

European Microcredit Whitepaper

Unlocking the potential of microcredit for a more inclusive and dynamic Europe



BNP PARIBAS
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Foreword

Paris EUROPLACE is the organisation in charge of developing and promoting the Paris financial centre. The association brings together all the players in the Paris financial centre, not only banks and financial intermediaries, investors and regulatory authorities, but also companies, including SMEs and start-ups, to work together.

Our objective is to develop a financial centre which serves the needs of citizens and of the real and long-term economy, a financial centre that supports sustainable development.

This is the *raison d'être* of the financial centre which we strive to develop in France and to this aim we are working on a new strategic action plan for 2030.

Indeed, the current context requires a change in our economic development model and the financial centre must support the development of solutions. As the Minister of Economy and Finance Bruno Le Maire highlighted, we can no longer operate as we used to: we must give more meaning to growth and reduce inequalities.

Today, our work focuses on the different areas of sustainable finance: responsible investment, environmental finance and social and solidarity finance. The strength of our commitment is a specific feature

of the Paris financial centre compared to other international financial centres and is undeniably one of our strengths.

In this context, we have set up a working group, in partnership with ADIE and the European Microfinance Network (EMN), to review the current situation and identify desirable developments in the field of micro-credit, micro-insurance and financial inclusion. This group has initiated discussions with a view to unlocking the potential of microfinance, not only in France but also in Europe. It considers that the proposals formulated by the EMN constitute avenues for reflection and debate that should allow for an in-depth exchange with the various stakeholders, to be initiated at European level, and makes proposals more specific to France, in particular to strengthen partnerships between microfinance institutions (MFIs), public authorities and financial institutions, to support the development of microfinance and its financing and support mechanisms.

Our objective is to work towards the development of an innovative and inclusive Europe, attentive to its territories and determined to combine the economic with the social.

Augustin de Romanet

Chairman of Paris EUROPLACE

Preface

Across Europe, inequalities are turning people against the concept of representative democracy. The limits of passive inclusion policies are manifesting themselves, resulting in the failure to actively integrate people into society and employment.

We would like to draw the attention of economic and political decision-makers to the growing importance of self-employment, with its risks and opportunities, and the role of the policies which support this type of employment, carried out with the support of the European Commission and Member States by microcredit institutions that finance and support people in difficulty.

The experience gained over the years in a growing number of EU Member States shows that the constant development of self-employment with the support of microcredit enables people to become creators of wealth, to work against poverty and social fractures, while simultaneously preparing the new economy and contributing to the achievement of Sustainable Development Goals.

1. Self-employment and micro-enterprises in Europe

After years of recession, independent work is in full expansion in Europe. New technologies, the development of the service sector and a cultural shift towards self-management are fundamentally reshaping the labour market. Currently, 7.6% of the working population are self-employed in Europe, a non-trivial part of the economy which is expected to further expand. While it does not enjoy all the social

benefits of paid work at this stage, self-employment has the advantage of allowing each individual to leverage on their specific skills and capabilities.

In many EU countries, self-employment is becoming the primary route to employment and social integration. Self-employment offers a concrete way for people to contribute to the economy, particularly if their skills and experience do not match the requirements of salaried positions.

Conversely, the ascendance of digital platforms also raises concerns. Do they erode worker protection by engaging the self-employed? Are they taxed appropriately? Do they create precarious pseudo-salaried positions that are particularly vulnerable to sudden shifts in the market? These are important questions to ask, and they may require an adaptation of the social protection systems.

More than 17% of the European population lives below the poverty line. Helping them is difficult since they often lack the tools and skills to fit the demands of formal employment. It is more effective to directly involve these people in creating their own jobs as soon as their basic conditions are met.

2. Conditions for the development of self-employment and the tools for financing and support

"The European Initiative for the Development of Microcredit for Growth and Jobs", published by the Commission in 2007, remains relevant today. It has four axes:

- Improving the legal and institutional environment in the Member States
- Further changing the climate in favour of entrepreneurship
- Promoting the spread of best practices, including training
- Providing additional financial capital for microcredit institutions

While the last two axes have seen real progress, notably through the successive implementation of the Jasmine, European Progress Microfinance Facility and EaSI programmes, the first two, which are the responsibility of the Member States, have not seen much improvement. In some countries, the law has been amended.

For example, in France the legislator has lifted three major blockages to the sector's advancement:

- by allowing microfinance institutions to borrow and to lend,
- by recognizing the creation of a company as a way of integration. and
- by simplifying the status of self-employed worker and allowing him to pay social security contributions after he has made money (rather than before).

In countries that have introduced this type of reform, the number of businesses created has grown rapidly. In countries where only banks can issue credit, the legal framework

may still need to be adapted to the reality of the new economy.

3. Policy Proposals and Areas for Improvement

This whitepaper was developed by a working group under the auspices of Paris EUROPLACE¹ and the European Microfinance Network (EMN)², composed by specialists from banking groups, specialised microcredit organisations, the Banque de France, and the Fédération Bancaire Française (FBF).

The paper draws attention to the following issues:

- Self-employment and micro-enterprises play an increasingly crucial role for employment and integration in the European Union.
- Microcredit has proven its effectiveness across the EU and has adapted itself to the regulatory framework of each Member State.
- There is a need for improvement and convergence of the regulatory and legal frameworks for microfinance across Europe.
- Public support for microfinance is essential to finance social impact, and more can be done to strengthen that support in line with the common objectives of microfinance practitioners and public bodies.

The main EMN policy proposals and the areas of improvement for France are elaborated on in Chapter 6: Twelve proposals and areas for improvement to unlock the potential of microcredit.

¹ Paris EUROPLACE is the organisation in charge of developing and promoting the Paris Financial Marketplace and the French financial industry internationally. It brings together all financial industry stakeholders; its 400+ members include issuers, investors, banks and financial intermediaries, insurance companies, attorneys and accountants, consulting firms, etc. The association is chaired by Augustin de Romanet, Chairman and CEO of Groupe ADP. www.paris-europlace.com

² The EUROPEAN MICROFINANCE NETWORK (EMN) is a member-based not-for-profit organisation based in Brussels, which promotes microfinance as a tool to fight social and financial exclusion in Europe through self-employment and the creation of microenterprises. It is the Network's mission to facilitate capacity building and to advocate on behalf of the sector. www.european-microfinance.org

European Microfinance Network proposals

1. All EU Member States should **adopt a common definition** of microfinance and microcredit.
2. All EU Member States should converge towards a **harmonised regulation** of microfinance, following European best practices.
3. The EU and EU Member States should strengthen the **regulatory framework for entrepreneurship and self-employment**.
4. The EU institutions should strengthen and diversify the **financial support mechanisms** for microfinance institutions in Europe.
5. Managing Authorities for the implementation of the European Social Fund should invest more in the development of microfinance **business development services**.
6. The EU institutions should support the construction of a **European platform for microfinance and social entrepreneurship**.
7. Banks and microfinance institutions should engage in **stronger partnerships** across Europe.

Areas for improvement and development more specific to France

8. The development in Europe of a "solidarity employee savings funds ("fonds d'épargne salariale solidaire"), inspired by the French experience, should be promoted.
9. The necessary clarifications should be made to develop debt funds for microfinance institutions in France.
10. Support should be developed and professionalized: the trial of platforms should be transformed.
11. The development of Social Impact Contracts (CIS) in the microfinance sector should be encouraged.
12. Awareness of tax benefits of skills sponsorship should be increased.

Maria Nowak

Dominique de Crayencour

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Note on the origin of this whitepaper:
This paper is based on a paper in French entitled "Livre Blanc Microcredit," which was produced by Paris EUROPLACE's working group.
The full text of the French version can be found on Paris EUROPLACE's website.

