DECEMBER 2022

SOCIAL FINANCE TRENDS

This briefing paper presents the main trends discussed during "Social Finance Vibe 2022: Towards a Resilient Future" in November 2022.

Watch the session recordings here: https://www.youtube.com/hashtag/sfv2022

MICROFINANCE CENTRE

SUSTAINABLE AGRICULTURE

SCORING INNOVATIONS

Floods. Droughts. Pests. Rising input costs. Agriculture is a risky business—not just for farmers, but for the banks investing in them. So how can we de-risk agricultural lending, especially in a highly fragmented marketplace such as Romania? In contrast to most other countries where large agribusiness has captured the market, Romanian smallholdings (of less than 10 hectares) account for 98% of all farms and 40% of the land under cultivation. Smaller ticket sizes mean lower profits and more risks for lenders—which perhaps explains why smallholder farmers have historically poor access to traditional banking products in Romania.

Patria Credit (Romania) offers an interesting innovation that limits its exposure to risk while expanding financial access to farmers. Launched in 1996 (originally as part of the World Vision family), Patria offers financial services to small agricultural enterprises and rural businesses. Over the decades, it has collected a wealth of data about farmers and their livelihoods. Based on this, Patria developed a loan scoring tool that combines a traditional financial analysis methodology with its rich in-house database of agricultural production information. As a result, the organisation can project potential future income based on an applicant's region, town, greenhouse square meterage and crop mix—and use this information to offer a loan that is tailored, affordable and well-timed.

DIGITAL PAYMENTS

In increasingly cashless economies, how can farmers make the leap to digital payments in a way that is cost-effective and pain free? Recently, Patria Credit (Romania) rolled out a new pioneering project called "La Piata" in partnership with MasterCard and the Association of Local Markets in Romania. Thanks to La Piata, local farmers can sell at market with a digital POS (point of sale) and start accepting card payments. MasterCard covered the cost of the POS system, the Market Association ran the logistics and Patria ran the promotional campaign in every Association marketplace over a two-year period. This was the first such initiative in Romania, and the demonstration effect has been powerful, with a number of other banks (such as Unicredit) following suit.

SMART FARMERS HAVE SMART GREENHOUSES

How can technology help us to remove uncertainty from the growing cycle? Patria Credit (Romania) is learning the answer to this question through its partnership with a local agrotech firm and 10 farmers in a pilot project.

The tech partner brings to this project its unique platform for monitoring greenhouse conditions, both remotely via closed-circuit camera and through routine site visits. Engineers track real-time data on soil conditions, soil and air temperature and plant growth. Remote data is observed twice daily, and site visits occur once per month.

Based on this, the tech partner can advise clients on how to improve growing conditions and maximise their yields. For instance, if the greenhouse is consistently too warm they might recommend installing UV protection covers to project young seedlings. Typical soil conditions vary widely by region in Kosovo, so advice on soil conditions focuses on meeting the minimum standards for viable production across the country.

The tech partner cooperates with Lidl and other national retailers who will source vegetables from farmers in the project provided that they don't use chemicals. In turn, Patria uses the information on production and sales for loan monitoring.

ENVIRONMENTALLY FRIENDLY AGRICULTURE

FDPA (Poland) was established with a mission to support the sustainable development of rural areas, especially agro-entrepreneurship and the creation of non-farm rural employment. It offers microloans to create and develop small agribusiness, non-financial services such as training and mentoring, and a wealth of knowledge resources (including publications, instructional videos, 16 regional advisory centres and 10 agricultural training centres) on climate change, renewable energy, biodiversity, water resource protection and nitrogen pollution reduction.

Importantly, FDPA also awards grants to local communities to combat environmental degradation. For instance, it has built a range of greywater purification ponds where residents lack access to the national sewage grid, and installed aviaries in areas affected by a loss of pollinating insects.

AGRICULTURAL EDUCATION INNOVATIONS

When social finance providers offer agricultural education services, they help turn farmers into better farmers—better farmers who can produce higher yields, employ more staff and ultimately generate more income. Many of these services use a "freemium" business

02/04/2020

The value chain for the dairy sector

19/03/2021

Beekeeping Sector in Kosovo

model—where non-clients can access basic information and services, with premium services (such as posting ads, message boards and more) only accessible to active loan clients (who register free of charge).

