models and adapting solutions (e.g. irrigation systems, energy efficiency), as well as loans to consumers that will benefit green entrepreneurs. This includes, for example, loan programmes to help homeowners upgrade their homes with energy efficient solutions (Box 7.13). Moreover, environmentally friendly activities or technologies are supported even without specific green microloans.

Governments can support MFIs in contributing to the green agenda in several ways. Principally, governments can encourage more MFIs to offer more green products and to invest in green projects by offering a range of incentives. These could include, for example, a greater guarantee for risky green projects, and the use of greater interest rate subsidies for projects that meet a “green” criteria. Financial service provision should also be accompanied by non-financial service supply in order to foster adaptation to the “new normal” (Mendelson et al., 2019[43]).

Box 7.13. Green and Sustainable Development Microcredits, Belgium

Target group: Green entrepreneurs

Intervention type: Direct and indirect microfinance credit for green and sustainable entrepreneurship

Description: The *Crédal* cooperative (*Crédal l'argent solidaire*) was created in 1984 to provide an alternative and professional financial institution to the French-speaking areas of Belgium. In recent years, *Crédal* has focused on providing microcredit directly and indirectly to green and sustainable entrepreneurs who are developing sustainable projects that will socially and environmentally benefit the local community, notably through the Sustainable Development Microcredit scheme (available in both Wallonia and Brussels regions). Eligibility requirements for this programme include that the individual be an early-stage entrepreneur, a self-employed worker (either primary or secondary occupation), be involved in a pre-existing collaborative project or currently participating in a start-up incubator programme. The project must be focused on sustainable development, require up to EUR 100 000 in funding and be ready to implement once funding is secured. Priority is given to entrepreneurs who face difficulty in accessing finance from traditional institutions. The programme offers three sustainable microcredits. Depending on the entrepreneurs' situation, it is possible to combine an investment loan, a working capital loan or a cash loan (maximum of EUR 25 000 in total) as well as to combine any microcredit loan with a traditional bank loan. The first microcredit is the Sustainable Development Microcredit which finances up to EUR 25 000 with repayment in six years (maximum) with an interest rate of 6% (excluding administration fees). The Sustainable Working Capital Development Microcredit has a disbursement period of six months (maximum), a capital repayment period of up to 24 months with an 8% interest rate, while the Sustainable Treasury Development Microcredit has a repayment period of 18 months (maximum) and an interest rate of 8% of the outstanding amount of the loan.

In the Brussels region, *Crédal* offers an additional microcredit programme the Brussels Green Loan (*Prêt vert bruxellois*) through a partnership with Housing Fund (a non-profit organisation subsidised by the Brussels-Capital Region to support tenants and owners). The Brussels Green Loan offers financial support to homeowners to make home energy improvements in three primary areas: insulation and ventilation, efficient heating and renewable energies. While green entrepreneurs do not directly apply for this microfinance support, they indirectly benefit as a stipulation for receiving this individual loan is that all the work must be carried out by an entrepreneur registered with the *Banque Carrefour des Entreprises* (BCE). The programme, therefore, is offering indirect support to green entrepreneurs in the Brussels region by providing work arrangements.

Results achieved: In 2020, *Crédal* provided microcredit to 53 entrepreneurs and 48 social entrepreneurs, totalling to EUR 550 759 and EUR 1.5 million respectively. As expected, entrepreneurs were heavily impacted due to the COVID-19 pandemic, leading to a decline in the number of entrepreneurs who received microfinancing (-33%). Moreover, the profile of these entrepreneurs changed. They were more likely to be young, have higher levels of education and to be men. While social and sustainable entrepreneurship remained relatively stable in terms of accepted applications in 2020 compared to 2019 (46 vs. 48), the amount of the loan decreased from EUR 47 759 to EUR 30 659. *Crédal* provided EUR 4.4 million in microcredits to 636 individuals in 2020. The Brussels Green Loan accounted for 31% of all individual microfinancing (197 green microfinance loans), resulting in work opportunities for Brussel-based entrepreneurs.

