SOCIAL FINANCE TRENDS

2023

SOCIAL ECONOMY

MICROFINANCE CENTRE

This briefing paper presents the main trends discussed during "Social Finance Vibe 2023: Empowering the Future". Watch the session recordings here: mfc.org.pl/SFV2023

THE SOCIAL ECONOMY ACTION PLAN

The Social Economy Action Plan (SEAP) is a roadmap covering over 60 actions with over 20 Directors General in the European Commission. Its main areas are: developing framework conditions, opening up opportunities, and recognition and awareness raising.

In 2023, the council delivered its recommendations on developing social economy framework conditions—the first of which is for member states to either adopt new strategies for social economy or to adapt existing ones. Member states have two years to prepare their national strategies, and the recommendation is that they involve all sectoral stakeholders in the design and implementation of that strategy.

In terms of opening opportunities, the SEAP includes a range of programmes and policy areas including access to funding, as well as cross-cutting themes such as procurement and state aid. As part of this, the European Commission is deeply involved in supporting the move to a social economy through workshops for public officials to build their capacity and help them devise a strategy.

The access to funding workstream predates the SEAP, dating back to the previous multi-year financial framework: EaSI Programme. New microfinance funds include InvestEU (2021–27), which is offering €2.8 billion for social investment and skills, mostly in the form of guarantees, loans and investment.

The European Social Fund (ESF) Plus also offers business development support or reduces the transaction costs for support to financial intermediaries. The ESF prioritises social innovation and has launched a new initiative, the European Competence Centre for Social Innovation. This is designed to support the transfer and upscale of social innovation across countries and across sectors.

YOUTH ENTREPRENEURSHIP POLICY ACADEMY

In line with its goals around awareness raising, the Social Economy Action Plan includes the Youth Entrepreneurship Policy Academy (YEPA),[1] launched by the OECD and DG EMPL in March 2023. The Youth Entrepreneurship Policy Academy is a peer-learning policy network designed to strengthen youth labour market outcomes and raise awareness by facilitating exchange amongst different stakeholders involved in supporting young entrepreneurs.

YEPA unites 150 participants from each EU country (including government representatives, youth organisations and technical experts) as well as international youth organisations and social entrepreneurship organisations. Each of its three subgroups had its own kick-off event and thematic workshops on access to finance (including microfinance, blockchain and crowdsourcing). The topic of the second workshop was based on whether groups wanted to learn about green entrepreneurship, supporting innovative start-ups, or the gender gap amongst young entrepreneurs. Future workshops will include social entrepreneurship, soft skills and more. Workshops are facilitated using the OECD–EU Better Entrepreneurship Policy Tool,[2] a self-reflection or self-assessment framework that allows individuals to systematically reflect on local conditions for respect to entrepreneurship by underrepresented groups (young people, women, immigrants, etc.) and social entrepreneurship.

Although YEPA is a stand-alone activity, there are strong synergies with other OECD–DG EMPL initiatives, such as the Missing Entrepreneurs Report series[3] and the OECD Youth Policy Toolkit.[4]

DG GROW SUPPORTS THE SOCIAL ECONOMY

DG Internal Market Industry Entrepreneurship and SMEs (DG GROW) works closely with DG Employment and Social Affairs (DG EMPL) on supporting the social economy, and is responsible for key elements of the Social Economy Action Plan, notably in the two first pillars (creating the right conditions for the social economy to thrive and opening up opportunities and capacity building).

In 2022, DG GROW held a year stakeholder dialogues to compile a list of 14 action areas and 30 specific actions to foster the green and digital transition, including in the social economy. Green transition actions include: creating local green deal partnerships, fostering business communities that are delivering green innovations and energy locally and integrating value chains. Digital transition actions include: supporting the digital commons movement and access to technology, making technology affordable and adaptable to social economy principles, and helping social economy organisations develop the skills needed to integrate those technologies across all processes, both internal and external. Read more in the Transition Pathway for Proximity and Social Economy report.[5]

[1] yepa-hub.org
[2] betterentrepreneurship.eu
[3] oecd-ilibrary.org/employment/the-missing-entrepreneurs-2023_230efc78-en
[4] oecd.org/dev/evidence-based-policy-making-for-youth-well-being-9789264283923-en.htm
[5] single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/transition-pathway_en

DG GROW supports sector actors on green and digital transition through an interactive stakeholder platform where businesses, intermediates and enabling organisations from the social economy can connect, collaborate, share knowledge, and apply for capacity building support and EU funding instruments. In future, DG GROW will launch a Code of Conduct for data sharing and management in the social economy. Those interested can join the drafting committee.

DG GROW supports green and digital upskilling and reskilling. This includes the Pact for Skills and Skills Partnership for Proximity and Social Economy (under development) which is linked to funding instruments supporting social economy, for example, designing specific curricula and trainings to address skill gaps within the social economy (the Blueprint for Sectoral Skills).

DG GROW runs a series of "calls for pledges" wherein sectoral actors pledge to submit an initiative, project, proposal, or strategy they are developing on one of the 14 action areas. In doing so, they provide vital insights to the Commission on what frontrunners in the social economy are doing related to the green or digital transition.

In the area of access to markets, DG GROW is working to involve social economy actors in public procurement processes. It works with public authorities to raise awareness and build capacity to integrate social clauses into their public procurement briefs. It also encourages the private sector to better engage with the social economy in strategic partnerships to buy services, focusing on the B2B market to bring social economy actors closer to their mainstream business counterparts.

DG GROW works to make the social economy more present and visible in mainstream established networks such as the Enterprise Europe Network and the European Cluster Movement. It also participates in the European Social Economy Regions Movement, led by local and regional public authorities, which runs peer-learning visits between members.

Finally, DG GROW holds a recurring competition calling for new innovators and business models related to a certain topic. This year, it was energy poverty. Afterwards, participants join an "alumni network" so they can keep learning across sectoral boundaries.

THE EUROPEAN CODE OF GOOD CONDUCT

The European Code of Good Conduct is a unifying set of reporting standards and operational guidelines for the region's microfinance sector. The Code is not meant to replace existing national regulatory frameworks, but to being consistency and transparency to a diverse landscape of actors. The Code was launched in 2011, and has been updated several times based on user feedback, most recently in 2021. Future improvements will include making the code more inclusive for smaller organisations and non-profits, and expanding the geographic coverage of the Code. Participants in the SIFTA programme can receive an evaluation free of charge.

Feedback from certified institutions confirms that Code offers an opportunity to examine their business models and the way they operate and assess where improvements are needed, for instance in terms of customer relations, business planning or internal processes. The Code also helps institutions improve how they are perceived in terms of their reputation, credibility, visibility by being a "quality label", especially as customers themselves lack the time and information needed to effectively assess institutional quality. This is especially true for non-bank financial institutions (because they are not regulated by central banks in the same way as commercial banks and credit unions), which often find they need to differentiate themselves from "quick credit" companies offering high costs and low transparency and client protection.

Finally, the Code is a useful "quality stamp" for governments to use certification as an eligibility requirement for different social economy instruments, particularly funding and guarantees. As Martina Grigorova (Director, Mikrofond Bulgaria) notes: "There was a time when our Ministry of Labour and Social Affairs launched a programme under the ESF+ financial instrument but planned to exclude MFIs, who were seen as risky because it was hard to distinguish them from fast loan companies. I proposed using Code certification as an eligibility criterion—and they agreed. So, thanks to our certification, we were able to access funding."

MEASURING THE IMPACT OF SOCIAL ENTERPRISES

The SDG Impact Standards is an initiative of the UNDP (supported by Social Value International) to create a decision-making framework for purpose-led organizations to understand and to manage their impact. According to 2022 European Social Enterprise Monitor (ESEM) report, 58% of social enterprises in Europe measure their social environmental performance, but KUSIF (Koç University Social Impact Forum) Türkiye cautions that in its experience, many organisations collect information on outputs but not outcomes.