Composition of the Working Group

Chaired by Maria Nowak

Margherita ALESSANDRINI, *Chargée marketing LA BANQUE POSTALE*

Mouna AOUN, *Direction marketing LA BANQUE POSTALE*

Claudia BELLI-JEANTEUR, *Global Head Social Business & Microfinance BNP PARIBAS*

Pierre BOCQUET, *Directeur banque de détail et banque à distance FBF - FEDERATION BANCAIRE FRANCAISE*

Natacha BORIC, *Chargée de Mission Finance for Tomorrow PARIS EUROPLACE*

Sylvie BOURNAZEL, *Direction des affaires internationales CREDIT COOPERATIF*

Nadège BUQUET, *Responsable Plaidoyer ADIE*

Caroline CAMPAGNE, *Chargée d'études inclusion financière FNCE*

Arnaud de BRESSON, *Délégué général PARIS EUROPLACE*

Dominique de CRAYENCOUR, *Vice-Président EUROPEAN MICROFINANCE NETWORK*

Carine DELFRAYSSI, *Directrice PARIS EUROPLACE*

Baptiste FASSIN, *Chargé de publications CONVERGENCES*

Maha KERAMANE, *Head of social business & microfinance for Europe BNP PARIBAS*

Christine KLEIS-GRUBER, *Chargée de mission FEDERATION BANCAIRE FRANCAISE*

Gérard LESEUL, *Responsable du Département Affaires publiques et RSE Confédération nationale du CREDIT MUTUEL*

Emmanuel de LUTZEL, *Volontariat BNP PARIBAS*

Maria NOWAK, *Founder of ADIE*

Jean-Luc PERRON, *Vice-Président CENTRE YUNUS Paris*

Stéphane PLAIS, *Direction des affaires juridiques AMF - AUTORITE DES MARCHES FINANCIERS*

Jorge RAMIREZ PUERTO, *General Manager EUROPEAN MICROFINANCE NETWORK*

Béatrice RAOULT-TEXIER, *Responsable RSE Microcrédit BANQUE DE France*

Stéphane TOURTE, *Directeur DG SER Direction des particuliers BANQUE DE France*

Cédric TURINI, *Directeur de la RSE FEDERATION NATIONALE DES CAISSES D'EPARGNE*

Anna VALLEE, *Département RSE, Confédération Nationale du CREDIT MUTUEL*

Oscar VERLINDEN, *Advocacy Manager EUROPEAN MICROFINANCE NETWORK*

Isabelle ZIGLIARA-DE SANCY, *Directeur des Partenariats & du Mécénat, Fédération Nationale des Banques Populaires*

This white paper was written with the participation of all the members of the group, Jean-Luc Perron ensuring the final drafting. It is part of Paris EUROPLACE's dynamic work on sustainable finance themes, carried out within the Finance for Tomorrow³ initiative.

³ www.financefortomorrow.com



CHAPTER 1

What is microfinance?



Microfinance is an umbrella term that refers to at least three well-defined concepts: microcredit, microsavings and microinsurance. In the European context, it is overwhelmingly used to denote microcredit, to the point where the words microfinance and microcredit are used interchangeably.

General definition proposed by the Microfinance Networks

Microfinance⁴ covers activities that provide access to financial services to people that are excluded from traditional financial markets, and includes **all** of the following characteristics:



Target Clients

Socially or financially excluded people (generally without collateral, credit history or previous/tracked experience) who lack access to mainstream sources of finance (e.g. current and potential micro-entrepreneurs and the self-employed).



Objective of the operation: social and financial inclusion

The objective of the intermediary is not to maximize profit. Returns are not distributed in a form of dividends but reinvested in the operation to support its sustainability.



A tailor-made delivery system that

- analyses the financial capacity of the beneficiary and ensures the prevention of over-indebtedness as well as the adequacy of offered products and terms; and,
- offers access to non-financial services that may involve training, mentoring, coaching, business support and other measures (collectively referred to as "Business Development Services," BDS).

⁴ As defined by the European Microfinance Network and the Microfinance Centre in their proposed definition.



Products

Microcredit: Business microloan for the creation or expansion of income-generating and job-creating activities or micro-enterprises, i.e. the financing of investment and/or working capital.

Other: Personal microloans, micro-insurance, micro-saving facilities, etc. (for business or personal purpose) targeted at protecting/building personal/household/enterprise assets.



A small amount of the individual transaction, typically lower than the European average per capita GDP

Some definitions of microfinance set absolute quantitative thresholds. However, given the significant divergence of GDP, it is hard to defend any arbitrary threshold, and therefore better to avoid quantifying it at all.

EU definition applied to date

The EU is a strong supporter of microfinance, defined as microcredit granted to people at risk of social exclusion for the purpose of engaging in economic activity.⁵ Previously, microcredit was limited to loans up to EUR

25,000, but a new definition has been proposed that removes the maximum loan amount. The new EU proposed definition is the following:



*'microfinance' includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities.*⁶

This new definition lacks consideration for the customer's repayment capacity and for the not-for-profit objective of the microfinance provider, however, it is an improvement over previous iterations.

There is no harmonised definition of microcredit in EU countries. This is a structural barrier to pan-European financial

inclusion initiatives since any initiative must be tailored to 28 different legal frameworks.

We can distinguish two types of microcredit: personal microcredit, which intends to improve the employability of the borrower, and business microcredit, which finances an income-generating activity.

⁵ Source: Commission Staff Working Paper "Microcredit for European small businesses", SEC (2004)1156; "Competitiveness and Innovation Framework Programme", 1639/2006/EC. Other source: Commission recommendation 2003/361/EC.

⁶ Source: European Social Fund Plus: proposed framework

Business models

We distinguish between two types of microfinance institutions (MFIs): with or without banking licenses.

Non-bank MFIs

In many European countries, non-bank financial institutions are permitted. Non-bank MFIs don't hold a banking license, and as a result, face some important restrictions to providing microcredit:

- They are prohibited from taking deposits, which means they must borrow capital to serve their clients (known as "on-lending"). This partly explains the higher prices some MFIs charge.
- Higher costs of capital mean that non-bank MFIs have a harder time becoming financially sustainable. Many rely heavily on public subsidies. Those who are financially sustainable (without subsidies) must cover higher costs, often passing on these costs to customers. This puts tension on the MFI's social mission, and necessitates that MFIs adapt their economic model to fit their environment and clients.

- They are sometimes prohibited from making loans, in which case they partner with a bank which delivers the loans. The MFI adds value through marketing and Business Development Services.

The relationships between banks and non-banking MFIs vary greatly. In some countries, there is perfect complementarity (e.g. Dutch banks creating the MFI that serves the clients they cannot serve themselves). In other countries the relationship is much weaker if present at all. Of course, many countries fall somewhere in between.

It is common for banks to associate with MFIs as part of their corporate social responsibility ("CSR") activities, subsidising some part of the MFI operations or providing on-lending.

Non-bank MFIs often rely on such public support tools such as financial guarantees that cover part of the default risk on their portfolio.

Bank MFIs

Banks typically consider microcredit as part of their CSR activities or as a type of specialised commercial activity. Banks benefit by using their low-cost deposits as funding. On the other hand, when banks adapt their lending activities to smaller loan amounts (also known as "down-scaling") without adapting the product to reflect the social mission of financial inclusion, this does not lead to serving those excluded clients who need it most. In such cases, the wording "microcredit should simply be replaced by "small loans."