Source: (Crédal, 2021[44]; Philippe, 2020[45])

Conclusions

Microfinance is particularly relevant to support inclusive entrepreneurship and those who are excluded from access to traditional banking and related services, such as the unemployed, migrants, women, people with disabilities and students. The sector has developed rapidly in the EU, with European networks of micro-finance providers spreading good practice and continued support from EU Institutions (European Commission, European Investment Fund) but there is evidence of market failures in different geographies and excess demand (Drexler et al., 2020[9]). The progress achieved over the last ten years should be consolidated by means of dedicated financial instruments such as the recently established InvestEU Programme (Social Investments and Skills Window). Evidence also suggests that government efforts to build the sector could be scaled-up, as microfinance has proved to be an effective tool for promoting social inclusion, opening up opportunities for vulnerable people.

Governments face twin priorities in supporting the microfinance sector. First, more actions are needed to support short-term pressures resulting from the COVID-19 pandemic. Priority policy actions could include:

- Scaling-up the available funds, including through the creation of guarantee and revenue-based instruments.

In addition, governments can consider the use economic recovery packages as a way to shape the microfinance sector for the future. This includes:

- Expanding financial support to MFIs through guarantee and debt instruments applying softer conditions for providers targeting vulnerable clients, with these incentives taking the form of longer microloan terms and below market interest rates.
- Increasing the quality of support services offered, including by strengthening linkages between microfinance institutions and partner organisations that deliver “soft” supports for inclusive entrepreneurship.
- Assessing particular needs in different EU geographical areas, examining different characteristics (e.g. urban vs rural areas, availability of digital financial tools, types of financial intermediaries) to ensure that targeted interventions aimed at financial and social inclusion, access to credit and development of the micro-finance eco-system are appropriate for local conditions.
- Expanding funding to meet low-carbon and energy-efficiency of microenterprises served by MFIs.
- Making greater use of the InvestEU Advisory Hub technical support for adjusting microfinance business models (e.g. digitalisation) and increasing the offer of digital training among target client groups.
- Strengthening evaluation practices for microfinance for inclusive entrepreneurship.

References

About Microfinance (2021), *About Microfinance: North America*, https://www.aboutmicrofinance.com/latin-america-caribbean/north-america (accessed on 25 March 2021). [12]

ADA, Inpulse and Grameen Crédit Agricole Foundation (2020), *Beyond the difficulties posed by the COVID-19 crisis, new opportunities are emerging for microfinance institutions (MFIs)*, https://www.inpulse.coop/wordpress/wp-content/uploads/2020/06/COVID-19-New-opportunities-are-emerging-for-MFIs_EN.pdf (accessed on 25 March 2021). [38]

Antón Díaz, P. (2017), *Growing Concerns about Overindebtedness in Mexico's Microfinance Sector*, Centre for Financial Inclusion, https://www.centerforfinancialinclusion.org/growing-concerns-about-overindebtedness-in-mexicos-microfinance-sector (accessed on 25 March 2021). [14]

Boakye-Adjei, N. (2020), "Covid-19: Boon and bane for digital payments and financial inclusion", *FSI briefs*, No. 9, Bank for International Settlements, https://www.bis.org/fsi/fsibriefs9.htm (accessed on 23 March 2021). [35]

Botti, F., M. Corsi and G. Zacchia (2018), "A New European Microfinance Panel Data Set: The European Microfinance Network Survey 2006-2015", *EMN Working Papers*, European Microfinance Network, Brussels. [11]

Brickell, K. et al. (2020), "Compounding crises of social reproduction: Microfinance, over-indebtedness and the COVID-19 pandemic", *World Development*, Vol. 136, http://dx.doi.org/10.1016/j.worlddev.2020.105087. [26]

Compartamos Banco (2021), *Products*, https://www.compartamos.com.mx/compartamos (accessed on 24 September 2021). [34]

Corsi, M. (2021), *European Microfinance Survey 2018-2019*. [4]

Crédal (2021), *Credit*, https://www.credal.be/credit (accessed on 24 September 2021). [44]