EKI Oglasi: Wondering why an inverter air conditioner will keep you cool for less? Need to optimise your company's Facebook page? Wondering if you really need to clear those leaves out from under your trees each autumn? Pondering how to do a product profitability analysis? EKI clients earn free membership to the EKI Business Club (www.ekioglasi.ba), where they can find answers to all these questions and more on the site's blog and FAQ page. These provide quick and clear tips on topics ranging from energy efficiency, digital literacy, crop and livestock advice to business education, tech news and more.

Pravi Lider: In addition to a wide range of educational content on agricultural skills, financial management, business development and digital literacy—MKF Lider (Bosnia and Herzegovina) offers clients a free online mentoring program via its online platform, Pravi Lider (www.pravilider.ba). This programme includes an introductory webinar and one month of one-to-one business development mentoring in social media promotion, PR and service/product branding. Clients interested in green topics can also find information on partnerships and new technologies that can help them improve their energy efficiency.

AgroPortal: KEP (Kosovo) launched AgroPortal (www.agroportal-ks.com) to improve agricultural production, strengthen agribusiness and create stronger linkages between different actors in the farm-to-table value chain. The site is organised into a number of thematic verticals, including:

- **Practical advice:** Offers "how-to" videos and articles, overviews of different sub-sectors (for instance, a detailed examination of the dairy sector value chain), crop calendars and case studies on real agribusinesses.
- **Data:** A dynamic agricultural data visualisation tool including historical yields, seasonality, trade, banking activity, rainfall and other relevant data by region, by year and by product. Data is sourced, in the main, from the Kosovo Ministry of Agriculture and collated by KEP.
- **Jobs board:** Compiles active job postings from employers in the agribusiness and food sector throughout the country.
- **Grants:** Presents information on open calls for applications to grants and other support programmes offered by the Kosovar Ministry of Agriculture and the Department for Forestry and Rural Development.
- **Quality standards:** Vital information for producers, processors and traders of agro-food products on international standards for food safety and quality.
- **Associations:** Signposts users to the websites of relevant agricultural associations and cooperatives that can support their work.
- **Ask the Expert:** Users can post questions and get expert advice within 72 hours. This is the latest feature of the website: developed in response to user feedback and launched in early 2022.

CREATING MARKET LINKAGES

Agriculture is a difficult business that involves long hours and slim margins. Small farmers don't always have the time, skills or resources to create the market linkages they need to ensure the success of their business. For this reason, we see a big push from microfinance institutions to offer a range of non-financial value-add services to clients to help them take their business the extra mile.

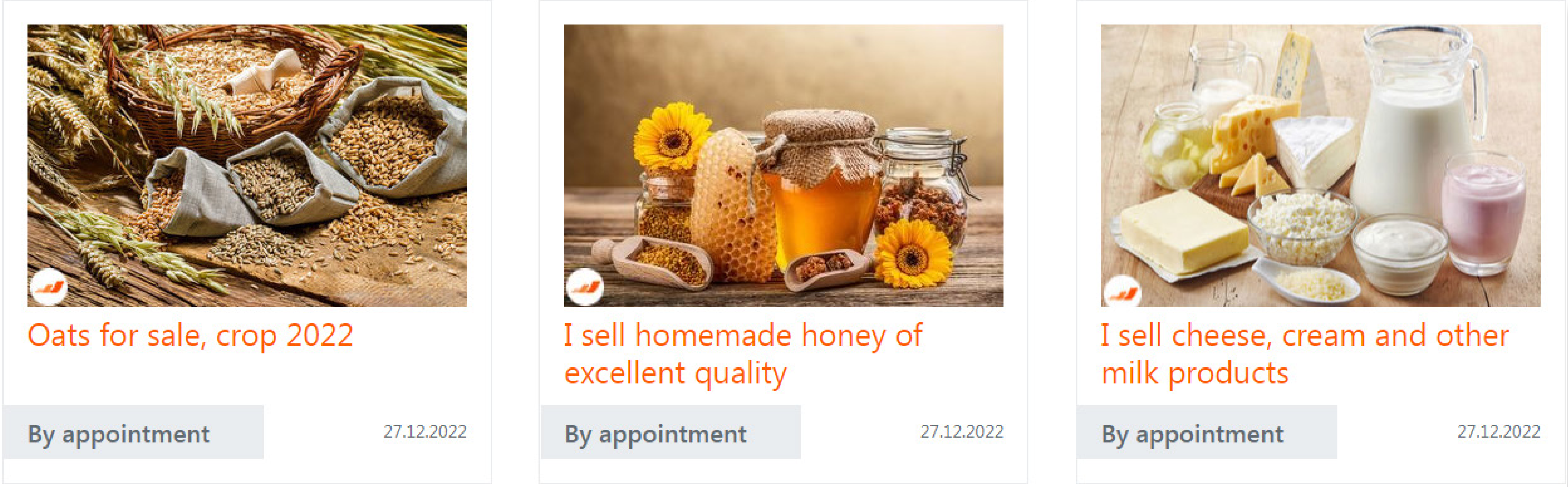
These include linking farmers to:

Customers: Like any business, farmers need a ready market of direct customers, but mass advertising takes time and skills that are in short supply among farmers. They especially don't have what it takes to build and maintain their own e-commerce website for their farm or smallholding.

For this reason, many microfinance institutions offer print and web advertising to active loan clients. Typically, clients can post an unlimited number of free ads on the online marketplace, but a limited number of ads in monthly newsletters. Clients can post ads via the website, over the phone or in person, depending on preference. Customers can use online marketplaces for free, and can filter ads by category or region to buy products, services, inputs and livestock from clients directly.

Producers and suppliers: Online communities connect producers not only to buyers but other producers via an online business directory. This helps small farmers work together and negotiate better prices from suppliers, processors and distributors. They also pave the way for members to engage in horizontal learning networks—sharing questions and insights with peers they might not have met otherwise.

In some cases, such as Lider (Bosnia and Herzegovina), the financial institution negotiates special bulk rates with suppliers directly, so that any client interested in (for example) discount building supplies can enjoy discounts when they order from that supplier. It's a win-win because the supplier enjoys a steady stream of new customers for the price of a set discount, which can cost less than mass advertising.



CHALLENGES AND POTENTIAL SOLUTIONS

When asked to identify the challenges involved in delivering online agricultural education services, financial institutions pointed to a number of trends. First, clients lack the skills needed to engage with these platforms. This is perhaps unsurprising given that the platforms themselves were developed in response to clients' lack of skills and inclination to engage in online promotion on their own. Whilst the platforms might have reduced the costs for clients and removed some of the time/skills barriers, MFI staff need to invest significant time and resources into encouraging and enabling clients to use these platforms successfully. Usage statistics vary widely between the platforms by different MFIs—some only have 200 users, others have over 12,000. The lesson here seems to be that a step-wise investment approach might be wise: expanding the platform and its functionality in lockstep with clients' willingness or ability to engage with it. Where two rival platforms exist in the same marketplace, consolidation might also offer an opportunity to avoid duplicating efforts, lower cost-per-user rates and expand membership networks.

FINANCING SOCIAL ENTERPRISE

IDEAL CONDITIONS FOR THE SOCIAL ECONOMY: INSIGHTS FROM BANCA ETICA

The Italian social economy (including cooperatives) accounts for upwards of five per cent of national GDP, thanks in no small part of the efforts of over 5 million volunteers. During Social Finance Vibe 2022, Gabriele Giuglietti of Banca Etica reflected on the ideal conditions for the social economy in his country.

Coordinated advocacy between social economy actors laid the foundation for a positive enabling environment. Banca Etica joined with a wide network of its peers to share information and make the case to government that the social economy can not only be sustainable but serve those who are too marginalised to be reached by the traditional mechanisms of the welfare state.

In turn, input from social purpose organisations on their needs and challenges informed impact-smart legislation. In the case of Italy, the law compels the government to sign over properties seized from extralegal organisations to those working in civil society. Tax incentives also play a role: whilst corporations face tax rates as high as 31 per cent, social economy organisations pay no more than 2 per cent—and the money is paid not to the government but to a fund that incubates and launches new civil society organisations.

Finally, Italy's legal framework ensures transparency and accountability for the third sector. An independent "watchdog" organisation (National League of Cooperatives and Mutuals) supports, monitors and audits social economy organisations to ensure they operate in line with local laws and their individual charters. In case of foreclosure, the law stipulates that the watchdog assumes management until its liquidation, by a commissioner appointed by commission.

