

CAPACITY BUILDING NEEDS AND SOLUTIONS FOR SOCIAL FINANCE PROVIDERS IN EU 27

This paper presents the work in progress of MFC and its partners in identifying capacity building needs of social finance providers and addressing them.

FEEDBACK FROM MFC MEMBERS AND PARTNERS

MFC aims at building capacity of members and partners for mission driven, sustainable microfinance, concerned with climate protection issues, fostering social and digital inclusion. Over the year 2022, MFC used its interactions with members and partners to map the needs of social finance providers and to identify viable solutions. It has been achieved through the following activities:

- Meetings, interviews, and emails exchange within the MFC Capacity Building Action Group, which gathered MFIs, Social Enterprise Finance Providers, Investors, support organizations, associations and consultants providing services to MFIs and social enterprise finance providers.
- Technology Action Group, which discussed specifically the capacity building needs in digitalization
- Trends, Good Practice and Clients Needs Action Group provided inputs for the financial providers gaps related to providing training and advice to microentrepreneurs.

- Advisors Action Group, which provided inputs focused on understanding of the major trends and best practices influencing the work of MFC

Based on the above, MFC identified a wide range of capacity building services to be delivered to the sector within the next year. This is work in progress and it will be continued in 2023.

We group the needs into the following categories:

1. DIGITALIZATION

Digitalisation of social finance providers remains one of the most important topics. It goes hand in hand with digitalization of micro and small business. Based on MFC/EMN mapping survey, 63% of MFIs report as the main challenges to digitalization the low digital capability of their clients; similar number of MFIs report the excessive cost of introducing digital solutions. 16% of MFIs do not currently have any digital solutions for clients.



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MICROFINANCE CENTRE

Topics at MFI level:

- Digital marketing
- Digital communication channels
- Digital onboarding
- Customer relationship management systems adjusted to digitalized operations
- Automation of credit application/acceptance process
- Automating disbursement/loan issuing
- Integrating & automating payments
- Payment services legal issues
- Digital products and services, e.g. cards & instant cards embossing, Digital wallets
- Risk scoring systems
- Identification systems
- Cybersecurity
- Cooperation of MFIs with digital business solutions providers to support micro and small enterprise digital transformation

Topics at Client level:

- Digital skills of clients to uptake digital services
- Utilization of various digital tools and platforms
- Digital skills of clients to expand their micro businesses

2. CLIMATE FINANCE

Green microfinance area has been reporting many good practices so far, although scattered and without the wholistic approach. Based on MFC/EMN mapping survey 2022, many MFIs in Europe are already engaged in the green transition and are fully or partially compliant with green sustainable and climate smart financing. Environmental responsibility, goals or processes are part of

the institutional strategy of nearly 40% of surveyed MFIs. Although fewer MFIs (33%) report their environmental performance indicators, as many as 55% monitor and manage adverse impact of their own operations (green footprint). Monitoring clients' environmental impact and including such data in the loan assessment is less often practiced (27% of MFIs) and monitoring clients' environmental vulnerabilities is applied by only 15% of institutions. 71% of MFIs finance green solutions of their clients: 26% do it through dedicated loan products while 45% of MFIs finance green solutions through regular microenterprise or housing loans. Another 23% of MFIs plan to introduce a specific green product in the near future and 17% of MFIs do not plan to have green loans in their offer.

Topics:

- Environmentally friendly practices for MFIs
- Financial products for energy transition
- Tracking, reporting environmental performance & impact of financial institutions
- Knowledge of how to collect/calculate scope 1,2,3 emissions
- Integration of ESG (environmental component), The Task Force on Climate-Related Financial Disclosures (TCFD), Net Zero, climate risk into governance
- Support (financial and non-financial) for micro-enterprises to cope with the effect of climate change

3. IMPACT MEASUREMENT RELATED TO ESG AND SDGS

With the growing market for impact investments, the use and importance of the ESG and SDGs have been increasing. There is not one single approach or harmonized

set of indicators; but common standards and principles are evolving as new regulations and public awareness require more transparency, accountability, and measurable evidence. Microfinance and social economy finance providers ("MF/SE providers") in Europe can contribute significantly to the social, economic, and environmental impact.

Topics:

- Development and implementation of ESG and impact policies-compliance, monitoring, reporting (dissemination of best practices)
- Quantitative models/frameworks to measure and claim ESG impact (data management)
- Knowledge and skills on impact measurement and management
- Principle of double materiality for ESG issues
- Development of impact management and measurement & the SDGs for microfinance institutions

4. VISIBILITY OF MICROFINANCE SECTOR

There is a need to show the impact of the microfinance sector to important national stakeholders: government, financial sector players, regulators. And clearly distinguish MFIs from other non-bank institutions that are causing negative PR often generalized over the whole sector of microfinance.

MFIs want to establish a strong image of responsible financial and non-financial products providers to applicants, who belong to vulnerable groups and have no access to mainstream financial system.