The UNDP's SDG Impact Standards offer a useful framework for understanding what kind of data an organisation can use to understand its impact. This framework it organised into five dimensions (or foundational elements) of impact: What, Who, How Much, Contribution and Risk. KUSIF stresses the importance of two dimensions that are the least well-understood by social purpose organisations: contribution (to what extent would this change happen anyway without the organisation) and risk (what is the risk of not creating this impact).

KUSIF works with social enterprises to embed these five foundational elements across four standards (or work areas): strategy, management approach, transparency (on how foundational elements are integrated into purpose, strategy, management approach and governance, and performance reporting), and governance. The implementation process comprises 12 actions across the four impact standards.

KUSIF offers three recommendations to organisations supporting social enterprises. First, it must be a hands-on and long-term process. Second, aligning data expectations from the outset is vital. Different funding bodies have differing expectations of what data should be collected and when, and there's a significant danger that overlapping requirements combine to create a burden on the organisation. Finally, flexibility is key. Social change is a messy, unknowable process. Finance and support organisations structure partnerships around concrete and detailed operational plans. However, the very act of collecting and using impact data changes how an organisation works at a fundamental level. For this reason, partnership plans need flexibility baked in from the start, so the support matches the real-time needs of the organisation.

Read KUSIF's "Maximize Your Impact" guidebook for social enterprises:
kusif.ku.edu.tr/wp-content/uploads/2023/03/MaximiseYourImpact-1.pdf

SIFTA SUPPORTS MIKROFOND

Mikrofond (Bulgaria) has over two decades of experience supporting microenterprises, small agricultural producers, social enterprises and marginalised entrepreneurs. In 2022, it merged with SIS Credit to become the leading private MFI in Bulgaria. It is supported by the European Investment Fund, Fund Manager of Financial Instruments in Bulgaria and also the Bulgarian Development Bank. Despite being a market leader and a mature institution, it continually applies for technical assistance programmes to support each stage of its development.

Mikrofond is a beneficiary of the SIFTA, technical assistance programme, as well as of its predecessors, JASMINE (from 2012) and EaSITA (from 2015). SIFTA has given Mikrofond access to tailored trainings, institutional development support, peer-to-peer study visits, and a new product portfolio analysis for pipeline building and risk management. It also received a free ESG assessment from an independent evaluator.

The Bulgarian banking sector is increasingly digitalised, and in the wake of the pandemic, Mikrofond's clients wanted to access its services without leaving the house. This prompted it to embark on a digitalization process, and it is applying to SIFTA for technical support to make this transition a successful one.

Mikrofond is also pioneering new financial products for social enterprises and start-ups under ESF Plus. Under SIFTA, it sent staff on a three-day peer visit to Banca Etica to understand how the market leader served social enterprises, specifically in terms of pricing, interest rate composition and its ESG assessment model for client social enterprises.

To apply for SIFTA, organisations can email the team (sifta@eib.org) to request an application form (which is relatively straightforward). Organisations can request additional services over time, making SIFTA an easy, tailor-made programme that grows with the institution.

VULNERABLE GROUPS

YOUTH

FLEXIBLE HOLISTIC SUPPORT: THE MICROSTART APPROACH

There's a new generation of microentrepreneurs arriving on the scene: young people (defined by the European Commission as people between the ages of 15 and 29) launching their first business—under circumstances and with motives unheard of in their parents' generation. More and more they are launching purpose-led businesses and social enterprises, companies that use tech, create strong brand identities, and offer innovative products and services.

microStart delivers microcredit and business development support in Belgium. Youth make up 12% of the national workforce, but 32% of microStart's clients. microStart prioritises young entrepreneurs because without a credit history, savings or collateral, it's difficult for them to access loans. National culture is also a barrier: For entrepreneurs, information on how to start a business or obtain financing is fragmented across three regions in three national languages. For banks, unproven entrepreneurs are seen as risky given a cultural aversion to failure (people who go bankrupt in Belgium are unlikely to get a second chance from a bank). However, microStart, views failure as vital for success in entrepreneurship: The more you fail, the more you learn.

microStart offers free business development support to its young entrepreneurs clients on business planning and leadership coaching. It has an e-learning platform and toolbox (a 9-step financial planning using 3 examples), management training and coaching. Past training topics include stock management, financial and administrative issues, legal issues and more. microStart also connects clients with partners who support other sets of skills, and in some regions, signposts clients to business subsidies or free advice. In the future, it hopes to offer digital marketing training in response to growing demand.

In terms of financial products: microStart doesn't offer a wide range of products, rather it tailors its offering to the specific needs of the client, and it takes a graduated approach with increasing loan sizes over time. This stepwise approach works for its young entrepreneur clients too: being more innovative requires more testing and market building, so they need loans that grow with them as they develop their model. From a loan analysis perspective, microStart uses the same assessment process for both commercial and social enterprises, looking into the client's financial history the project viability. However, its credit committee does view the mission as a kind of "value add" of the project.

MIGRANTS & REFUGEES

INSIGHTS ON MIGRANT ENTREPRENEURS

What are the differences between local entrepreneurs and migrant entrepreneurs? Here were some insights emerging from the field:

SERVICES ARE PORTABLE

Migrant entrepreneurs need to find the intersection of what they can produce and what products are in demand. Offering services (such as childcare or IT support) rather than producing goods can be a flexible, agile and scalable option to start earning right away. It also avoids the necessity of capital funding to establish premises, plant and equipment—which require high turn-around on sales to reach break-even.

LACK OF SOCIAL CAPITAL COMPOUNDS CHALLENGES

Refugees and migrant entrepreneurs lack of social capital in their new country makes it difficult to overcome common challenges and grasp opportunities. That means not having a reputation for quality and honesty in the marketplace, word-of-mouth to build a client base, co-founders to amplify their network/ideas, and friends that can vouch for their work to others—this in addition to all the language, cultural and institutional barriers they typically face. One potential solution is to launch an "umbrella company" or ecosystem wherein refugees could access jobs with the benefit of an established infrastructure—and where it's easy for local (and global) companies to access those services.

REFUGEES LACK ROADMAPS

People who are forcibly displaced from their homes and living in refugee camps aren't automatically aware of the ecosystem of government agencies, NGOs and charities ready to help them, or have the language skills needed to take advantage of that help. This is why there's a need for effective coordination between service providers to ensure there's a plan in place to meet the entire range of needs and that organisations can refer and signpost refugees to each other. It's also important to remember that refugees need support over the long-term, not just in the first 18 months after arrival. By some estimates, it can take up to ten years for a refugee to reach financial independence in their new country.

REFUGEES MAKING MID-LIFE CAREER CHANGES NEED HELP

Not every migrant entrepreneur was self-employed before they left their home country. For instance, highly educated migrants from the Middle East or Ukraine might not have their professional certifications recognised by EU institutions, necessitating a transition to self-employment. At home, they might have been successful doctors or lawyers, but that doesn't mean they have the skills required to launch and run a business. Government departments are typically more geared up for meeting basic and immediate survival needs (food, shelter, health care). Other organisations can train refugees in entrepreneurial skills, ideation, digital entrepreneurship, and investment readiness— including learning about private equity funding and how to craft a good investor pitch.

WE CANNOT IGNORE THE TRAUMA OF FORCED DISPLACEMENT

Protracted stays in refugee camps and the struggle to settle into a new country have serious and negative mental health impact on refugees. Beyond all the practical support they need upon arrival to learn a language and access basic services, they need psychological support to process the trauma of the experience. People living in refugee camps aren't allowed to work, which robs them of their self-efficacy. Established refugees might be forced to take employment that is below their skill levels and might be viewed with suspicion by the local population, which robs them of their self-confidence. Gone are their hopes and dreams, gone is the support of their family and friend networks. They have very little control over their lives, and the path to regaining control is not always clear.