However, some special cases worth mentioning include:

- Banks who self-identify as "ethical banks." These banks have a strong social mission ingrained into their operations, incentivising their operations to maximise social good.
- Credit Unions/cooperatives both take deposits and disperse small loans, tending toward being more consumption loans. This overlaps in some ways with the mission of microcredit if this credit is offered with accompanying business development services. However, it is important to reiterate the importance of business development services as a crucial element for microfinance to serve as a tool for inclusion.



CHAPTER 2

30 years of
microfinance
development in
Europe



The timeline

Pre-1989

Credit cooperatives engaged in activities that strongly overlap with microfinance, without explicitly naming it such. To this day, the values of credit cooperatives and microfinance institutions share many features.

1989

"Association pour le Droit à l'Initiative Economique" (Adie) founded in France by Maria Nowak.

1997

The Microfinance Centre (MFC) was established in Warsaw by 21 MFIs.

2003

The European Microfinance Network (EMN) was founded in France and then moved to Belgium.

2007

The European Commission published "[A European initiative for the development of microcredit in support of Growth and Employment](#)" – a landmark document that set the course for the future of the EU institutions' support for microfinance.

2007

Creation of the "Luxembourg de la Plateforme Européenne de Microfinance", dedicated to investors and European microfinance lenders in developing countries.

2007-2013

JASMINE + Progress (first EU technical assistance programme for microfinance).

2014-2020

EU Programme for Employment and Social Innovation (EaSI) (EU financial instruments and grants for microfinance).

2021-2027

InvestEU and ESF+ (the future sources of EU support for microfinance).

Microfinance is present in all European countries



* Hungary, 6 foundations:
 Fejér Enterprise Agency - Székesfehérvári Regionális Vállalkozásfejlesztési Alapítvány
 Heves Megyei Vállalkozás- és Területfejlesztési Alapítvány - LEA Heves County / Hungary
 Jász-Nagykun-Szolnok County Enterprise Development Foundation
 PRIMOM Foundation for Enterprise Promotion in Szabolcs-Szatmár-Bereg County
 Tolna County's entrepreneurship-developing Foundation
 Veszprém Megyei Vállalkozásfejlesztési Alapítvány



CHAPTER 3

European
Microfinance Key
Figures



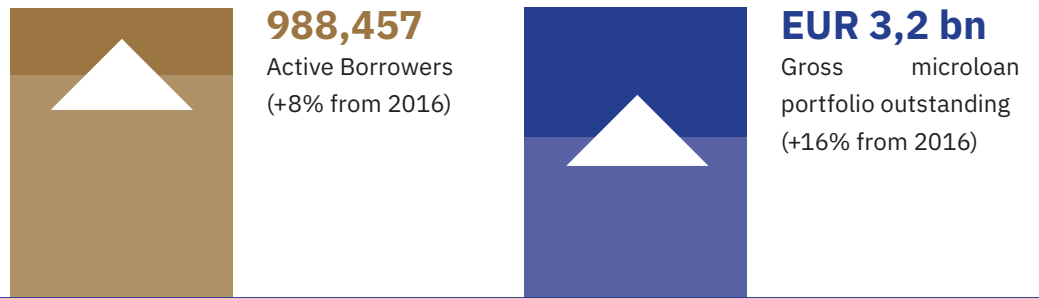
In Europe, statistics for microcredit are gathered through a survey by EMN and MFC. The numbers collected are self-reported and cover 156 of the 450 MFIs in Europe. These statistics are complemented by an EMN-MFC "market size" study, conducted by Evers & Jung in 2017, which expanded on these statistics with informed assumptions to identify the existing market gaps and future perspectives for microfinance.

growing, with 8% more clients in 2017 than in 2016, a 16% increase in portfolio outstanding. Western and Eastern Europe report similar numbers of borrowers, but the average loan size in Western Europe is substantially larger. France and Spain together make up about EUR 2 billion, or nearly two-thirds of total European microfinance.

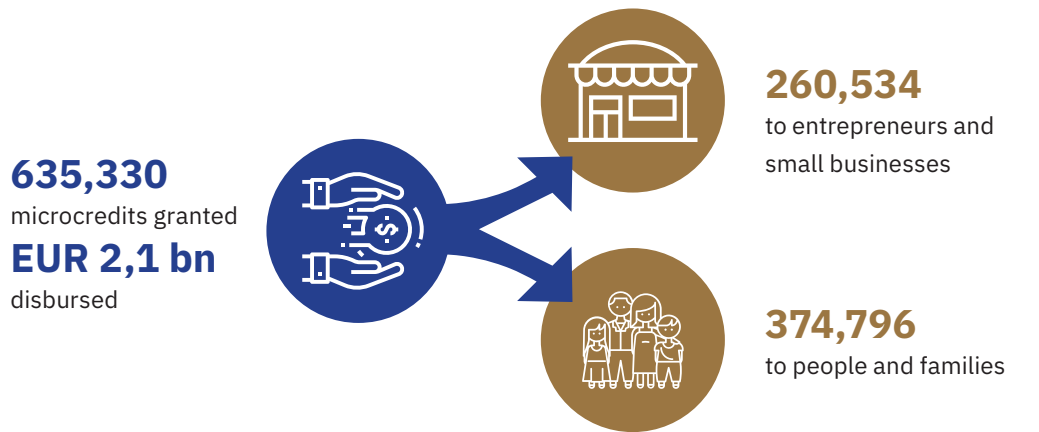
According to the most recent EMN-MFC survey, there were approximately one million active borrowers in 2017, representing a total outstanding loan portfolio of approximately EUR 3 billion. The sector has been steadily

The EMN-MFC market size study estimated an annual market potential of approximately 2 million borrowers, corresponding to an annual demand of EUR 17 billion. These estimates indicate that the European market still has significant growth potential.

Outreach by December 2017



Key figures for 2017



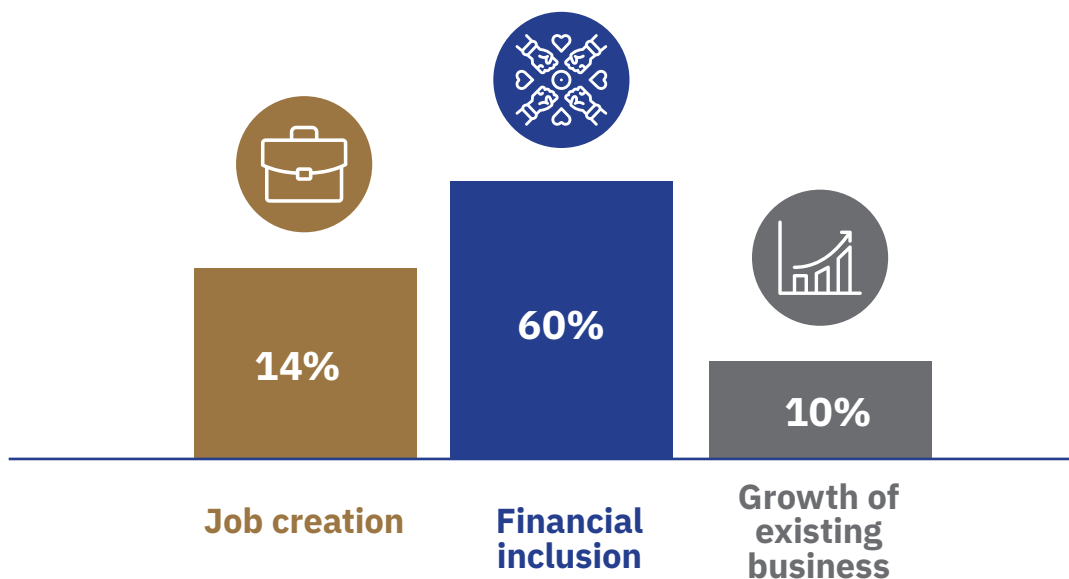
The majority of respondents support financial inclusion (60%) as a primary mission, which is followed by job creation (14%) and growth of existing businesses (10%). Women are the most targeted client group by respondents, followed by rural populations, unemployed/welfare recipients and youth. Ethnic minorities, immigrants/refugees and people with disabilities are the least served group of borrowers. Moreover, most respondents support solo-entrepreneurs and self-employed, followed by microenterprises up to 5-10 employees. Finally, most respondents support businesses that are already established but still young (up to 5

years-old).