Cull, R., A. Demirguc-Kunt and J. Morduch (2009), *Microfinance Tradeoffs : Regulation, Competition, And Financing*, The World Bank, http://dx.doi.org/10.1596/1813-9450-5086. [27]

Dąbrowska, K., P. Koryński and J. Pytkowska (2020), *Impact of COVID-19 Pandemic on the Microfinance Sector in Europe: Field Analysis and Policy Recommendations*, Microfinance Cenre. [25]

Diriker, D., P. Landoni and N. Benaglio (2018), *Microfinance in Europe: Survey Report 2016-2017*, European Microfinance Network / Microfinance Centre. [10]

Drexler, B. et al. (2020), *Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027*, Publications Office of the European Union, Luxembourg. [9]

European Commisison (2021), *European Code of Good Conduct for Microcredit Provision*, https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8312&furtherPubs=yes (accessed on 29 September 2021). [19]

European Commission (2021), *A European Green Deal*, https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en (accessed on 6 October 2021). [41]

European Commission (2020), *Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027*, Publications Office of the European Union, Luxembourg. [22]

European Commission (2020), *The updated European Code of Good Conduct for Microcredit Provision has been published*, Employment, Social Affairs & Inclusion, https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9726&furtherNews=yes#navItem-2 (accessed on 25 March 2021). [18]

European Commission (2007), *A European initiative for the development of micro-credit in support of growth and employment,*, COM(2007) 708 final, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0708:FIN:en:PDF. [21]

European Investment Fund (2020), "European Small Business Finance Outlook 2020: The impact of COVID-19 on SME Financing markets"*, EIF Working Paper 2020*, No. 67, https://www.eif.org/news_centre/publications/EIF_Working_Paper_2020_67.htm (accessed on 23 March 2021). [42]

European Microfinance Network (2021), *Adie's e-Signature for better delivery of microfinance services*, https://www.european-microfinance.org/publication/adies-e-signature-better-delivery-microfinance-services (accessed on 22 September 2021). [39]

European Union (2021), *Commission Delegated Regulation (EU) 2021/1078 of 14 April 2021 supplementing Regulation (EU) 2021/523 of the European Parliament and of the Council by setting out the investment guidelines for the InvestEU Fund*, Official Journal of the European Union, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R1078&from=EN (accessed on 27 October 2021). [23]

Graham, S., J. Ericksen and E. Ericksen (2014), *Over-Indebtedness in Mexico: Its Effect on Borrowers*, Microfinance CEO Working Group, https://www.finca.org/files/2014/05/Over-Indebtedness-in-Mexico-Its-Effect-on-Borrowers.pdf (accessed on 25 March 2021). [16]

Hermes, N. and R. Lensink (2007), "The Empirics of Microfinance: What Do we know?", *The Economic Journal*, Vol. 117/517, http://dx.doi.org/10.1111/j.1468-0297.2007.02013.x. [5]

Hermes, N., R. Lensink and A. Meesters (2011), "Outreach and Efficiency of Microfinance Institutions", *World Development*, Vol. 39/6, http://dx.doi.org/10.1016/j.worlddev.2009.10.018. [28]

Horton, R. (2020), "Offline: COVID-19 is not a pandemic", *The Lancet*, Vol. 396/10255, http://dx.doi.org/10.1016/S0140-6736(20)32000-6. [24]

KONO, H. and K. TAKAHASHI (2010), "MICROFINANCE REVOLUTION: ITS EFFECTS, INNOVATIONS, AND CHALLENGES", *The Developing Economies*, Vol. 48/1, http://dx.doi.org/10.1111/j.1746-1049.2010.00098.x. [6]

Kuhn, H. et al. (2015), *Interim evaluation of the European progress microfinance facility*, Publications Office of the European Union, Luxembourg. [46]

Marchese, M. (2014), "Entrepreneurial Activities in Europe - Finance for Inclusive Entrepreneurship"*, OECD Employment Policy Papers*, No. 5, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jxrcmkgkzzs-en. [29]