ASKING WHETHER CAPITAL DISCRIMINATES AGAINST REFUGEES IS THE WRONG QUESTION

Creativity, curiosity, and confidence don't recognise national boundaries. However, not every refugee can or should be an entrepreneur. For instance, upwards of 90% of one million Ukrainian refugees in Poland are women, and many of them care for children full time. Entrepreneurship can be a useful path towards practical and financial independence, but it's the last step of a very long integration process in the host country. Refugees need housing, language education, and healthcare in the first instance. However, all countries should establish concrete policies and frameworks for institutions to work with refugees—not only in terms of passporting credit histories, but standards to recognise foreign-earned qualifications and educational degrees.

ROLE OF CITIES IN MIGRANT FINANCIAL INCLUSION

PARTNERSHIPS AND FINANCING FOR MIGRANT INCLUSION (PAFMI)

PAFMI is a project funded by the European Commission/DG HOME through the Asylum, Migration and Integration Fund (AMIF) and managed by the Council of Europe Development Bank (CEB). PAFMI improves the inclusion of migrants in the EU by supporting the creation of a multi-level and multi-year partnership and the development of new forms of financing.

Four project consortia are currently implementing projects: a consortium led by MicroLab in Italy (see below); a consortium in Belgium led by microStart (an MFI); a consortium in the Netherlands led by Qredits (an MFI); and in Finland there is a SMILE consortium in the city of Vantaa doing research and employment and education. Each of the four consortia promotes the partnership between municipalities, microfinance institutions, civil society organisations to promote the financial inclusion of migrants.

Facilitating communication with and between cities around migrant integration topics is a platform under the Urban Agenda called the Partnership for Inclusion. It's led by the city of Amsterdam with DG HOME, and it provides an opportunity for peer exchange on challenges and best practice, and feedback on changes needed to the funding mechanism to respond to these challenges.

MICROLAB ASSOCIATION (ITALY)

Launched in 2003, MicroLab Association promotes social inclusion by supporting self-entrepreneurship via business mentoring and entrepreneurial training. It works through a national network of over 50 business mentors committed to giving back knowledge and experience to the community.

The Italian Society Social Security Agency says that without immigrants, the country's welfare system and future pensions are at risk. Foreigner-born people have a greater propensity to save than the Italians and studies show that financial inclusion promotes social and economic stability in the host country. Yet immigrants face difficulties in opening bank accounts, language education and certification, and recognition of overseas educational qualifications. The failure rate of foreign-owned enterprises is also high: 7% instead of 1.2%, in large part due to a lack of support networks.

EMPOWER! is a welfare and economic rights programme (under the PAFMI banner) that improves the inclusion of migrants in Italy by increasing their employability and raising awareness of financial inclusion of non-European citizens in Turin. The programme is a wide-ranging partnership of 87 public, commercial and non-profit stakeholders; it offers one-to-one mentoring and tutoring on topics such as career counselling, business orientation, title recognition, business planning, workers' rights training, financial education, business development, microcredit and grants.

Cities are important for promoting migrant inclusion, yet Italy has moved from centralised city management to a distributed model. This loss of centrality favours pluralism, but it carries the risk of some needs falling through the cracks and services that aren't joined up.

This calls to mind the lesson on the "two-minute fatal error" that arose from a major study on Italian National Railway group. The study measured excellent performance on all indicators: punctuality and speed, maintenance cost and mean time between failures, number of passengers moved and the cost-to-revenue ratio. But passenger interviews painted a different picture: they were furious because in many stations, the train arrived on time but too late for them to catch connecting buses to their places of work—sometimes only by a matter of two minutes.

The lesson here is: it's not enough just to do your small part well. The same applies to all the entities working with migrants, especially because services are not centralised, any entity performing a fraction of the entire process of migrant inclusion is responsible not only for the own indicators, but for the indicators of the entire process of enhancing and freeing the human capital of migrants in the Italian workforce.

ACCESS TO FINANCE FOR REFUGEES

THE SCALE OF THE PROBLEM

By the end of 2022, Europe hosted 36% of all global refugees or 12.4 million people in total. Türkiye is the largest host country worldwide with 3.6 million refugees, followed by Germany and Poland. This is in addition to the 1.3 million asylum seekers, 500,000 stateless persons and 7.2 million internally displaced persons across Europe, leading to a total number of 21.8 million forcibly displaced and stateless persons in the region. Primary countries of origin include Ukraine, Syria and Afghanistan.

Access to financial services is fundamental for the integration and inclusion of forcibly displaced and stateless persons. Without a bank account, access to decent work is limited, because they can't receive a salary by bank transfer. Many landlords request a bank account to sign a rental agreement. Social protection benefits also require a bank transfer. To successfully run and grow a business, advanced financial services such as microcredits and loans are often key.

Compared with the other regions, European states provide a relatively enabling legal framework to protect and include refugees. Nevertheless, important barriers remain, including legal and regulatory challenges, as well as administrative and practical barriers.

NEW EBA AML/CFT GUIDELINES

The European Banking Authority (EBA) works to maintain the stability and effectiveness of the EU financial system. It also prevents the abuse of the financial system for anti-money laundering and countering the financing of terrorists (AML/CFT). The EBA AML/CFT unit leads the work on de-risking: situations where a financial institution rejects a customer on the basis of AML/CFT concerns, and whether or not these decisions are actually warranted.

In 2016, the EBA issued its first opinion to help financial institutions strike the right balance between providing asylum seekers with access to financial services and to complying with EU AML/CFT requirements. This was followed by a second opinion in 2022 that further addressed the categories of customers that should be associated with higher money laundering and terrorist financing risk and that were affected by de-risking. At that time, the EBA saw growing evidence of difficulties in spite of the EU's Temporary Protection Directive (TPD), which allowed for Ukrainian refugees to open bank accounts in all member states using simplified due diligence processes.

At the end of March 2023, the EBA published new guidelines on policies and controls for the effective management of money laundering and tariff financing risk when providing access to financial services. This new set of guidelines (available on its website) contain specific provisions for customers who are asylum seekers or refugees, and make clear that before taking a decision to reject a customer, financial institutions should first consider all the possible measures to mitigate the risk associated with this customer (e.g. postponing customer due diligence, adjusting the monitoring required, or restricting access to some services or products). To overcome the challenge of ID verification, the guidance allows financial institutions to use official documentation issued by the country of refuge or an official authority (such as social services) or by a well-established not-for-profit organization (such as the Red Cross).

The guidelines take into consideration the fact many of the challenges occur at the onboarding stage of the asylum seeker—and that many of these challenges become less salient when the financial institution achieves a better understanding of the customer over time and can revise its offering based on that information.

In practice, this could mean that once an asylum seeker has obtained official refugee status, gets a job, starts receiving a stable income and starts to build a credit history, banks or financial institution can offer microcredit loans or mortgages so that customer can fully participate in the host economy.

HOW AML CREATES BARRIERS FOR CLIENTS

Myria is an independent public body in Belgium that analyses migration flows, defends the rights of foreigners and combats human smuggling and trafficking, promoting public policies that are based on evidence and human rights. Recently, it produced a report on access to basic banking services for third-country nationals.
The most significant barriers are linked to the anti-laundering directive. To determine what services to provide, banks need to individually assess clients. The requirements vary depending on the risk attribute of the client and the service requested; the higher the risk, the higher the burden of proof in terms of identity. However, the report highlights that banks often refuse to open even a basic bank account because it doesn't recognise the validity of the ID or residence documents offered.

Basic banking services differ from standard bank accounts. With the latter, a client has the freedom to enter into a contract with whomever they want. But a basic banking service is strictly regulated on the European level. A customer that is refused a standard bank account must (apart from exceptional circumstances narrowly defined by law) be offered a basic banking account. Any refusal must be provided in writing unless the refusal is linked to anti-money laundering legislation.