A COOPERATIVE APPROACH

Apart from the cooperatives it supports, Mikrofonden is the only social investor in Sweden. The organisation was launched in 2010 to address the funding gap for social enterprises—a gap driven by a lack of knowledge about social business models amongst investors and a lack of financial literacy/collateral amongst social entrepreneurs. Mikrofonden started as a credit guarantee scheme, but today also offers investment readiness coaching and cooperative equity (subordinated shares) to creditworthy social enterprises, cooperatives and NGOs that contribute to the Sustainable Development Goals. Its three focus impact areas are employment, housing and rural development.

Beyond its innovative products, one of the most unique aspects of Mikrofonden is its operational model. In essence, it is a social enterprise that funds other social enterprises in a cooperative framework. Democratic governance is the heart of everything it does: it's an essential quality of its investees, and the organising principle for Mikrofond itself. Each investee joins the Mikrofonden mutual cooperative—which strengthens the structure of the organisation, deepens its knowledge and experience base and broadens its reach to potential new investees. In a country with weak support from the national government for social enterprise, this bottom-up approach is essential to drive the growth needed to make the case for the business model itself.

LINKING FUNDING WITH RISK APPETITE

What could possibly compel a venture capital investor to choose higher risk for lower returns? Impact investors tackle this thorny question each time they fund scaling social enterprises due to higher transaction costs (driven by smaller ticket sizes) and social missions (because social returns are not typically monetised in the venture capital space).

Acknowledging this inherent tension, the Financing Agency for Social Entrepreneurship (FASE) in Germany launched its pioneering European Social Innovation and Impact Fund (ESIIF) to deliver European social enterprises with the mezzanine capital needed to scale their innovative solutions. ESIIF uses the EaSI Guarantee, meaning that any initial losses from investments in social enterprises will be covered up to 80% individually (capped at 20% of the overall fund).

The fund offers early-stage growth finance, typically between €100K–500K. The fund targets social enterprises wherein social impact is the primary goal of the enterprise (or equal to its financial goals) with a well-articulated social business model and impact

WHO IS INVOLVED IN SOCIAL ENTERPRISE FUNDING?

Social enterprise is a unique asset class due to the involvement of government, which plays a vital role in connecting impact enterprise actors with limited access to funding to investors that would be otherwise unable to participate because of risk.

Also involved are:

- Funders, donors and investors: public, private and not-for-profit.
- Support institutions: networks, training centres, fund managers, etc.
- Financial intermediaries/vehicles: banks, non-banks (guarantee or loan funds), alternative lenders, investment funds, social impact funds.

WHICH FINANCIAL INSTRUMENT?

INSTRUMENT	PROS	CONS
Preferential loan	Simple, low cost	Eligibility, availability
Standard loan	Simple, widely available	High cost, collateral requirements
Subordinate loan	Zero collateral, can be leveraged, cost can be linked to impact outcomes	Complexity, measurement and reporting requirements
Equity	Risk participation	Complex exit provisions in contract

strategy supported by an impact measurement framework. Enterprises also need to demonstrate proof of concept on a viable business model with future growth potential that can scale and break even within four years.

But it's not the use of the guarantee – or the enterprises it targets – that makes this fund unique. It's the multi-layered hybrid structure of the fund itself that anticipates different appetites for risk amongst different fund investors. The fund is divided into three categories according to risk level (as detailed in Figure below).

The ESIIF is a unique product in the impact marketplace, and whilst it's not overlarge in terms of scope (placing a maximum of €20mn with approximately 60 social enterprises), FASE values the demonstration effect it creates for other investors looking to adopt innovative models and pioneer new financial vehicles in the social impact space. In terms of future take-up by other organisations, FASE also notes that where EaSI-like guarantees aren't available, grant capital could be used in its place.

Lower risk

Multilayered hybrid fund structure	Description
Senior tranche (up to 35 %)	▪ Strong risk reduction through guarantees, junior tranche subordination and other structural mechanisms ▪ Return fixed at **1.5 % IRR** (after costs, before agio) – possibly 2.0 % IRR
Junior tranche (65 % +)	▪ Higher return potential than senior tranche (target return **4.0 % - 4.5 % IRR** after costs, before agio) ▪ Secured by guarantees (subject to availability based on cash distribution mechanism) ▪ Higher risk than senior tranche; structural subordination
EaSI-Guarantee	▪ Hybrid fund structure through EU guarantees **enabling investments through risk reduction**

Higher risk

LINKING FUNDING WITH IMPACT OUTCOMES

Another key challenge within the impact investment ecosystem is that social purpose organisations themselves often shy away from taking on debt financing. This can occur when they lack the business skills required to manage loans, or lack the self-belief required to understand that their work can create the sustainable income needed to repay the loan.