Meagher, P. (2020), "Microfinance in the COVID-19 Crisis: A Framework for Regulatory Responses", Consultative Group to Assist the Poor, Washington DC, https://www.cgap.org/research/covid-19-briefing/microfinance-and-covid-19-framework-regulatory-response (accessed on 24 March 2021). [31]

MEDICI (2021), *Understanding the Microlending Landscape: Slow but steady growth*, https://gomedici.com/understanding-microlending-landscape-slow-steady-growth (accessed on 23 March 2021). [2]

Mendelson, S. et al. (2019), *Adapting to a New Normal. Strengthening Resilience to Climate Change: Best Practices from the European Microfinance Award 2019ctices from the European Microfinance Award 2019*, European Microfinance Platform, http://www.e-mfp.eu/resources/adapting-new-normal-strengthening-resilience-climate-change-best-practices-european (accessed on 23 March 2021). [43]

MFTransparency (2015), *Transparent Pricing In Colombia*, https://www.mftransparency.org/microfinance-pricing/colombia/#:~:text=The%20Colombian%20microfinance%20sector%20is,and%20outstanding%20gross%20loans%20disbursed.&text=The%20Financial%20Superintendence%20of%20Colombia,deposit%20taking%20microfinance%20service%20providers. (accessed on 25 March 2021). [17]

Michaels, L., H. Bansal and M. El-Zoghbi (2020), *Preserving Liquidity: Policymaker Responses to COVID-19 and the Impact on Low-Income Customers*, Center for Financial Inclusion, https://www.centerforfinancialinclusion.org/preserving-liquidity-policymaker-responses-to-covid-19-and-the-impact-on-low-income-customers (accessed on 23 March 2021). [30]

Microfinance and Development Onlus Association (2021), *What We Do*, https://www.microfinanzaesviluppo.it/cosa-facciamo/ (accessed on 24 September 2021). [33]

OECD (2021), “No Net Zero without SMEs: Exploring the key issues for Greening SMEs and Green Entrepreneurship”. [40]

OECD/The European Commission (2013), *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264188167-en. [32]

Philippe, I. (2020), *Crédal Rapport d’activité*, Einstein Business Center, Mont-Saint-Guibert, https://www.credal.be/medias/files/publication/CredalRapport2020.pdf (accessed on 24 September 2021). [45]

Pytkowska, J. and P. Korynski (2017), *Digitalizing Microfinance in Europe*, Microfinance Centre, https://www.european-microfinance.org/publication/digitalizing-microfinance-europe (accessed on 23 March 2021). [36]

ReportLinker Consulting (2021), *Global Microfinance Industry*, https://www.reportlinker.com/p05799111/Global-Microfinance-Industry.html?utm_source=GNW (accessed on 22 September 2021). [3]

Rosenberg, R., A. Gonzalez and S. Narain (2009), “Are Microcredit Interest Rates Excessive?”, Consultative Group to Assist the Poor, Washington DC, https://www.cgap.org/sites/default/files/CGAP-Brief-Are-Microcredit-Interest-Rates-Excessive-Feb-2009.pdf (accessed on 23 March 2021). [7]

Rosenberg, R., A. Gonzalez and S. Narain (2009), “The New Moneylenders: Are the Poor Being Exploited by High Microcredit Interest Rates?”, Consultative Group to Assist the Poor, Washington DC, https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-The-New-Moneylenders-Are-the-Poor-Being-Exploited-by-High-Microcredit-Interest-Rates-Feb-2009.pdf (accessed on 23 March 2021). [8]

Ruesta, C. and N. Benaglio (2021), *Microcredit regulation in Europe: An overview*, European Microfinance Network. [20]

Schaberg, K. et al. (2019), *Microfinance in the United States Early Impacts of the Grameen America Program*, MDRC, New York, https://www.mdrc.org/sites/default/files/Grameen_Report_final-web.pdf (accessed on 25 March 2021). [13]

Women's World Banking (2014), *Why Mexico Can't Make Microfinance Work (And Why It Needs to)*, https://www.womensworldbanking.org/insights-and-impact/individual-lending-microenterprises-mexico-constraints-opportunities/ (accessed on 25 March 2021). [15]