In practice, however, this creates a cascade enforcement gap. Banks do not always fulfil their obligation to inform people they can access basic banking services. Second, banks will refuse to open a basic banking account without providing a written refusal, even when this doesn't relate to AML concerns. This, in turn, creates an enforcement gap because the institution (the ombudsman) tasked with reviewing appeals can only action a refusal if it's done in writing. This creates a cascade of barriers consisting of poor access to information, arbitrary refusal of access to basic banking services, and a consequential lack of access to an effective remedy.

KEY RECOMMENDATIONS

Myria has developed a platform in Belgium that allows people to register complaints regarding refusals or blocking of access to banking services. Also, the Federation for Banks in Belgium has developed a "Frequently Asked Questions" section which is very important because access to information is key. It gives banks a clear overview of what they have to do to give access to basic banking services for applicants and beneficiaries of international protection, so that banks have really a central point of information in this regard. These mechanisms can be replicated in other countries.

There is also a need for clear legislation that imposes an obligation on banks to provide a written explain in cases of refusal—which for reasons of anti-money laundering doesn't exist today. Banks need to provide clear information on their offering of basic banking services; and when this becomes a legal obligation, these banks need to be sanctioned when they don't comply. At the same time, banks themselves should be trained to understand how to provide clear information on their services to vulnerable populations. Training could be provided by specialised integration facilitators or civil society organisations.

Myria recommends tasking a dedicated ombudsman with the responsibility to review appeals regarding refusals. Where a written refusal is not provided, a declaration by a social worker could be used to lodge an appeal. On the monitoring side, both to governments and national banks should conduct a thorough evaluation of the legislative frameworks where they coincide and conflict. At the EU level the incompatibility of the legislative frameworks that relate to basic banking services needs to be addressed.

The current EBA guidelines on access to financial services came on line in early October 2023. The EBA is planning to train supervisors to be aware of what they need to look at when they go on site and to check if the decision to reject the customers is warranted or not.

The EBA has also issued guidelines dedicated to the financial inclusion of not-for-profit organisations, because they were affected by unwarranted de-risking—an important implication for the delivery of humanitarian aid across the world.

In future, a new European Anti-Money Laundering Authority (AMLA) will further enhance refugees' effective access to financial services. It is expected that AMLA will be established by the end of 2024, and will include AML/CFT regulation that will function as a new single AML/CFT rulebook. The AMLA will directly supervise a selected number of financial institutions that operate cross-border and that pose the highest risk from an AML perspective. For other financial institutions that will not be directly supervised by AMLA, it will play a role in the coordination of national supervisors and help them to increase their effectiveness in enforcing the single rulebook across the EU.

UKRAINIAN REFUGEES IN POLAND: A PROFILE

Poland hosts the largest number of Ukrainian refugees of any European state: 1.6 million people; 95% of whom are women and 75% are adults. Of these, 1 million registered for temporary protection in Poland (PESEL Ukrainian mode), and 900K have found a job. PESEL Ukrainian mode gives Ukrainians the full right to live and work in Poland, and they can also apply for permanent residency status in Poland, allowing them to open a business with the same rights as a host country national.

IFC's refugee survey of 400 Ukrainians found that 56 percent of respondents have university degrees, and over half of these are master's degrees—but many had faced challenges having their diplomas and medical degrees accepted. Of early arrivals (before August 2022), 60 percent found jobs and "settled down", meaning they rented or owned their housing, had a job, spoke the language, and enrolled children in local schools. By 2023, half of all Polish businesses employed Ukrainian workers.

In 2022, 77% of all loans obtained by Ukrainians in Polish banks were for mortgages, and in 2021, Ukrainians accounted for over 40% of all flat purchases by foreigners in Poland. Of those who arrived by 2022: 20K established businesses, and about 4K of these were jointly owned with a Polish co-founder. As of June 2023, the number of sole proprietorships owned by Ukrainians had risen to nearly 30K. Of these: 24% are in construction, 18% in IT services, 14% in other services, of which 85% are hairdressing and beauty services. When asked, 66% said they plan to keep the company open in Poland after the invasion ends. Only 10% of these were existing businesses that had relocated from Ukraine to Poland. Also, 41% of sole proprietorship businesses were opened by women, many of whom were new to entrepreneurship.

At present, Ukrainian entrepreneurs need to meet the same standards as local ones to qualify for a loan: They need a full year of company tax returns, which typically requires 18 months of operation.

The IFC study reveals that banks offer a range of services to refugees. Almost all offer opening current accounts, currency accounts, foreign payments and money transfers. Most financial institutions updated their mobile and internet applications to offer a Ukrainian-language option.

However, data on existing value offer varies from branch to branch, from bank to bank, and so improved access to information on the existing offer is necessary. The survey revealed that Ukrainian refugees perceive inconsistencies between different branches and different employees and channels—they need several visits to the same bank but to different branches or to different specialists to find someone who can give them the right information and in the right language.

Financial service providers need to better understand this group and adjust their processes and procedures to the profiles of displaced people, because they are a relevant segment and they are expanding the ways in which they need services.

In 2022, refugees opened more than half a million accounts in Poland; early on, these accounts were used to receive social assistance, welfare, family benefits, etc. and banks expected them to gradually be closed. Instead, the accounts remain active and are now being used for salaries and housing payments. The share of new active accounts opened by Ukrainian customers is comparable to that of Polish customers in 2022. Ukrainian customers are also more digitally savvy than their Polish counterparts. The majority of Ukrainian refugees indicated an interest in credit cards and consumer loans—potentially generating 7 billion Polish zloty for consumer loans and or 3 billion Polish zloty for credit cards.

Overall, the invasion and subsequent displacement has created a substantial market opportunity for banks of approximately 1.4 million fairly well-educated and financially stable Ukrainian refugees. Some are un-bankable, but the vast majority of Ukrainian refugees want to open their business, improve their livelihood, integrate into the local economy and society.

FINANCIAL INCLUSION FOR PEOPLE DISPLACED BY WAR

Despite relatively favourable conditions for Ukrainian refugees in EU countries, challenges remain for financial inclusion. Here, we discuss solutions with two organisations working on the scene:

EBRD ROMANIA

Immediately following the invasion of Ukraine, the EBRD launched its "Stronger Together" refugee support programme with funding from donors including the EU and various national governments (Italy and Korea) as well as its own capital. The program is structured in three pillars: skills development and employment facilitation; entrepreneurship facilitation; and capacity building.

Under the first pillar, the EBRD can help refugees with language courses, vocational technical training, IT skills, upskilling, reskilling, also job matching. Its support comes in the form of subsidizing this training, and collaborating with organisations reaching refugees with those specific needs.

Under the second pillar, the programme targets existing companies owned by Ukrainian refugees that have relocated to the host countries, as well as to individuals who want to start a new business. It offers support through matching entrepreneurs with advisory experts (legal, financial, fiscal advice, marketing, strategic development, and more), and covering the full cost of this support. It also funds business acceleration programs or incubation, partnering with local accelerators that accommodate start-ups and people who are interested in starting their own businesses—covering 100% of the cost of mentoring and coaching services as they are needed.

Under the third pillar, capacity building, the programme works with a range of organisations (charities, NGOs and more), providing direct support to refugees. To these organisations, it provides capacity building support in the form of mentoring or business support to their employees, as well as support to expand their existing programmes to refugees. The programme helps these organisations to deploy services if they need funds to continue, or even expand existing programs geographically. The EBRD also provides capacity building support to companies employing Ukrainian refugees or that are willing to employ Ukrainian refugees—helping them adjust internal HR policies to hire and support refugees and more.