In terms of portfolio quality, the portfolio at risk (loans overdue by 30 days, PAR30) ratio decreased from 15.2% to 13.9% and the provision expense ratio decreased from 6.4% to 5.9% between 2016 and 2017. The write-off ratio was steady for both years: 4.7% in 2017 and 4.6% in 2016. The cost of delivering loans decreased in 2017 with an average operating expense ratio of 26% (compared to 33.7% in 2016). Overall, the average ROE increased from 2.7% in 2016 to 4.9% 2017 and ROA increased from 1.8% to 2.5%.

Variety of social goals

Share of MFIs by primary missions selected





CHAPTER 4

Microfinance's Social and Economic Impact



In 2013 the International Labour Organisation (ILO) conducted a study among 4204 entrepreneurs who started their activity since 2010 and benefited from some form of microfinance. Three years after the launch of their activity, the results exceed national averages: 77% are still in business (the national average is 66%), 75% of businesses founded by unemployed founders survive, 9 out of 10 founders are permanently part of the labour market, and the total job creation is 0.9 jobs per company (a result identical to the national average but better targeted towards excluded people).

A similar study performed for personal microcredit, in 2012 by the Caisse des Dépôts et Consignations, shows that 52% had a positive impact on their employability, 51% improved self-esteem, and 72% improved at least one area of their situation (employability, health, housing, etc).

These positive results are not accidental.

They are a result of microcredit institutions that are designed expressly around delivering on this social objective. It is backed into their business plan from the very beginning and is known as "social performance".

Social performance is a measurable set of indicators around which an MFI structures its operations, which is periodically reviewed, reported on, using recognised methods of measuring social impact. The social performance indicators also constitute the clearest way in which MFIs and public sector objectives interact.

Quantifying the social side of an MFI can be conceptually structured into three main areas: ex ante (targeting social impact through business operations), ex post (measuring the real impact that results from MFIs actions), and financial sustainability.

Ex Ante: Targeting Social Impact through Business Operations

The core mission of microfinance is social. To serve this social mission, social goals must formally be part of the business operations, including the processes that incentivize sales and management.

Adie's "exclusion index" provides a concrete example. For each client, a "social exclusion index" and "financial exclusion index" are calculated:

- The social exclusion index assigns values between 0 and 1 for several aspects that make it more likely that a person is socially excluded. The factors include gender, age, nationality, living area, and level of education, which are combined into a single metric (where 1 represents maximum exclusion).

- Financial exclusion is measured by items such as banking status, debt level, family budget, etc. and also ranges from 0 to 1.

To ensure that the employee activity does not shift towards serving only clients with the best financial returns, loan officers and management are encouraged to develop a portfolio for which the average exclusion rates are high.

To more formally assess a company's social performance management, many MFIs use the CERISE SPI4, which measures social performance management and client protection.

Microfinanza Rating (MFR) also provides a social rating for MFIs using factors such as: governance and strategy, financial profile, loan portfolio quality, system and controls, client protection, and external contexts. The rating is carried out by MFR's auditors both remotely and via onsite visit assessments.

Microfinance institutions are incentivised

to seek formal ratings as it helps them demonstrate their professionalism and dedication to delivering high-standard social services to potential investors and public sector bodies. For example, MFIs must be certified with the European Code of Good Conduct to qualify and benefit from the EaSI guarantee support instruments.

Ex Post: Measuring the Effective Social Impact

Despite an MFI's goals and intentions, post-hoc studies examine whether the delivery of microfinance has indeed improved the circumstances of the client and whether microfinance has made the client less dependent on welfare. This is challenging due to the holistic nature of the microcredit and the services that are delivered, as many MFIs also consider it their objective to make people more employable, even if they do not maintain independent business operations.

Many studies carried out by MFIs attempt to quantify the "financial impact of social benefits" by taking into account items such as the amount of savings generated for social welfare when an MFI client becomes self-employed, and taxes paid from entering the formal economy.

Some examples of this type of study include:

microStart
Belgium



In 2017, the Vlerick Business School surveyed all microStart customers between 2013 and 2015, revealing that 78% of borrowers continue to operate after 1.5 to 4.5 years, while 9% work for another company. In addition, 30% of the active enterprises have created one or more additional jobs. Converting this figure to return on investment indicates that for each loan of EUR 20,000, microStart creates two jobs: one directly for the borrower and another by the client's company. In short, each funded client produces 1.87 jobs, including their own.

MicroStart customers have also seen a significant increase in their standard of living and their income. On average, family net income per client has increased by 9.5% over the 1.5-4.5 year time period from the date of their original loan, while the proportion of social assistance income has decreased from 31% to 12%. Better still, the proportion of clients above the poverty line has increased from 18% to 44% during the same period.

Adie
France



A study carried out in 2016 by KPMG, covering 9,219 new business customers financed by ADIE in 2014, shows that 63% of the enterprises are sustainable over 2 to 3 years, while 16% were not sustainable but the entrepreneurs were reintegrated into the labor market in other companies.

Adie and KPMG focused on quantifying the benefits of professional microcredit (social costs avoided + revenue generated) to compare it to the cost incurred by the funders (public and private) in an effort to measure the economic efficiency of microcredit and accompaniment.

The Social Return on Investment ('SROI') methodology consists of three parts: (1) the allocated social costs typical of entrepreneurs financed by Adie, (2) avoided costs and (3) the economic benefits generated.

The avoided costs are twofold: (1) the action of the Adie prevents the changeover of a certain number of creators towards social minima after exhaustion of their rights to unemployment and (2) the income of activity result in a decrease in the average amount of social income paid, including RSA.

The economic benefits generated derive from taxation and social revenues: tax income is generated from the economic activity of the companies created and on the salaries of those employed, including the social contributions made by employers.

Over two years, the cost of the program was EUR 24.4 million. The costs avoided were EUR 16.7 million and the economic benefits generated were EUR 45.3 million. The social return on investment was therefore equivalent to EUR 37.7 million.

The ratio of cumulative annual net gains to program costs (after discounting the cash flows to their present value) shows that investments in Adie pay for themselves after 14 months (in terms of value generated for the community) and after two years generate EUR 2.38 per euro invested.

AFI
Greece



The Action Finance Initiative (AFI) is a professional microcredit program launched in Greece in 2014 with the support of Adie. Using the same SROI methodology as ADIE, AFI shows that EUR 1 invested in the professional microcredit program generates EUR 2 after two years.

PerMicro
Italy



PerMicro, created in 2007, is the main microcredit organization in Italy. A study carried out at the end of 2018 by Politecnico Milano and Tiresia on 1,813 entrepreneurs financed between 2009 and 2016 shows that 90% of the enterprises are still in business. 38% of funded entrepreneurs now have access to the mainstream financial sector. In the period analyzed, 700 entrepreneurs and 2,700 families became "bankable" following support from PerMicro. In addition, EUR 46 million of additional public revenue was generated and public expenditure was reduced by EUR 9.6 million.

Other considerations:

Impact studies carried out by MFIs only reflect the measurable impacts of professional microcredit. They do not evaluate qualitative and intangible impacts in the form of reinforcing social bonds and increases in self-esteem and positive psychology.