Topics:

- Creating public awareness/positive image about microfinance
- Utilizing market intelligence/market research
- Use of social media and networks - tools

5. SOCIAL ECONOMY (SE)

The Social Economy Action Plan launched a year ago, has widely opened a discussion about the role of microfinance in financing social economy. Although the social economy actors are well established in the EU economy, this is a pretty new topic for microfinance. At the same time, the social enterprise finance providers are diversified group, largely ranging in their capacities to provide financial services.

Topics at MFI level:

- Business models and characteristics of social enterprises and
- Financial needs of social enterprises to be addressed by social finance providers
- available financial and non-financial products and services to support SE by social finance providers
- SE projects assessment – models, parameters, indicators
- Product development for social enterprises
- Business development services for SE
- How do we define a social economy enterprise, an institution financing social economy enterprises?

topics for SEFP (Social Enterprise Finance Providers):

- Building skills of SEFP in product development (financial and non-financial services)
- Business development services for SE provided by SEFP – good examples, why, what and how?
- Exchange of experience by SEFP and strengthening of SEFPs network
- Financial instruments that support the social economy

6. SUSTAINABLE AGRICULTURE

More than three quarters of farm holdings in the European Union are small – below 10 hectares – with a large number being below five hectares. Agriculture acts as the backbone of rural communities across the EU. These communities face many challenges, such as ageing demographics and under-developed infrastructure, as well as a lack of services and job opportunities. Microfinance with its financial and social inclusion plays a significant role in support of rural communities, encouraging younger generation to stay and continue with entrepreneurial activities. EMN/MFC mapping survey confirmed that rural population belongs to the major target groups of MFIs. The rural and agricultural clients often stay in remote areas and therefore an innovative approach must be applied by MFIs to make sure they can offer their products and services over a distance. Digitalization, upskilling on new methods of environmentally friendly agriculture and use of renewable energies remain as priorities.

Topics:

- Financial education of farmers
- Improving digital skills of farmers

- increasing knowledge of farmers in environmentally friendly agriculture
- Development of products for sustainable agriculture/green products

7. MIGRANT NEEDS FINANCING

With the war in Ukraine, refugee influx and migrant financial inclusion becoming an important topic on EU agenda, building capacity of MFIs and SEFP to provide services for this target group becomes important. Ca. x% of MFIs target migrants. The unclear plans, legal status and language barrier are identified as key barriers in serving this population. The proper risk management and information about support for financial providers available is identified as key capacity building need.

8. RISK MANAGEMENT

The entire world faces economic, financial, and environmental crisis, and there is much uncertainty towards future developments. The number of MFIs still struggle with problematic loans, mapping survey EMN/MFC indicates that the average PAR30 value has been at 9.9%, while 29% of surveyed MFI has their PAR30 value above 10%. Therefore, the topics in the area of risk management have been always on the agenda of MFIs.

Topics:

- Risk management models, risk-based pricing
- Models for climate risk within credit analysis, climate risk scenarios and crisis management
- Environmental and social risk management
- Sensitivity analysis of the portfolio in time of crisis – early warning signals
- Debt restructuring in times of crisis

9. OTHER TOPICS

EU policies, programs and initiatives

- EU financial instruments to support Microfinance providers and SEFP
- Code of Good Conduct implementation and certification

Investment

- Investment readiness (attracting sub-ordinated debt, investment funds objectives)
- Gender-smart investment

New products

- Microinsurance
- Microfinance of car leasing

Non-financial services for clients

- Financial health and financial education of clients
- Business development services

Management and governance

- Managerial and leadership skills
- Sales and customer contact management
- Marketing management
- Training for boards of directors on good governance
- Team management, delegating tasks and the ability to execute them, team communication, motivation, professional development of the employee, team and career path. Ability to work under time pressure and assertiveness.

ADDRESSING CAPACITY BUILDING NEEDS

There are two main methods of addressing the capacity building needs of social finance providers, pointed out as most effective by informants: the experience sharing (good practice sharing) and technical trainings by experts in the field.

MFC identifies the following solutions to address the identified needs:

- Webinars for building awareness in the new topics (like social economy actors) and for good practice promotion
- Virtual and onsite trainings for improving technical skills of MFI staff

MFC will deliver 10 webinars focused on:

- EU support programs available to MFIs and SEFP
- Digitalization
- Migrant financial inclusion

Within its work in the Social Inclusive Finance Technical Assistance Program (SIFTA), MFC will propose to EIB (managing institution) to organize an open enrollment events at the regional level (webinars) and at the national level (virtual and face to face events) on selected topics.

KEY CAPACITY BUILDING TOPICS

Digitalization

Climate finance

Visibility of microfinance sector

Social Economy

Sustainable agriculture

Migrant financing

Risk management

EU policies, programs and initiatives

Investment

New products

Non-financial services for clients



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