BNP PARIBAS

The BNP Paribas Group began supporting refugees in 2015 in response to the refugee crisis across Europe. Since then, it has worked with NGOs dedicated to refugee support in 12 EU states. It also created a rescue and development fund that matches donations by clients and staff. Today, it uses this fund to support its work with Ukrainian refugees.

To provide banking services for refugees, migrants and more, the Group launched Nickel. Available to buy in tobacconists, convenience stores and kiosks across Spain, Germany, Belgium and in France—Nickel offers a bank account (for €20 per year, paid upfront) with a Mastercard debit card with a local IBAN to everyone with no minimum income requirements or minimum deposit. The card can be used to withdraw at cashpoints, in shops and online. With three million customers to date, Nickel is an interesting answer for so many humanitarian crises. Anyone with an ID can open a bank account in 10 minutes for €20.

BNP Paribas has also joined coalitions such as Tent Coalition, which works across Europe to help refugees integrate, learn the language, and find work. It also supports NGOs such as Each One for Tomorrow, which is helping 10,000 refugees find employment.

In Ukraine, BNP Paribas has mobilised €18 million in donations since the start of the invasion, and another €12 million in direct funding and matched funding. It owns a bank (UKRSIBBANK) with 5,000 employees, and a bank in Poland (BNP Paribas Polska). The latter is engaged in hosting arriving refugees and helping the Group's collaborators in Ukraine to keep working remotely through MS Teams to keep its banking services running in Ukraine, so that those who are there still have working cashpoints and account access.

STUDY RESULTS ON MIGRANT INTEGRATION

The recent fi-compass AMIF study explored the potential of financial instruments to support the integration of migrants in microfinance, housing and social impact investing. Here is a first look at microfinance results:

The study included a market assessment (to analyse financing needs, assess market failures and measure the financing gap) and analysis of opportunities (potential design of financial instruments and combination with grants to support microfinance for refugees). The study included desk research, focus groups, interviews and workshops.

The market assessment considers the demand side (third-country national or TCN clients), as well as the supply side (microfinance providers). The data revealed that TCNs in the EU are less entrepreneurial than local citizens. TCNs face a number of obstacles, not least in terms of access of finance and a limited supply of business development services. The study confirms that business development services are crucial before, during and after a microloan is provided.

MFIs appear interested to expand outreach to TCNs, but need more credit risk coverage. Here, the InvestEU guarantee is vital, but its resources are limited. The study also identified interest in additional liquidity support for microfinance institutions. Current rates of interest are high, affecting both clients (in terms of affordability) and MFIs (who need to finance business development services using their own capital).

While the InvestEU guarantee is popular (and indeed oversubscribed), member states can use their shared management funds (ERDF and ESF Plus) to boost the amount of resources available by committing some of that shared management resource to the InvestEU program through the member state compartment.

The research team heard positive feedback on the recent DG EMPL business development support pilot (see box), and showed how MFIs are well-adapted to provide these services to TCNs. It becomes less straightforward, however, when it comes to determining eligibility for these services. DG HOME only supports TCNs and defines the term quite narrowly. In certain circumstances, the definition of "migrants" could be usefully wider, so as to include both migrants from one EU country to another and also second- and third-generation immigrants still living in precarious situations.

Finally, the study identified interest in a different kind of product: a risk-sharing loan rather than a guarantee, which might be suitable for MFIs that need additional liquidity as well as the kind of guarantee and support.

The Employment and Social Innovation (EaSI) BDS Pilot implemented by the European Investment Fund (EIF) within the EaSI Guarantee Initiative was an important first endeavour to help MFIs partially reduce their BDS delivery costs when the service was provided to refugees or migrants intending to set up or develop their microenterprises. As part of the EaSI BDS Pilot, nine EU MFIs and EIF partners for the EaSI Guarantee Initiative received a lump sum of EUR 400 grant per migrant/refugee to partially cover their costs of the BDS (such as mentoring, coaching and training) offered free-of-charge to their migrant and refugee clients who received enterprise loans.

The EaSI BDS Pilot is an example how a grant component financed through DG EMPL resources complemented a financial instrument (the EaSI guarantee) in the 2014 –20 period.

ETHNIC MINORITIES

SERVING ETHNIC MINORITIES WITH EMPATHY AND CULTURAL COMPETENCE

REFRAMING CHALLENGES AS OPPORTUNITIES

Roma people are the most vulnerable group in Europe, having suffered centuries of discrimination and widespread prejudice. Key to tackling the challenge is highlighting the economic potential and the demographic dividend that Roma represent (and has been documented by various World Bank studies). For example, young Roma are joining the labour market of some Eastern European countries at higher rates than the majority population. Investing in the path to employment for Roma is important particularly in light of aging populations in many countries because income taxes support pensions, healthcare and infrastructure for the older generation.

THE NEED FOR AN INTEGRATED APPROACH

Civil society, governments, banks, non-bank financial institutions, the Council of Europe, member states and the European Commission each have their own role to play in the overall effort to include and integrate the Roma community—but none can meet the needs of the Roma community on their own. We urgently need one new entity tasked with championing and coordinating these efforts: a new public or civic entity or an existing one with an expanded remit and the resources to support its work.

DIVERSITY WITHIN THE ROMA COMMUNITY

There is a tendency to consider the Roma community as a very homogeneous group without diversity and (given their economically marginalised status) without skills and talents. In fact, many members of the Roma community are bilingual, even multilingual (a challenge for civil society organisations), and the entrepreneurial creativity you might expect to see develop when one needs to make a living despite strong anti-Roma discrimination.

FAILURE IS OUR BEST TEACHER

When it comes our history of supporting the Roma, we've never had a workable theory of change. We know what we've tried, but we don't know what's worked, and what's not worked and why. Partly this is motivated by a desire to evidence successes gained from public money, and partly this is motivated by a reliance on good intentions over effective programmes. Many projects aimed at Roma communities fail, but there's a stigma around discussing them. Social change is messy, and it takes time, and we don't always get it right. But social change is also about fixing problems, including those we ourselves create. An ill-adapted training is a fixable problem if we possess the humility to admit it, the willingness the address it, and the openness to invite others to learn from our failures.

NOTHING ABOUT US WITHOUT US

Donors prioritise big projects with big outcomes, but for extremely marginalised communities we cannot ignore the power of putting them in charge of their own programs, however small, and giving them the space to set their own priorities and develop their own ideas. One example is Housing and Empowerment for Roma (HERO), a pilot (2022–25) funded by the European Parliament, overseen by the European Commission and implemented by the Council of Europe Development Bank. It is implemented via national consortia of financial intermediaries, civil society organisations (Roma-led and pro-Roma) as well as local governments.

INCLUSIVE FINANCE AND THE RURAL ECONOMY

What are current challenges and solutions for reaching rural clients, supporting rural entrepreneurship, closing the financing gap and helping young entrepreneurs establish meaningful work in rural areas?

EU AGRICULTURE TRENDS

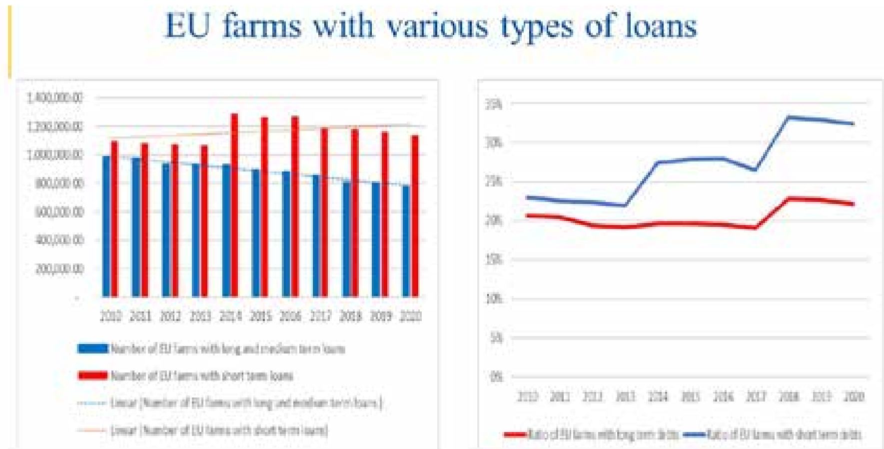
Eurostat data reveals significant changes to the agricultural sector in the European Union between 2010 and 2020. First of all, there was a sizeable reduction of the number of farms by almost 25% (12 million down to 9 million), with an average farm size of 17ha (an increase of a third from 2010).