Financial sustainability

Microfinance is considered by some to be a high-risk activity: lending to unemployed people with no real or personal guarantee could only lead to a high level of delinquency and the bankruptcy of specialized bodies. The data on defaults give a very different view. The default write-off rate is generally less than 5% in microfinance in Europe, which is close to the average bank loans in the EU.

Other factors weigh on the economic and financial performance of MFIs:

- The cost of **on-lending**: MFIs cannot take deposits and must borrow the capital from banks. This means MFIs will always charge higher interest rate than commercial banks.
- The cost of **administering loans**: The cost of giving a thousand € 1000 loan is a thousand times higher than the cost of giving a single € 1 million loan in administration, valuation and transaction

costs but the revenue is potentially the same.

- The cost of **support services**: Accompanying the clients requires a huge operational budget that must be funded by either the interest rate on the loans, or a variety of grants and voluntary help. To give an idea: Adie reckons it spends € 2000 per client on average, including administration and accompaniment.

Because of these factors, it is obviously much more difficult for an MFI to offer its investors a lucrative return on their investment. On the other hand, the advantage of investing in a well-managed and efficient MFI is the double bottom line: it turns the financial return on investment into a sustainable social benefit with positive externalities for the community at large. This means that public support should be "remunerated" by social impact and not by financial return.



CHAPTER 5

Microcredit, an EU policy objective



Jasmine and Progress Microfinance: 2007-2013

In 2007, the European Commission clearly defined its position on microfinance. The Commission stated that microcredit can play an important role in the realisation of the Lisbon strategy for growth and jobs and the promotion of social inclusion (source: "[A European initiative for the development of microcredit in support of Growth and Employment](#)"):

- First, the initiative invited the Member States to adapt appropriate national institutional, legal and commercial frameworks to promote a more favorable environment for the development of

microcredit.

- Second, it established that EU support would ensure:
 - technical assistance for the sector; and,
 - access to finance for selected "model MFIs" through the provision of financial resources and technical assistance.

This Commission communication gave rise to two complementary programmes that would represent the bulk of EU support to the sector between 2007 and 2013:



JASMINE programme

JASMINE programme ("Joint Action to Support Micro-finance Institutions in Europe"). A preparatory Action Budget of the European Parliament paved the way for this programme that provided EU technical assistance to non-bank financial institutions between 2007 and 2013. The design of a widely accepted voluntary "European Code of Good Conduct for Microcredit Provision" ("the Code") was identified by the Commission as an important element to promote best practices in the field of microcredit.



European Progress Microfinance Facility (EPMF)

European Progress Microfinance Facility (EPMF) was established between the Commission and the EIB, which between 2007 and 2013 provided financial instruments such as loans and guarantees to support MFIs. Benefiting from financial support was contingent on compliance with the Code.

Employment and Social Innovation (EaSI): 2014-2020

The EU Programme for Employment and Social Innovation (EaSI) was designed as a successor to JASMINE and EPMF, contributing to the implementation of the Europe 2020 strategy by supporting the EU's objective of high-level employment, guaranteeing adequate social protection, fighting against social exclusion and poverty and improving working conditions. Under EaSI, the European Commission made the following financial instruments available:

- EaSI Guarantee Instrument: to increase access to finance for social enterprises, micro-enterprises and vulnerable groups. EUR 96 million was initially earmarked, and due to high market demand, the amount was increased to a total of roughly EUR 400 million over the 2014-2020 period.
- EaSI Capacity Building Investments Window: funded by the Employment and Social Innovation Programme, the objective of this instrument is to build up the institutional capacity of selected

financial intermediaries that have not yet reached sustainability or are in need of risk capital to sustain their growth and development. EUR 16 million has been earmarked.

- EaSI Technical Assistance: services, offered free of charge, to help MFIs prepare themselves for compliance with the Code of Good Conduct and to build capacity (e.g. investment readiness trainings to MFIs and dissemination of good practices in the European microcredit sector, ratings, institutional assessments and evaluation services, etc.)

Recently, EUR 1 million of EaSI resources have been made available to financial intermediaries (MFIs) implementing programmes to increase the financial inclusion of refugees and migrants. The objective is to provide partial coverage for "business development services" costs incurred by intermediaries to serve clients from this target group.

Structural funds for microfinance

EU Structural Funds (European Social Fund/ESF and European Regional Development Fund/ERDF) work together to support economic development across all EU countries in line with the Europe 2020 strategies. Every EU region may benefit from the ESF and ERDF, and the concrete implementation of programmes under these funds is done by Managing Authorities, which are regional bodies. Managing Authorities are given discretion to implement the fund as they see fit, within the constraints and overarching objectives set out by the EU rules and regulations.

For microfinance, these structural funds could subsidize the provision of business development services (BDS) such as coaching and mentoring. Despite the importance and growing recognition of self-employment, microbusiness and microcredit at the EU level, national ESF and ERDF bodies have only marginally taken up these issues in their operational programmes. Fi-compass has published a factsheet to support Managing Authorities link microfinance financial instruments with structural funds⁷.

⁷ <https://www.fi-compass.eu/publication/factsheets/factsheet-setting-microfinance-financial-instrument>

InvestEU Social Window and ESF+ 2021-2027

Under the next multiannual financial framework, EU support for microfinance will be further enhanced. The InvestEU Fund ("Social Investment and Skills Window") is expected to ensure continued EU-level financial support for microfinance building on the predecessor European Progress Microfinance Facility and EaSI programme.

At the time of writing, InvestEU and ESF+ are still under discussion amongst the EU institutions, and their final design and size is expected to be determined in the second half of 2019. Initial discussions indicate that the size of the InvestEU Social Window should at least provide the equivalent amount of EU support available for microfinance in the current programme period, although concrete amounts will be determined at a later stage.

In consultations with the European Commission, the European networks have proposed new financial instruments and

structures for the next programming period. Although the EIB Group remains the European Commission's strategic partner for the implementation of the InvestEU Programme, the proposed InvestEU Regulation opens the possibility to other institutions (such as National Promotional Banks and Multilateral Financial Institutions) to also become Implementing Partners. This expands the range of institutions that will deliver financial instruments and advisory support to the market and will diversify its implementing partners in the next period. The European microfinance networks have proposed the establishment of a new implementation partner that would reach medium and small MFIs more efficiently. The proposal is subject to an assessment by the European Commission in terms of its eligibility, in line with the relevant legal requirements.



CHAPTER 6

Twelve proposals
and areas for
improvement
to unlock the
potential of
microcredit



Proposals by the European Microfinance Network

Several issues continue to limit the growth of European microfinance, and consequently exacerbate financial exclusion. Variation in the definition of microfinance and accompanying legal frameworks make it difficult to formulate Europe-wide programmes of support for the sector and limit international action. Entrepreneurship is still a risky business for most countries and threatens to push vulnerable entrepreneurs into poverty if their businesses do not succeed.

European support for microfinance has increased but still does not cover the significant market gap that is observed, and the support envisaged under the European

Social Fund has rarely manifested. EU support is difficult to attract and often only the most sophisticated players can apply for it. These often exclude the smallest actors who need EU support the most.

Cultural issues also play a role, for instance between state incentives and banking culture. Cultural shifts may be needed to unlock the framework conditions for healthy microfinance.

Below, EMN offers seven concrete policy proposals to help deal with the issues presented in this whitepaper and advance the microfinance sector in Europe. Following this, six areas of reflection are offered specific to France.

1. All EU Member States should adopt a common definition of microfinance and microcredit

The divergence in microcredit definitions across Europe work against the interests of the microfinance sector and contrary to the interests of the policymakers who support it. The lack of definitional clarity prevents policymakers from knowing the scope of microfinance, confuses the essential social nature of microfinance, and creates inconsistencies in the geographic balance of EU support for microfinance.