In response to this challenge, BNP Paribas created "Act for Impact", a holistic and scalable approach to supporting impact enterprises. The programme comprises non-financial support, tailored financial products and the creation of new market linkages. As of 2021, it had disbursed €2.35bn to more than 2,500 clients.

Act for Impact includes two innovative financial instruments that directly link funding with impact outcomes to de-risk the investment process for everyone involved. These are:

Impact Bonds: Impact bonds are a unique multi-party contract between private investors, non-profit associations or impact enterprises and a public body. The aim is to encourage private investors to fund innovative impact enterprises and potentially be reimbursed out of the public purse or multilateral funds when/if measurable impact objectives are met. These impact targets are agreed by all parties in advance and measured by an independent evaluator. In this way, impact bonds are very similar to equity investments but uniquely tailored to the "DNA" of the organisation working to create impact.

Impact bonds are a "win-win-win" scenario because everyone involved feels the benefits:

- Impact enterprises have stable access to medium- to long-term

NEED FUNDING AND SUPPORT?

Learn more about:

InvestEU: The new EaSI way to get support
Aims drive investment, innovation and job creation in Europe (2022–27) across four windows (sustainable infrastructure; research, innovation and digitalisation, SMEs, social investment and skills) using guarantees, equity and advisory support. More information here: www.invest-eu.europa.eu/about-investeu_en

Social Inclusive Finance Technical Assistance (SIFTA): Part of InvestEU Advisory Fund
Works with microfinance institutions and social enterprise finance providers (investors, funds, incubators, accelerators, etc) with project advisory services, capacity building, market development, rating, assessment and evaluation services to project beneficiaries. Also offers market development and awareness raising support to non-beneficiaries. More information here: www.advisory.eib.org/about/service/social-inclusive-finance-technical-assistance

funding with no financial risk, allowing them to experiment with innovative ideas. They also have access to dedicated mentoring and support to help them efficiently achieve impact.
- Public and multilateral funders can tackle thorny social and environmental challenges whilst externalising their risk to the private sector (no impact, no refund). Thus, impact bonds remove uncertainty from the equation, unlike traditional grants that pay out funds up front before knowing whether impact will be achieved.
- Private investors can potentially be remunerated (unlike grant funding) without needing to develop internal capacity to deliver non-financial support to impact enterprises or conduct impact evaluations.

Sustainability-linked loans (SLLs): BNP Paribas offers a Sustainability-linked Loan product to impact entrepreneurs. It's a tailor-made loan wherein the bank will improve the interest rate as the enterprise hits its key performance indicators (KPIs). In this way, the impact enterprise is bearing all the risk, but can reduce that risk through improved social and environmental performance.

These targets are agreed in advance between both parties. Some examples include:
- Increase recycled materials by X%
- Reduce water consumption by X%
- Successfully reintroduce at least 2 threatened/extinct native animal species on company land.

FINANCIAL INCLUSION OF REFUGEES AND MIGRANTS

Refugee and migrant financial inclusion is a growing area of concern and practice in Europe and beyond. Social Finance Vibe 2022 featured a rich and varied discussion on all the latest trends.

MATCHING CLIENT NEEDS WITH ROBUST SERVICES

What do refugees really need in terms of financial services? Micol Pistelli (Senior Financial Inclusion Coordinator, UNHCR) reveals that the needs of refugees largely mirror those of citizens in their host country in terms of range of services—but their specific needs at any one point in time will depend on where they are in their displacement journey and their future plans for migration.

For instance, a recently arrived refugee would need a basic transactional account and cash grants to cover basic survival needs (including shelter, food and medicine). These can be delivered through partnerships with local financial service providers and aid organisations.

Once settled in a host country, refugees need microenterprise loans to generate income and remittances to support any family they might have left behind. They also need to find stable housing; ERSTE Financial Holding, for instance, runs a microloan programme in Austria supporting refugees to move from mass emergency accommodation provided by the state to more stable rental accommodation that requires a deposit of 3–4 months' rent. As displacement becomes more protracted – 74 per cent of the global refugee population lives in exile for more than five consecutive years – a refugee's needs will match those of any host country citizen: insurance, mortgages, home improvement loans, business loans, savings and pensions.