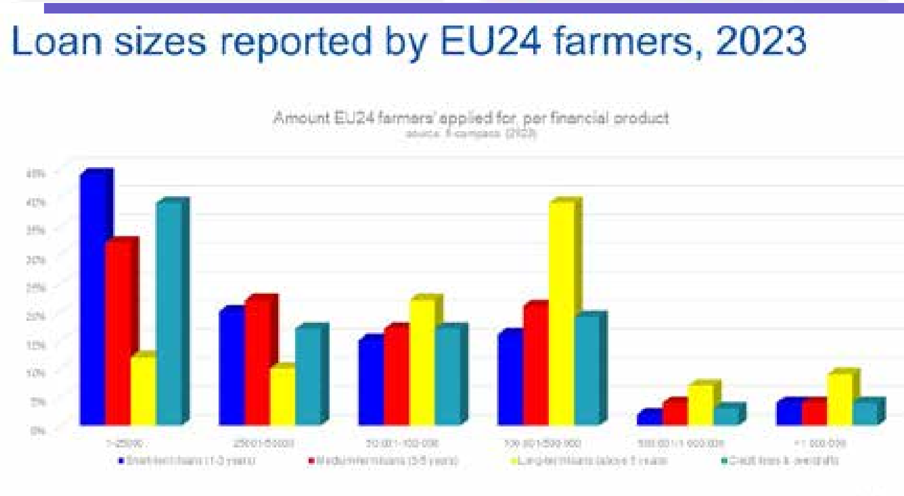
The biggest loss were very small farmers (below 5ha), one third of which folded during the period. There was an increase in all farm size categories above 5ha, and an increase in shares of all classes of farms with a standard output in excess of €8,000, indicating a consolidating trend. There was also a 12% increase in the percentage of farm managers with full agricultural training.

Data from the EIB and fi-compass[6] estimate a widening agricultural financing gap (from €46 million in 2017 to €62 million in 2022). More farmers are applying for finance (16.6% in 2017 vs 22.7% in 2022) and banks are rejecting fewer applications (14% vs 4% in the same period). However, the percentage of farmers not applying for finance due to fear of rejection is up (10% vs 14% between 2017 and 2022), and more farmers are refusing banks' loan offers due to unsatisfactory loan conditions (2% vs 5% over the same time period).

A comparison of data from 2017 and 2022 shows an increasing financing gap for all categories with small farmers (fewer than 20ha) accounting for the largest share of the gap (€39 million in 2022). Long-term loans also accounted for a significantly increasing share of the financing gap: up to almost €8 billion in 2022. And yet, access to long term capital is vital for investing in the agricultural production cycle.

The percentage of farmers with loans, long- and short-term, has increased over time, with a significant jump after 2017 of the number of farms with short-term loans. Whilst the number of EU farms with long- and medium-term loans declined between 2010 and 2020, this is party being driven by a decline in the number of farms during the period.





[6] fi-compass 2023: Financing gap in the agriculture and agri-food sectors in the EU: fi-compass.eu/publication/market-analysis/financing-gap-eu-agricultural-and-agri-food-sectors

In terms of average loan sizes, in 2023 fi-compass conducted a survey of approximately 6,550 farms across 24 member states. The data shows that around two-thirds of loans granted were below €50,000. Together, these show a strong demand on the market for liquidity purposes and operational costs rather than investment. There is increasing demand for financing, albeit from a fewer number of larger farms that are ready to develop with the right financial and non-financial support.

THE FARMERS OF TOMORROW

The future of agriculture, food security and food sovereignty in the EU depends on having enough farmers living in rural areas and producing the food needed to feed our citizenry. Rural areas account for 80% of EU territory and 30% of its population. As the older generation of farmers retires or dies, we need new, young famers to replace them. Yet encouraging young people to stay in rural areas is a challenge. Today's farming population is ageing, averaging 57 years old. Only 10% of farmers are under the age of 40, and only 5% are young women.

The main barriers to encouraging young people to stay in rural areas are: poor access to telecommunications, healthcare, childcare, transport and education. Especially for young farmers, access to land, especially for young farmers. Land is costly, and access to credit can be difficult. For non-farmers, access to employment opportunities (offering products and services that can be used by farmers and their families, for instance) is more limited than in urban areas.

Rural development is high on the EU agenda. The European Parliament passed a resolution on generational renewal in EU farms of the future. The European Economic and Social Committee is preparing an opinion on the role of youth in rural development. A number of EU programs, initiatives and tools are also being used to support the development of rural areas and to raise the social, environmental and economic standards of the rural population. The Common Agricultural Policy has both agricultural objectives and rural development objectives. It can include different interventions such as complementary income for young farmers in the form of direct payments, skills support for young and new farmers, investment support that is higher for young farmers (up to 80%) and interventions to support the business, farm transfers and knowledge-sharing between generations. The CAP also includes interventions to support to non-agriculture sector youth, from starting up businesses in rural areas for non-agricultural activities to expanding digital connectivity to rural areas.

SUPPORTING TODAY'S FARMERS IN ALBANIA: FED INVEST

The agricultural sector accounts for around 80% of Albanian GDP and 40% of the labour market. FED invest Savings and Credit Association is the largest provider of microloans in rural Albania. It currently serves more than 90,000 members. At the start, FED invest only provided loans but added other products in order to grow with its customers (savings, current accounts, utility payments, internet banking and non-financial services). Its main client segment is farmers, but it also serves rural non-farm entrepreneurs.

FED invest has prioritised expansion in rural areas, covering more than 2,000 villages through 40 branches that are very active in the rural communities. It works closely with clients to understand and respond to their evolving needs. Non-financial services are an important part of this. In 2020 FED invest launched a free app for farmer and agricultural workers that hosts agritech articles and market data, as well as an online marketplace for users.

Sustainable farms are a future priority for FED invest. Its members have a strong interest in learning about proper rotation, crop diversity, water conservation, non-chemical pest control and more. Its ABA Online offers regular articles on the latest ideas and trends, and it's exploring risk-sharing schemes with the government and donors for risk sharing schemes to support a shift towards sustainable agriculture.

Financing value chains is another priority; recent increases in tourism to Albania have shown that traditional agricultural products are in high demand. For this reason, FED invest is exploring ways to finance and promote value chain and build market linkages. Recently, this has included a partnership with the Council of Agriculture Associations of Albania help over 300 olive oil producers export their surplus using a dedicated space on its platform.

Finally, FED invest is exploring ways to support former migrants returning to Albania from abroad, and expanding smart agricultural technology—an important topic in light of the consolidation of farms, rural flight, and the increasing availability (and decreasing cost) of tech solutions for agriculture. Both of these require significant market education, and for this reason FED invest is exploring how to subsidize the cost of training farmers on new smart hybrid technologies, as well as building their digital capabilities overall.

HOW FINTECHS HELP FARMERS THRIVE

Tarfin is Eastern Europe's leading fintech platform in the agricultural value chain. It provides two main products: point of sale financing and B2B wholesale financing. The point-of-sale financing platform links retailers to farmers and provides on-the-spot finance to farmers. The B2B wholesale financing links suppliers and retailers to finance retailers' inventory of agri inputs from major suppliers.