World Bank (2019), *World Bank Data Catalog*, https://datacatalog.worldbank.org/dataset/mix-market. [1]

Zetterli, P. (2020), *Four Ways Microfinance Institutions Are Responding to COVID-19*, CGAP, https://www.cgap.org/blog/four-ways-microfinance-institutions-are-responding-covid-19 (accessed on 25 March 2021). [37]

Notes

[1] Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027, Final Report (May 2020)

[2] JASMINE (Joint Action to Support Microfinance Institutions in Europe), which was aimed at providing EU technical assistance to non-bank financial institutions in the 2007-13 programming period;

JEREMIE (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative of European Commission (Directorate General for Regional Policy) and the EIB Group (mainly through the European Investment Fund) to facilitate the use of EU Structural Funds to finance SMEs and entrepreneurs in a more efficient and sustainable way;

European Progress Microfinance Facility (EPMF), which was established by the Commission and the EIB to provide financial instruments such as loans and guarantees to support MFIs complying with the "European Code of Good Conduct for Microcredit Provision". EPMF was aimed at increasing access to finance for micro enterprises and creating jobs for vulnerable groups and it gained relevance in the aftermath of the 2008-09 financial crisis. By December 2013, more than 20 000 entrepreneurs had benefited from loans and guarantees under the facility, worth a total of EUR 182 million (Kuhn et al., 2015[46]).

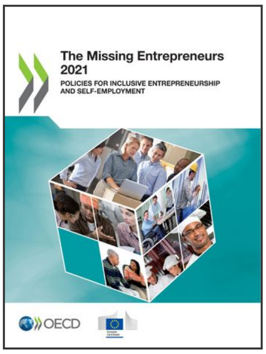
[3] Some of the EASI instruments for microfinance are managed and implemented by the European Investment Fund on behalf of the European Commission:

- *EaSI Guarantee Instrument* (EUR 430 million) to sustain microcredit providers in serving risky beneficiaries excluded from mainstream financial markets. It sustains also social finance providers in serving social enterprises. The EaSI Guarantee benefitted from EUR 130 million from EaSI and EUR 300 million from the European Fund for Strategic Investments (EFSI);
- *EaSI Capacity Building Investments Window* (EUR 45 million) to support mostly with subordinated loans the growth process of selected MFIs and social finance providers.

- *EaSI Funded Instrument* is a partnership between the EIF, the EIB and the EU to manage a loan fund of EUR 200 million; 70% of the fund size will be dedicated to provide microloans (up to EUR 25 000) to vulnerable micro-borrowers and micro-enterprises .
- *EaSI BDS Pilot for refugees and migrants* provide partial coverage for business development services (coaching, mentoring, or training) costs incurred by existing EIF financial intermediaries serving migrants and refugees demand seeking to establish a micro-enterprise.
- The *EaSI Technical Assistance* is managed directly by the DG Employment, Social Affairs and Inclusion of the European Commission to provide non-financial advisory services to public and private financial intermediaries active in the microfinance sector in Europe and for the implementation of the *European Code of Good Conduct for Microcredit Provision*.

[4] CGAP is a global partnership of more than 30 leading development organisations that works to advance the lives of poor people through financial inclusion. The interactive dashboard was launched on 1 June 2020 to report results of the CGAP Pulse Survey of Microfinance Institutions, which examines the impacts of the COVID-19 pandemic on microfinance sector at the global, national and regional levels.

[5] PAR-30 is the most common indicator for credit risk that accounts for loans in arrears for over 30 days.



From:

The Missing Entrepreneurs 2021

Policies for Inclusive Entrepreneurship and Self-Employment

Access the complete publication at:

https://doi.org/10.1787/71b7a9bb-en

Please cite this chapter as:

OECD/European Commission (2021), "Designing effective microfinance schemes for inclusive entrepreneurship", in *The Missing Entrepreneurs 2021: Policies for Inclusive Entrepreneurship and Self-Employment*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/5adabec3-en