Acknowledging that UNHCR supports financial service providers extending services to refugees by providing them (or facilitating third-party access to) relevant demographics socioeconomic data, providing logistical support to reach refugees in settlements in rural areas or facilitating focus groups and business visits with refugee entrepreneurs to conduct market research. It also facilitates "Blended Finance" partnerships between financial

institutions, impacts investors and governments to create robust market-tailored products that address the specific economic and social challenges faced by both refugees and host communities. Importantly, this also serves to demonstrate the commercial viability in offering financial services to refugee populations.

PASSPORTING IDENTITIES AND HISTORIES

In 2022, the International Finance Corporation (IFC) launched a Digital Data Corridor initiative to link Ukraine and Poland—as well as Estonia, Latvia, Lithuania Georgia, Czechia and Moldova. Olga Sherbina (Financial Institutions Group Advisory Program Lead for Poland, IFC) highlights a critical challenge for most refugees: an inability to provide a credit history to host country financial institutions. To address this, the IFC teamed up with private credit bureaus in Ukraine (that together hold 10 years of data on 85 per cent of the population) and established the legal frameworks needed to share this information with the Polish Credit Bureau (BIK). Refugees sign consent forms in the host country, allowing financial institutions to instantly access their credit history in their home country via an API open web application.

Where initiatives such as these are unavailable, Micol Pistelli (UNHCR) voices her concern over a misalignment between a country's policies and directives and the practices of financial service providers, who are often slow to update their internal control mechanisms. She also cautions that the EU's experience with Ukrainian refugees likely differs significantly from other refugee inclusion initiatives around the world; the European Banking Authority allows EU financial institutions to apply a simplified customer due diligence (in terms of anti-money laundering and Know Your Customer obligations) to clients who might not have a passport but can provide evidence they are a refugee from Ukraine.

MANAGING PERCEIVED AND ACTUAL RISK

The topic of risk looms large over any discussion on refugee financial inclusion—and it's vital to recognise the gap between perceived and actual risk.
Perceptions of risk are fed by a lack of understanding of refugees as a market segment, a lack of capacity to develop appropriate products and internal controls. Are refugees a riskier investment for financial institutions than host country citizens? Not necessarily, reflects Micol Pistelli of UNHCR. Technical assistance for market research and product design has an important role here and is the centrepiece of the approach taken by UNHCR, IFC and others. In addition to helping financial institutions succeed in this market segment, Nadja Grochkova Leruste (Country Manager for Bulgaria, Serbia and Luxembourg, Council of Europe Development Bank) urges practitioners to consider how we can increase the visibility of refugee success stories in the press and within the industry as a strategy to combat myths and misunderstandings about refugee populations.

Actual risk arises where financial institutions lack the resources, skills and networks required to equip refugees with the knowledge needed to integrate into a host economy and make best use of the loans on offer. Where refugees don't speak the local language and don't know what hoops to jump through to register a business, the myriad barriers faced by other new entrepreneurs are magnified by virtue of their precarious situation.

Here, a multi-stakeholder approach is vital. Holistic support to refugees doesn't always require direct service provision: financial institutions can work in concert with local NGOs and networks to signpost refugee clients to the support they need to get bedded into a local market, start selling and start earning the income needed to support their family and repay their loans.

It should be said that this goes two ways. Sara Faizi, Afghan national and microentrepreneur recounts her experience as a refugee in Bulgaria, and only discovering that she could access microenterprise loans after a conversation with a local NGO four years into her displacement journey. Aid agencies and NGOs are at the forefront of working with newly arrived refugees in terms of setting them up with cash transfers, accommodation and language lessons—but as refugees progress down the road in their displacement journey and start trying to earn an income, these organisations are well-placed to introduce them to financial institutions.

Micol Pistelli shared UNHCR's experience with Blended Finance Programmes in Uganda in partnership with Grameen Agricole Foundation and the Swedish Development Agency (SIDA). In addition to funding, this highly successful programme includes a lender guarantee and technical assistance to the financial institution—and enjoys very high repayment rates from clients. However, when it comes to lender guarantees—Micol also cautions against automatically assuming they are a prerequisite for lending to refugees. Data from Al Majmoua (Lebanon) tells a different story, for instance. Al Majmoua's refugee repayment rates are very much on par with that of its Lebanese nationals—not because it's backed up by a guarantee but because they mined data about this segment, conducted careful pilot tests and adapted their internal policies before taking the product to market. In fact, a few years later Al Majmoua turned down the offer of a lender guarantee for this product, given how successfully it had been performing.