The European Microfinance Network and the Microfinance Centre propose the following definitions:

- **Microfinance** in the European Union: all those activities oriented to provide access to financial services of individual amounts normally smaller than the EU average per capita GDP, to socially or financially excluded people (generally without collateral nor credit history), lacking access to traditional sources of finance,

with a social and financial inclusion objective, on terms adapted to the analysed financial capacity and coupled with access to high quality financial education and/or business development services.

- **Microcredit** in the European Union: loan of a small amount (normally smaller than the EU average per capita GDP), proposed for the creation or expansion of income-generating and job-creating activities or micro-enterprises, i.e. the financing of investment and/or working capital, offered to socially or financially excluded people (generally without collateral nor credit history) lacking access to mainstream sources of finance, with a social and financial inclusion objective, on terms adapted to the analysed repayment capacity (to prevent over indebtedness), and coupled with high quality business development services.

- **Other microfinance products** in the European Union: personal inclusion microloans, insurance, saving, and other financial facilities of individual amounts normally smaller than the EU average per capita GDP, offered to socially or financially excluded people (generally without collateral nor credit history) lacking access to mainstream sources of finance, with a social and not-for-profit objective, on terms adapted to the analyzed financial capacity, coupled with access to high quality financial education and/or business development services.

2. All EU Member States should converge towards a harmonised regulation of microfinance, following European best practices

A stronger regulatory framework across the EU would encourage sector growth. We recognize the need for local specificities, but there are many universal policy elements, including for instance:

Non-bank Financial Institutions (NBFIs) should be legally recognized throughout Europe;

Social credit should be recognized as conceptually distinct from commercial

credit;

The EU Code of Good Conduct should be recognized in the national regulatory framework and public support initiatives;

NBFIs should have the same access to credit information as banks;

Recognized NBFIs should be allowed to provide cross-border services; and,

Member States should avoid setting hard limits on interest rates.

3. The EU and EU Member States should strengthen the regulatory framework for entrepreneurship and self-employment

Stimulating the economic initiative of the European population is crucial. However, in many EU countries, self-employment and entrepreneurship entail unnecessary risks and barriers to entry, especially compared to salaried employment. EU Member States should:

Strengthen skills development programs (school, universities and ongoing education) that are required for self-employment;

Eliminate unnecessary and burdensome bureaucracy in the set-up and reporting of entrepreneurial activities;

Review the social security arrangements for entrepreneurs to ensure fair treatment compared to salaried workers, particularly by allowing a flexible transition between unemployment and self-employment. The

fear of losing rights to social security is a huge paralysing force on the economic initiative;

Avoid obliging entrepreneurs to pay social contributions before they have generated any turnover.

Expand the availability of education, coaching, mentoring and other high-quality services that support and improve the work of small entrepreneurs; and,

Implement the recommendations by the OECD made in their policy document⁸

"The missing entrepreneurs," which gives advice at the country level on how to remove structural barriers that prevent entrepreneurs from various excluded groups from starting their business.

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<https://www.oecd-ilibrary.org/docserver/9789264283602-en.pdf?expires=1556286696&id=id&accname=guest&checksum=CA70DE64119D72278675BCD4ADF58BD8>

4. The EU institutions should strengthen and diversify the financial support mechanisms for microfinance institutions

The European institutions have delivered programmes over the past decade that have championed microfinance and have strongly boosted the health of the sector. To continue expanding this support, the EU support tools should cover the following:

- Loans and subordinated loans to MFIs;
- Direct and indirect guarantees;
- Equity and quasi-equity;

Subsidies for MFI technical assistance; and, Grants for enabling MFI's business development services.

Although EU support for the sector has been strong with positive results, the sector still faces a funding gap of several billion euros annually. Financial measures to help bridge the gap would be very beneficial.

5. Managing Authorities for the implementation of the European Social Fund should invest more in the development of microfinance business development services

This can be done by making microfinance a more explicit objective of the structural funds and by generating awareness amongst Managing Authorities of the value of microfinance and how it supports their own policy goals. If governments integrate

microfinance as an official part of their action plan at the regional level, it will become more natural for Managing Authorities to see it as a valuable and achievable goal to support microfinance.

6. The EU institutions should support the construction of a European platform for microfinance and social entrepreneurship

Currently, the European support instruments are implemented by the European Investment Fund (EIF), which due to its wholesale nature does not have the resources to cater to small and mid-size MFIs. As the EU will diversify its implementing partners in the next multiannual financial framework, the microfinance industry has taken the initiative to propose the establishment of a more

customised implementing partner.

This initiative, named **ImpaktEU**, is currently being launched by the microfinance industry in partnership with the EIF to design a one-stop shop for the financing needs of microfinance institutions, particularly for the small and mid-size players in this market.

7. Banks and microfinance institutions should engage in stronger partnerships across Europe

Microfinance and traditional finance are complementary, in that microfinance targets customers who are excluded from the traditional banking sector. In fact, many MFIs have the explicit goal to 'graduate' their customers, meaning that after a client has taken one or more microloans, they often qualify to become regular banking clients. In some countries (such as the Netherlands), this is institutionalised through a formal collaboration between banks and MFIs.

The most common form of collaboration is

an agreement that banks, once they reject a client, refer that client to microfinance institutions where they may be able to receive the credit and non-financial services they need to achieve their project. Encouraging banks to establish such practices can create a positive culture where interests are aligned, rather than a negative situation where there is a perception of competition and mutually exclusive success.

Areas for improvement and development more specific to France

8. The development in Europe of a "solidarity employee savings funds", inspired by the French experience, should be promoted

In France, employees of companies (> 50 employees) are encouraged to invest their annual profit-sharing and participation in long-term savings funds. According to the law, they have the possibility to invest all (or part) of this into a "solidarity savings fund". These labelled funds reinvest a minimum of 5% and a maximum of 10% of savings in equity or debt in social enterprises, including microcredit institutions. This experience fits well with the European model of the social

economy and could be replicated across Europe, thus also stimulating a culture of social finance and long-term solidarity savings.

This "democratization" of impact investing is at the time of writing this white paper available only in France. The Commission is invited to make recommendations in this regard to allow the replication of these "solidarity funds" beyond France.

9. The necessary clarifications should be made to develop debt funds for microfinance institutions in France

The "place de Paris", despite the importance of microcredit in France, is not chosen by fund managers, especially debt funds, to house their funds. Until recently, French regulations did not allow the granting of loans by funds, but only the acquisition of loans previously granted by banks. This step increased and increased the management of debt funds intended to finance MFIs and thus created a distortion of competition to the detriment of funds under French law.

The new European ELTIF Regulation (EU Regulation 760/2015) allow specialized professional funds (FPS), specialized funding bodies (OFS) and securitization (OT) under French law to grant loans to non-financial institutions (Articles 214-203-3 and following of the French Monetary and Financial Code); however, these funds remain reserved for professional investors.

If the European microcredit institutions are not considered as financial institutions,

as long as they do not collect deposits, a clarification is however necessary regarding the microfinance institutions outside the European Union, so that the European definition of "credit institution" applies equally in all non-EU countries including countries where any credit granting institution is defined as a bank even if it does not collect a deposit.

In addition, we propose an extension of the loan authorization by the Funds and specialized organizations (FPS, OFS) and securitization organizations (OT) to financial companies, as long as they are microfinance collecting deposits, whether in the EU territory or outside.

An additional advantage would be to allow these debt funds dedicated to MFIs outside Europe to grant loans to non-financial companies by financing themselves by borrowing up to more than 30% of their assets, which is their limit to date.