Technology helps Tarfin reach its clients in two ways. The first is a cloud-based retailer point-of-sale technology. Retailers use this to input and onboard end-user clients on Tarfin's behalf. The second is its mobile app that farmers use not only to find funding but see the special deals that retailers promote on the platform for certain products. Using this managed marketplace app, a farmer can (for example) see fertilisers for sale nearby, compare prices, click to purchase, apply for instant financing and get the product that day.

The second is Tarfin's underwriting process: a machine-learning model developed over the last six years. The model allows it to do two interesting things. The first is instant underwriting. That's important because sometimes a farmer needs to purchase fertilisers to apply on the field the following day because it needs to be done before tomorrow's rain arrives. The second advantage is the elimination of human bias and human error from underwriting. It uses 140 different data points (such as credit history, presence of collateral, type of business, income level) on its underwriting models, resultant of which the organisation boasts a low default rates (sub 3%) for a loan product that's unsecured, instantly underwritten, and a cheaper source of finance than a farmer could typically find from a supplier.

From the retailer's point of view, working with Tarfin is beneficial because it doesn't need to tie up its own capital during the growing season, and instead can use that money to invest in its sales tools (staff, vehicles and more). It also allows them to complete on-the-spot sales with embedded finance within two minutes. The retailer simply quotes the entire price that the farmers pay at the end of harvest, rather than quoting them for the product and waiting for the customer to visit a bank or an MFI, apply for a loan, return with their capital and buy the product. Not only that, but Tarfin funding is typically cheaper than other finance providers, which helps them make more sales.

UPSKILLING ENTREPRENEURS

Adie is a French non-governmental organisation financing and supporting entrepreneurs for a more inclusive economy. Adie believes that anyone, even without capital or a diploma, can become an entrepreneur with access to credit and professional support.

Adie recently launched a programme called "I Become an Entrepreneur with Adie" for microloan clients whose entrepreneurial skills need strengthening. The training is concise, practical, and built on the effectuation principle. Effectuation is a way of thinking and decision-making that is based on the idea that entrepreneurs create their future by taking action and making things happen. It is focused on creating opportunities and solving problems by using the resources that are available to you, rather than making predictions and trying to plan for the future. It's a hands-on workshop, and each and every skill they learn and practice is within the context of their enterprise, so it can be applied immediately.

Day one of this in-person training is called "My Resources" and helps participants start from the resources they have, understand their strengths (qualifications, tools, networks, skills and more), articulate their offer and value-add, and start formulating their pitch.

The morning of day two is called "My Figures", and focuses on the cost side of the business. Participants work through a computer programme to list their costs (fixed and variable), estimate their price point, revenues, and margins. The afternoon session is called "My Organisation" and focuses on their legal obligations, business registration, taxes, social welfare, and business management, issuing quotations, invoices, and obtaining insurance.

The morning of the third day is called "My Sales", and helps entrepreneurs understand the salesperson's posture, build customer sales pitch, and how to form a sales relationship. The afternoon is comprised of co-working modules that are demand driven, wherein participants can decide what they want to work on as a group and also can have individual coaching. It also includes a one-hour session on the green transition. The workshop also provides participants with support after they leave: their workbook, a new support network of their fellow participants, and continued access to the online business planning platform.

BUILDING SKILLS OF MIGRANTS

The new e-MFP/MFC working group on business development services for migrants and refugees is a forum for knowledge exchange and partnership building on financial inclusion and support of migrants and refugees. Three important insights have emerged from its work to date.

First: a holistic approach and multi-stakeholder involvement is crucial, especially when testing and scaling innovative solutions. Offering business development services to vulnerable populations helps ensure business success and minimize credit risk—but microfinance institutions often lack the resources necessary to offer them to migrants and refugees due to special needs in terms of education, language and more.

Second: project design and business models must be adapted to the local context and specific needs of the migrants. This includes the type of entrepreneurs involved, the type of business sectors they are working in, the location, language and more.

Third: insight is that technical training on business and digital skills is essential, especially in the face of increasing digitalisation of the marketplace. Training is most effective when it builds on the existing skills and experience of the entrepreneur, and when it helps them leverage and grow their social networks.

Fourth: it's vital to signpost entrepreneurs to the right information at the right time. This may mean existing sources of information or the development of local and tailored information channels.

Fifth: monitoring and evaluation allows informed decisions to improve services and needs to include both social and financial objectives. It's vital to strike a balance between the data collection burden and the use of data: a good rule of thumb is that data needs to be actionable and valuable, otherwise it's not worth collecting.

PILOT ON DIGITALISING MICROENTERPRISES

MFC has launched a pilot, funded by the Mastercard Centre for Inclusive Growth, to develop and test tools that microentrepreneurs can use to assess and improve their skills with digital tools.

The tool is an online self-assessment quiz that allows entrepreneurs to assess how digitalised their business is. It provides an instant score and links to a navigator offering a set of educational tools, videos, and articles on six topics (how to use get your business on Google Maps, how to use Instagram and Facebook to promote your products, how to set up your own website, how to use sales platforms, and how to make digital payments available to customers.)

Pilot partners took different approaches to sharing the quiz and navigator. Some organised dedicated social media campaigns for each tool, others embedded the quiz on their website and linked to the navigator. Others ran social media campaigns on each topic that signposted people to the quiz and navigator in turn.

The pilot test included eight MFIs from five countries, each of whom adapted the tools into their local language and created videos and articles also from local resources. Together, these eight MFIs reached over 300,000 people through their social campaigns and outreach through their websites. Other organisations interested in using these tools can contact MFC to request access to the quiz and navigator and adapt them to their language and needs.

2023 MFC GREEN INCLUSIVE FINANCE AWARDS

MFC's 2023 Green Inclusive Finance awards were presented to the Co-operative Bank of Karditsa (Greece) and Adie (France). Now in its third year, this awards initiative was launched by MFC to recognize leaders in green and inclusive finance, raise awareness around good practices and celebrate innovators and experimenters in this field.

SUSTAINABLE AGRICULTURE INNOVATION: COOPERATIVE BANK OF KARDITSA

The Cooperative Bank of Karditsa (CBK) was awarded for its support to microenterprises and SMEs with green products and its innovative platform (CreditScore) that enables farmers to remotely forecast their crops taking into account operational sustainability and resilience to adverse climate impacts, and allows CBK to assess loan risk.

In addition, CBK manages its own environmental impact by measuring its exposure through third-party entities. This means aligning itself with EPA recommendations on key performance indicators, and to follow its methodology for disclosure. For instance, it follows the EPA's recommendation on disclosure on its green asset ratio: the extent to which its financial activities (loans, advances, debt securities and more) are associated with economic activities aligned with the EU taxonomy and the Paris Agreement. Currently, its green assets ratio is 23%, which means that one quarter of its portfolio is Paris Agreement aligned and SDG aligned. The Bank

WHAT ARE SOFT SKILLS AND WHY DO YOU NEED THEM?

Soft skills underpin everything we do in both our personal and professional lives—yet they're rarely taught explicitly. Research shows that approximately 85 percent of business success is due to soft skills. So what are soft skills? They're intangible, and they're not specific to any one job or career. They're not technical, they underpin everything that everyone does, everywhere, but they're very difficult to quantify and measure.

They can be broadly divided into two categories: personal and interpersonal. Personal skills might be things such as critical thinking, creativity, resilience, adaptability, and time management. Interpersonal skills include things like communication, collaboration, conflict resolution, leadership, empathy and networking. The OECD frames skills in terms of three categories: cognitive and metacognitive; social and emotional; and practical and physical. In terms of cognitive and metacognitive, some important skills are learning to learn, self-regulation and time management. In the social and emotional bracket, those are things like empathy, teamwork, mindfulness, and more.