ASYLUM, MIGRATION AND INTEGRATION FUND (AMIF)

This fi-compass factsheet describes the potential use of financial instruments in the area of early stage and long-term integration of migrants in the EU. It describes how AMIF financing may be deployed for the first time through financial instruments such as loans, guarantees and equity.

More information can be found here: www.shorturl.at/dhvzY

EXPANDING HOPE IN UKRAINE

War displaces vast numbers of people at once, and not always across national borders. Internally displaced people (IDPs) experience the same needs and constraints as their peers who flee to other countries: they need to secure stable housing and establish income-generating activities in short order. Yet many of the banks in Ukraine have either stopped lending altogether, or have hiked interest rates to such an extent as to make their former clients unbankable. Certain products (mortgages, for instance) disappeared from the marketplace almost overnight.

In the face of much uncertainty and huge operational challenges, HOPE Ukraine has radically altered the way it works in order to help IDPs settle and thrive in safety. The first change is in where it works: the vast majority of its outreach (70%) before the war was in the south and east of the country—the very regions most affected by the Russian invasion. Now, thanks to a concerted effort on the part of its staff (many of whom voluntarily relocated to make this this possible), it has expanded its outreach in the north and west of the country.

The second change is that HOPE Ukraine launched a new product for IDPs: a loan product available in small amounts and for heavily subsidized interest rates. HOPE's aim is to build resilience, not to earn an income with this product. It is also offering home improvement loans to IDPs—many of whom have moved into substandard or unsafe housing stock and need a cash injection to improve their living conditions.

In future, HOPE sees an important role in promoting SME development in post-war Ukraine. The Ukrainian economy was historically powered by big business and industry—however much of the country's infrastructure has been lost or damaged due to the ongoing conflict, at the cost of hundreds of thousands of potential jobs. HOPE sees an opportunity to retool the post-war economy with a greater focus on the SME sector. In the ideal scenario, this could be achieved using a using multi-stakeholder approach and streamlined business regulations.

GREEN MICROFINANCE

GREEN GOES DIGITAL

The third – fully digital – version of the Green Index launched this year with a number of important updates for financial service providers interested in measuring their environmental performance (See: www.hedera.online/gicsf_ag_tools/green-index-digital.html).

The tool was first launched in 2014 by the e-MFP Green Inclusive and Climate Smart Finance Action Group (GICSF-AG). This latest iteration (hosted by HEDERA) was launched after extensive consultation with users, including 300 practitioners and 1,000 institutional audits.

The tool is designed to raise awareness, offer in-depth performance analysis and provide a framework for institutional action planning—as well as to monitor progress over time through repeated applications. The tool is organised into four dimensions:

- Defining Environmental Strategy
- Supplying Green Products and Services
- Identifying Environmental Risks and Opportunities
- Managing Environmental Risks and Opportunities

Financial institutions can refer to the website for additional resources including an automatic report generator, an android/mobile version for staff and a handy glossary of key terms. Assessments can also be filleted by institutional level to understand differences in perspective/performance between management and field staff. Importantly, the Green Index 3.0 is fully aligned with the environmental performance dimension (Dimension 7) of the Universal Standards for Social and Environmental Management (USSEPM), a tool co-developed by SPTF, CERISE and the e-MFP GICSF-AG. For social investors interested in the topic, a lighter version of the tool is available through ALINUS. The Green Index is published under a Creative Commons licence, and is available free to use in English, French and Spanish.

A GREENER DECADE FOR EUROPE

The European Microfinance Network (EMN) and e-MFP have released the results from a 10-year study entitled *Green Microfinance in Europe*. The survey drew upon two data sources:

- **Green Disclosure:** Information on environmental strategy, environmental risk management, green practices and other standards as disclosed on the MFI's website. This desk review considered over 400 MFIs in two time periods: 2013 and 2021
- **Green Declaration:** Longitudinal data (2011–19) collected from over 270 MFIs on green financial and non-financial products and other indicators from the Green Index.