10. Support should be developed and professionalized: the trial of platforms should be transformed

The creation of departmental platforms is a first step towards the concentration and professionalisation of the actors of support. Their development deserves to be encouraged both to ensure an identified and homogeneous coverage of the entire territory, surrounded by stable staff and trained in support. This development requires financial means, sought today from the Bank of the Territories and local communities. The additional funding needed to reach the target is to be sought from private actors, in particular Banks and Insurers, natural stakeholders of microfinance, as part of their CSR policy.

It is also important to convince the local support structures to agree with a

departmental platform and to delegate their microcredit activity, especially when it is weak.

In addition, it is necessary to develop distance support. The accompaniment today can go through other ways than a physical appointment. It is possible to develop remote support, by telephone, in a secure way, and to set up digital tools for the instruction of the files and the traceability of the documents.

Distance support, through equipped platforms, will make it possible to widen the distribution of microcredits to people deprived of any possibility of local support, such as training and apprenticeship centres, company staff, interim...

11. The development of Social Impact Bonds (SIBs) in the microfinance sector should be encouraged

The first Social Impact Bond in France have emerged and are promising in terms of social impact. Their development nevertheless faces a great deal of legal complexity which causes costs and delays. The High Commissioner for the Social Economy and Social Innovation recently entrusted Frédéric

Lavenir, Inspector General of Finance (and President of Adie) with a mission to propose simplifications to facilitate the dissemination of SIBs. The Microcredit Working Group supports this initiative which could be replicated beyond France.

12. Awareness of the tax benefits attached to skill-based sponsorship should be increased

Microfinance involves a large number of volunteers who help microfinance institutions to better organize themselves (IT, risk control) or to support micro-entrepreneurs. The French law on volunteering, known as the Aillagon law of August 2003, allows companies to deduct from their corporation tax 60% of the costs of making available

to their employees under this volunteering programme, under the same conditions as for their financial donations. This device would benefit from being better known in order to develop skills volunteering not only with large groups (already largely involved) but especially with SMEs.

Conclusion

The European Union and its Member States must take a new start in dealing with inequalities and exclusion of a too large part of the population in – or at risk of falling in – poverty. This is a moral imperative, but also an economic opportunity since it is demonstrated that economic growth would gain from the improvement of the economic situation of the poorest. At the same time, such a new start should build on the fast changes in the labour markets, which produces a growing - and already majority - part of new jobs from self-employed and starting entrepreneurs.

The policy response to the social and economic consequences of this shift will determine the resilience with which the European people will face the future. Self-employment and entrepreneurship are effective ways to enable individuals to take initiative in a changing economy where the business development services of microfinance institutions have a fundamental role to play.

Microfinance institutions have grown around the twin concepts of "repayable finance" and "accompanying people out of exclusion". This makes microfinance institutions crucial partners to policymakers and allies for tackling social and financial exclusion, low employability, and integration of vulnerable people into the economy. This approach of microfinance started in the EU some 30 years ago and has grown very fast in recent years to reach some 1 million borrowers with a portfolio of some 3 EUR billion in 2017 while the estimate of this market's annual potential is 2 million borrowers with a demand of 17 EUR billion.

This potential should be unlocked!

The societal return on investment that microfinance produces induces a leverage of all subsidies invested in it, resulting in long-term net savings for public budgets. Not only does it allow people to create their own place in the economy, it also reduces the burden on welfare, creates additional jobs, gives people the dignity to be active, and has a host of positive secondary effects. Policymakers have every incentive to improve the policy framework for entrepreneurship (see the suggestions in chapter six), and to subsidise its natural social complement, microfinance. This white paper was prepared by a working group established by Paris EUROPLACE with the support of the European Microfinance Network. It is intended to draw the attention of policymakers on the value of microfinance and on the need to remove regulatory barriers and establish appropriate incentives for its development. It sheds light also on the achievements to date, and particularly in France, a country that has been in the forefront of the development of microfinance in Europe. A number of lessons can be learned from the French experience and could be considered as relevant at European level while, conversely, some of the proposals made by the European Microfinance Network can be taken in consideration in France. Paris EUROPLACE strives to develop a finance which is sustainable – socially responsible, green and inclusive; the strength of its commitment in this regard is a specificity of Paris as compared to other financial centres and constitutes one of its main assets.

Annex 1: A selection of notable microcredit practitioners in Europe

This section of company profiles was developed to give an illustrative cross-cutting overview of the diversity of the European microcredit practices. It is not meant to be an exhaustive list.



Adie France

Adie (www.adie.org) was created by three volunteers with no own capital in 1989, at a time when banking law allowed associations to operate in the field of credit only on their own funds and for the benefit of their members.

Thanks to an agreement with the Banque de France, Adie was able to experiment, in partnership with banks, with microcredit for the unemployed and people in difficulty who do not have access to bank credit. The first two banking agreements were signed in 1995 with Crédit Mutuel de Bretagne and Crédit Mutuel Dauphiné Vivarais. Other cooperative banks (Crédit Coopératif, Banques populaires in general, Crédit Agricole) and commercial banks (BNP Paribas, Société Générale, HSBC France) as well as the Crédits Municipaux de Paris, Nantes and Lyon followed. This was also the case for La Banque Postale, which is very close to Adie and BPI (Public Investment Bank) customers. The French Development Agency (AFD) supported Adie in the French overseas departments and territories. The association had received the approval of the Banque de France to experiment, in partnership with banks, with microcredit for the unemployed and people in difficulty who do not have direct access to bank credit.

Thanks to steady growth, averaging around 10% over the past 10 years, Adie reached an outstanding amount of around €150 million at the end of 2018, divided between professional credit: €124 million and personal credit: €26 million. In 2018, the total number of loans granted was 23,500, with an average amount of €3800.

The public benefiting from Adie:

- 26% of the people financed by Adie are without a diploma
- 43% live below the poverty line (vs 14% of the French population)
- 35% receive the minimum social benefits (vs. 8% of business creators)
- 25% live in rural areas (18% of the French population)
- 22% live in priority areas of urban policy
- 45.4% female
- 23% are under 30 years of age
- 20% live overseas



Qredits The Netherlands

Qredits is the only microcredit institution in the Netherlands operating at a national level. Qredits is a non-profit organisation founded in 2009 with five employees. Qredits is based on a unique partnership with the national commercial banks and the Dutch Ministry of Economic Affairs. Qredits supports entrepreneurs that banks are unable to help by providing microcredit loans, SME loans, flexible credit, mentoring, coaching and e-learning courses. Many of its clients come through bank referrals. Today, the organisation employs 65 people and operates in the Netherlands and the Caribbean Netherlands. Qredits was also the first MFI to be assessed for compliance with the European Code of Good Conduct for Microcredit Providers.



Microbank Spain

MicroBank was set up in 2007 as the social bank within La Caixa group. It has taken over the microcredit activity of the group.

CaixaBank is the sole shareholder of MicroBank and, since MicroBank was set up, it has been supporting the bank by providing it with the necessary funding to expand its lending business and marketing MicroBank's products through its network of more than 4,600 branches.

The relationship between CaixaBank and MicroBank is based on an agency agreement, according to which CaixaBank offers comprehensive support and marketing service to MicroBank.

An essential piece in the strategic targets of MicroBank are the 592 institutions that have signed a collaboration agreement with the bank to promote self-employment through microcredit, in particular among the groups that are at risk of financial exclusion. These institutions act as a link between potential customers and MicroBank. Website: microbank.com



Permicro Italy

Created in 2007, PerMicro is specialised in microcredit.

Initially only operating in Turin, PerMicro now operates in 11 Italian regions and has 15 branches. It is the first Italian microcredit company that professionally manages all phases of a micro company project: scouting, preliminary inquiry, risk assumption, and follow up. PerMicro finances up to 25,000 EUR for companies or up to 10,000 EUR for families and is designed for people who do not have easy access to traditional bank credits.