How do soft skills relate to business success? Because they help us to communicate effectively, build and manage teams, deal with conflict, pitch ideas, negotiate deals, adapt to change and be resilient to setbacks.

also discloses its asset environmental performance, currently more than 7%. To put this figure into perspective, if all Greek banks performed at this level, they would be able to prevent double the amount of CO_2 emissions presently produced by the country.

CBK supports clients to build and maintain sustainability and climate resilience by offering “360° support”: everything from small financial tools to business development services offered indirectly by its wholly-owned subsidiary: the Development Agency of Karditsa.

CBK has developed an innovative tool (Credit Score) to evaluate the creditworthiness of its clients and to monitor the environmental impacts of its clients’ activities. It teamed up with AgroApps to design a tool that leverages current and future data to assess and to evaluate farmers’ credit worthiness by offering medium-term yield predictions for the growing season for yearly loans. In the long-term, it can offer long-term yield forecasting for the repayment period for loans that are above one year. It also offers short-term yield forecast using satellite data by actually seeing the crop as it grows, and based on this scoring the borrower’s credit worthiness to create a personalised banking product for different categories of farmers. The tool can also remotely monitor borrower’s crops live using satellite data.

For each loan application, the Bank uses the tool to create a profile linked to the specific parcel of land. It checks the land status and the soil, the current and future crop plan. Then it inputs any subsidies and loan amounts needed. At that point, the organisation can monitor each crop and determine the growth model. It collects climate data and makes a yield estimation for the specific parcel per year, plus revenue estimation—based on which it provides a credit score. The tool leverages different datasets to build its model, leveraging numerous data sources that are available.

The tool has been used to roll out 155 loans to date; unfortunately, due to the two major floods occurring over the past three years, the organisation was not yet able to 100% backtrack the model, but it believes that it is sufficiently consistent to monitor crops as they grow and offer yield predictions in future. The tool potentially creates many benefits for the farmer because it broadens access to credit and liquidity, and enhances their terms flexibility and enables them to plan for essential investments (including long-term investments) as well as to remotely monitor their crops. For the organisation, it helps to build a detailed financial profile of each client to improve its credit risk analysis and develop more flexible loan products through monitoring what clients do with their crops.

The biggest beneficiary, of course, is the environment, because real-time crop and soil monitoring allows for a more judicious use of fertilizer and water to maintain optimal growing conditions.

GREEN INNOVATION: ADIE

Adie (Association for the Rights for Economic Initiative) France has been recognised for innovative financial services and non-financial support to help clients to transition their businesses into greener, more energy-efficient enterprises. It offers green loans to finance greener transport means. It also runs workshops and distributes factsheets to help clients understand how green solutions can help them save money as a business.

In 2023, an Adie survey of over 1,400 clients revealed that 96% wanted their businesses to "go green", but over 64% lacked financial means and 40% lacked information.

In response, Adie launched dedicated financial products such as mobility loans and quasi-equity loans for green projects. It also established partnerships with Dacia Renault for social leasing; with Uber on equity loans for its most experienced drivers to obtain a greener car. It also has discount partnerships, for instance, to help clients obtain reconditioned technical and computer equipment.

In addition, Adie developed green transition non-financial services. This includes a self-diagnosis grid, educational workshops on the benefits of green transition, and an information campaign on reframing the green transition as an opportunity rather than a barrier.

The self-diagnosis grid is an innovative tool with two objectives: to help Adie understand clients' current state of practice (e.g.: energy consumption, suppliers, packaging, production, logistics and communication) and to build an action plan (based on the "Five R" rule: refuse, reduce, reuse, repair, recycle) with both short- and medium-term actions. The tool helps Adie identify clients who need non-financial green support and, by integrating it in the loan appraisal process, loan officers raise awareness among clients on the issues.

Adie promotes a "small steps" transition approach with its clients because it has witnessed on its social media and elsewhere how polarising the topic can be, with negative comments around the need for (or affordability of) changing practice. It wanted to build a tool to show the small steps that clients can make toward green transition are not only good for the planet, but also a springboard for business success. For instance, if clients realise that it can capture new markets of clients with high levels of green awareness, and adapt their offering to that market, they will expand sales whilst lowering costs on energy and more. For instance, if a client's business plan identifies the need for a computer, the self-assessment grid tool can direct them to options that are both cheaper and more environmentally sound (in the form of refurbished equipment). The tool is available in printed format and will soon be also available in online for any entrepreneur who wants to use it.

THE FUTURE OF DIGITALISATION: INSIGHTS FROM TIM OGDEN, FAI DIRECTOR

Digitalization has dominated social finance discourse in recent years, and services providers around the world are grappling with implementation challenges as they adapt, integrate and mainstream these new technologies. Yet it's also vital to step back and ask the big picture questions about what we know, and what we don't know, about digitization and the future of inclusive finance.

Two countries (Kenya and Bangladesh) have historically been held up as the model for digitization—but do they live up to the hype? On the surface, mobile money service uptake in Kenya seems robust. The Global Findex 2021 survey estimates that nearly 90% of the population in Kenya has used mobile money. However, the Financial Access Initiative's Small Firm Diary study data (focused on

small firms serving low-income segments) reveals that 30% of firms surveyed use mobile money for at least 25% of the value of their transactions. Another 30% of the firms don't record a single mobile money transaction over the course of a year. Bottom line? Even in Kenya, adoption is very lumpy and inconsistent.

Bangladesh, on the other hand, experienced very rapid adoption and very high penetration of mobile money services. But now an organisation such as BRAC, a recognised leader in this space, has had to develop what they call a "pre-onboarding process". This tells us that for those populations as yet unreached by mobile money, it's not enough simply to have an onboarding process. On the contrary, it's complicated enough that you have to have a specific program to pre-onboard them so that they can successfully (and subsequently) be onboarded.

Furthermore, it's too early to speak as if we know every potential benefit and drawback that digitalisation offers institutions and clients, and we need to know much more about what's happening beneath the surface. For instance, digital financial services (DFS) create a digital data chain that financial institutions use to understand a clients' ability to repay. In other words: it creates greater transparency and visibility. At the same time, DFS allows greater privacy within the household, empowering women to have their own private account separate from the household budget. Are these not fundamentally incompatible views? Either DFS increases privacy, or it increases visibility. Can it really do both?

Neither do we understand how technology changes the cost of serving customers. Digitisation fundamentally alters the internal systems of financial service provider, including back-office processes, front office processes, and customer support. It's not just about payments and mobile money. A recent FAI study in Central America explored how 30 MFIs coped with digitisation during the pandemic and what they would have done differently in hindsight. Half admitted they would do it differently if they could go back in time. The underlying reasons were all about implementation and sequencing—both of which had a knock-on effect when it came to costs.

It's partly true that technology can drive down costs in the financial services sector, but it also adds new costs in other ways. The cost of implementing a technology is 2–4 times higher than the cost of buying the technology. We need to start talking in terms of the total life cycle costs of technology (including the cost to implement, use, maintain, update, adapt, and secure infrastructure), not only the cost of acquisition.

It might also be worth considering that technology might not automatically translate into more inclusion, because it creates powerful incentives to scale rapidly. Once a digital system is paid for, the marginal additional cost for each new client is essentially zero: Adding more customers of that doesn't cost you more money because you don't have to redevelop it. That being the case, adding more customers can dramatically increase profits. However, the easiest customers to add are almost always the customers that less poor, more middle-class, more customers who are already digitised.

Finally, the change wrought by digitalisation doesn't simply affect inclusive financial organizations. Digitization is happening to the entire financial system and it's rarely the organisations that substantially profit from one business model that transition successfully to another. We must consider how it's changing the entire system: Not only banks and fintechs, but also retailer companies such as Apple, Amazon and WeChat that are starting to integrate digital financial technologies. This includes examining how artificial intelligence might change what is possible for a financial services company and how it allows nonfinancial service companies to move into the financial services space.

Co-funded by the European Union