By triangulating these two data sources, the report points to strong evidence of the following trends:

Green performance is getting stronger: Of MFIs surveyed in 2013, 28% disclosed at least one green practice on their website, compared to 41% in 2021—the most common practice being the artic-

ulation of an environmental commitment. In the same time period, the average Green Index score increased from 26% to 29%. Overall, monitoring and measuring internal environmental risks was the practice where MFIs made the most significant progress.

Green loan products are on the rise: The percentage of MFIs advertising green loan products on their websites increased from 8% to 16% between 2013 and 2021, while the average Green Index score for the green opportunity standard increased from 18% to 22% in the same period. Interestingly, Eastern European MFIs lead Western MFIs in terms of dedicated green loan products.

Energy loans lead the way: Of MFIs offering green loan products, renewable energy and energy efficiency loans are the most popular option, accounting for almost 15% of green loans disclosed in 2021 (although nearly 50% of MFIs declared financing green energy through their standard loan products). Here too, Eastern European MFIs have made clear headway compared to their Western counterparts—31 versus 19, respectively. Similarly, the average Green Index score for energy loans was 42% versus 33%, respectively.

Green non-financial services are on the wane: Both the desk review and the Green Index results reveal that client training and other non-financial green practices became less common over the past ten years. This is surprising given the increase in green products across the board, and certainly an area that merits further investigation in future.

HEADLINE TRENDS IN GREEN MICROFINANCE

The 2022 EMN/MFC *Microfinance in Europe Survey* reflected on the post-pandemic European microfinance landscape, observing continued progress in green transitioning amongst MFIs. The survey revealed that many MFIs are already fully or partially compliant with green sustainable and climate-smart financing, a vital step towards serving the most vulnerable segments in society.
The headline trends emerging from the survey are:

Green standards compliance is on the rise, although MFIs are more climate-smart about their own risks, strategy and performance than that of their clients. Whilst only 40% of MFIs have developed an environmental strategy, 55% report that they currently (or are on track to) assess and manage their negative impact on the environment.

The East is outpacing the West on dedicated green loans including those for sanitation, sustainable agriculture, energy efficiency and renewable energies. Amongst all respondents, 26% already had green loan products and 23% were planning to launch them in future. In the West, the trend is towards green financing through regular loan products (50%), with over one-third of Western MFIs surveyed not planning to introduce green loans at all.

NBFIs are green trailblazers. Overall, NBFIs were the most likely to offer green financial services (81% overall and 34% through dedicated green loans), followed by cooperatives (67% overall and 35% through dedicated products).

Non-financial green services are less common. Of MFIs surveyed, 72% do not provide green non-financial services, and those that do are more focused on indirect services (awareness raising, linking clients with third-party services) rather than direct services (training, mentoring and other support). Given the perceived lack of client awareness (see next point), it is unsurprising that 47% of respondents identified grants to support the delivery of non-financial services as a priority for external support.

Weak demand is seen as the biggest challenge. Of MFIs surveyed, 55% report low levels of client awareness about what green options exist and what their benefits are to their homes and businesses. A secondary challenge was also identified: 30% highlighted the difficulty of developing effective green products, with 40% signalling the need for technical assistance to adapting existing and/or develop new dedicated products and services.

EDUCATION LENDING

In September 2022, BCR Social Finance (Romania) launched a "Study Up" student loan product. The aim of the product is to support young and vulnerable people to increase their skills and access higher-income employment in Romania rather than through migrating abroad. Students aged 18 –45 entering an undergraduate, graduate, doctorate or continuing education programme can apply for a loan of up to €30,000 with a typical APR of 16%. The funds can be used to cover tuition, rent, textbooks, equipment and other expenses.

Loan applicants are required only to present their identity document and proof of study (and breakdown of tuition costs). They do not need to provide proof of current income, a co-signatory or collateral. BCR conducts credit checks on applicants and assesses their repayment capacity based on future potential income according to national statistics. Loan guarantees are provided free of charge to students by the European Investment Fund Skills and Education Programme (up to 80% of the loan value).

The loan offers a 10-year maturity and a grace period of up to 42 months (or 6 months after graduation, whichever comes first). During the grace period, only interest payments apply. Students can fund up to three years of study, and can draw down funds in tranches to keep interest payments as low as possible. There is no early repayment charge.

This initiative has received financial support from the European Union Programme
for Employment and Social Innovation "EaSI" (2022-2025).
For further information please check: http://ec.europa.eu/social/easi