BNP Paribas Group participates in PerMicro's equity through its subsidiary BNL. The bank partner provides funding and operational/commercial support as well as identifies other funding instruments that could be convenient for the MFI. In return, PerMicro introduces the bank to a market of potential clients.

Since 2012, PerMicro has shared its offices and support services with BNL-Group BNP Paribas. BNL offers funds, logistical support and IT infrastructure.

The operational partnership between Permicro and BNL is based on an original model that favors synergies between the two entities and guarantees the independence of each of them. Indeed, BNL was initially the investor of Permicro (owning 20% of its capital) and after being the only lender before being joined by other banks, as Permicro gained autonomy financial.

In parallel, BNL has put in place procedures to facilitate the presentation to Permico of customers that cannot be served by the bank. BNL also enabled Permico to reduce its operating costs by hosting some of Permico branches within its network. Finally, the Italian Bank has seconded one of its experienced executives to assume the position of Permico's operations manager. All of these initiatives have allowed Permico to be in a position of operational self-sufficiency from 2017.

Website: <https://permico.it/>

Microlux Luxembourg



Microlux was established in 2016 as an initiative supported by BGL (group BNP Paribas), FEI, ADA and ADIE International and is the first Microfinance Institution in Luxembourg. It aims to promote the right of economic initiative and financial inclusion by supporting microenterprise entrepreneurs, microenterprises that are already operational and social entrepreneurs who are not eligible for traditional banking credits.

By the end of 2018, microlux had 93 people benefiting from accompaniment, and 43 businesses were created.

Website: microlux.lu

Besa Fund Albania



Besa Fund's mission is to contribute to economic growth in urban and semi-urban areas by promoting and financing the small and medium enterprises sector in Albania.

Clients of Besa Fund come from all socio-economic groups, including unemployed and start-up businesses. It offers micro, small and medium loans to individuals, supporting clients to start, extend and further improve their income generating activities. With 74 offices across Albania, Besa Fund helps clients to become financially and economically independent so that they can realise their ambitions of prosperity and well-being without.

Although Besa Fund targets SMEs, it does not have a dedicated SME loan product nor does it track data on the percentage of its portfolio invested in start-ups. Besa Fund also sees a role for a special guarantee scheme for start-ups, which the institution could use to mitigate its risk in working with these types of businesses.

For more information: <https://www.european-microfinance.org/sites/default/files/document/file/MFC-case-study-Albania-final-18Sept.pdf>



AgroInvest Serbia

AgroInvest (AI) is an affiliate of Vision Fund International, a network of institutions in 42 countries. AgroInvest operates in two countries (Montenegro and Serbia)..

Agroinvest started operations in 2001 and today works with small businesses in trade, services, and agriculture. Most of its clients use loans for their own businesses, which create jobs for them and their family members. Currently, AgroInvest Serbia serves over 16,000 poor households with an average loan of EUR 1,000.

Due to the lack of a microfinance law, AgroInvest cannot disburse loans directly so it cooperates with Societe Generale Bank (SG). The role of AgroInvest is to find and assess clients, monitor and follow up, as well as provide a full guarantee for loans disbursed by SG to clients approved by AI.

AI's clients are mainly located in rural areas and engage in farming and non-agricultural activities. Many clients have several income-generating activities. Defining a start-up is not straightforward for AI since there are several types of 'beginners' among them:

- a new company run by a person with no prior experience in business;
- a new business line, especially in farming (i.e. adding animal husbandry to crop production);
- a new company run by a person with prior business experience; or,
- a company that officially registers after several years of business activity. The first two categories are considered by AgroInvest to be real start-ups and because of high risk of failure are rarely financed by AI. Therefore, the portfolio of start-up loans is only 0.5% or 67 loans.

For more information: <https://www.european-microfinance.org/sites/default/files/document/file/Microfinance-Centre-MFC-Case-study-Serbia-mfc-org-pl.pdf>



good.bee Credit Romania

good.bee Credit was launched in 2008 and is active in microfinance and small enterprise finance and operates 20 branches across every county in Romania.

Ninety per cent of its portfolio is in small-scale commercial agriculture. The MFI targets “unbankable” clients and aims to “graduate” them to traditional banks in future. Many of their clients are considered “unbankable” because their level of income is too low - others are unbankable because some or all of their income is earned in the informal sector (which isn't taken into consideration by banks).

As good.bee Credit's targeting is based on economic sector, It has modest (and incidental) experience to date with start-ups. good.bee Credit doesn't serve the youngest start-ups in the marketplace—focusing instead on individuals with 2-3 years of trading experience that are looking to expand (and are thus technically “start-ups”).

good.bee Credit offers loans to firms with as little as three months' experience (although this threshold will soon increase to 12 months). This 12-month threshold is particularly important in the agricultural sector to assess the potential viability of the business (whereas with trading/services companies, the future trajectory is easier to see after 4-6 months).

If clients approach good.bee Credit with a new idea (rather than an established self-employment concept), good.bee Credit mitigates its risk by assessing the clients' level of business experience, business plan, investment by the client and collateral structure. In the future, good.bee Credit plans to diversify its portfolio towards a more urban market, which could potentially include start-ups as well. To do so, it would need to mitigate its own risk

levels—potentially by offering coaching/training services. These services would be delivered by a specialist partner organisation rather than directly since good.bee sees it as a conflict of interest to fund and advise the business concurrently.

good.bee would also need to work out the most effective type of collateral arrangement – which might be symbolic or “psychological” collateral (e.g. a small amount of money put into business by the client, entitlement to equipment bought using loan capital, or friends who guarantee the loan). In these cases, good.bee Credit (a beneficiary of the EaSI guarantee facility) could disburse relatively unsecured loans to start-ups.

For more information: <https://www.european-microfinance.org/sites/default/files/document/file/MFC-CASE-STUDY-SUPPORTING-GENERATION-START-UP-OPPORTUNITIES-FOR-ROMANIAN-MFIS.pdf>

AFI Greece



Action Finance Initiative (AFI) is a Greek Non-Profitable Civil Company, founded in 2014 by ActionAid Hellas (AAH) and Adie International. AFI is the first microfinance institution in Greece.

AFI's mission is to:

- Grant access to funding to grass roots micro-entrepreneurs and unemployed people who lack access to funding from the mainstream banking sector and who want to maintain or create their own jobs.
- Deliver trainings, business advice and other Business Development Services (BDS) to its clients to support them create and grow their businesses before and after loan disbursement.
- Help improve the legal and institutional environment of self-employment, small business creation and microcredit as ways for financial and social inclusion.

Due to the lack of a banking law in Greece, AFI cannot disburse loans directly. As a result, AFI cooperates with two Greek banks: Eurobank and the Pancretan Cooperative Bank (PCB). Through its banking partners, AFI provides funding (up to €12,500) to its clients in the form of a microloan.

A new banking law is underway and is expected to be voted in the Greek parliament in the following months. AFI's advocacy efforts during the past 5 years played a major role in this achievement.

In 2017, AFI received the Award of the European Code of Good Conduct for Microcredit Provision from the European Commission. AFI is the first MFI in Greece, and one of the first in Europe, to receive this award.

AFI currently has two offices: one in Athens that employs 4 people and one in Thessaloniki that employs another 2 people.

Since the launch of its operational activities, AFI informed 3,049 aspiring entrepreneurs, trained 741 people, funded 232 companies and contributed to the creation of 380+ jobs.

In 2018, AFI measured its Social Return on Investment (SROI) and calculated that for every €1 euro invested in AFI, € 1.87 is returned to society.

European Microcredit Whitepaper

