

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

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

FEEDBACK FROM MFC MEMBERS AND PARTNERS

MFC aims at building capacity of members and partners for mission driven, sustainable microfinance, concerned with climate protection issues, fostering social and digital inclusion. Over the year 2023, MFC used its interactions with members and partners to map the needs of social finance providers and to identify viable solutions. It has been achieved through the following activities:

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

- Partnership Action Group, which provided inputs focused on understanding of the major trends and best practices influencing the work of MFC
- BDS Migrants/Refugees Financial Inclusion Action Group
- SIFTA Programme capacity building users, that provided their feedback during evaluation of the event they participated in

Based on the above, MFC identified a wide range of capacity building services to be delivered to the sector within the next year. This is work in progress and it will be continued during 2024.

We group the needs into the following categories.

1. DIGITALIZATION AND ARTIFICIAL INTELLIGENCE

Digitalization of social finance providers remains one of the most important topics. It goes hand in hand with digitalization of micro and small business.



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MICROFINANCE CENTRE

Topics at MFI level:

- Digital/online marketing, content writing
- Social media marketing
- Digital communication channels
- How to utilize AI in microfinance
- AI in sales and marketing
- Digital onboarding of clients
- AI in risk management and optimization collections
- Data integration & Cybersecurity
- Loan application scoring models
- Document management system
- Digitization of employees and customers. Organization of digital work. How to show the benefits of digital work for employees and customers
- Customer relationship management systems adjusted to digitalized operations
- Digital products and services, e.g. cards & instant cards embossing, Digital wallets
- Risk scoring systems
- Cooperation of MFIs with digital business solution providers to support micro and small enterprise digital transformation
- Sales Process Automation and CRM Integration Benefits
- How to use social media and website for sales and marketing
- Artificial Intelligence in Sales and Marketing Processes

Topics at Client level:

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

2. CLIMATE FINANCE/GREEN FINANCE

There is clearly a visible trend that especially more advanced institutions have already applied a strategy that outlines specific, but still quite basic environmental measures, practices, goals and indicators. They report them to the board, investors, or in its annual report. In addition, there is more interest in assessing and managing the adverse impacts of the institutional internal activities on the environment. However, there is little number of providers who have expertise to identify clients' adverse impacts on the environment, use indicators in the loan assessment to categorize its clients according to the level of their environmental risks and it has a process in place to manage the risks of its clients and portfolio.

Topics:

- Developing new green products for mobility (purchase/leasing of electric cars, bikes), renewable energy, energy efficiency and circular economy
- New expertise required for analysis of green product loan applications
- New sources of funding to promote environmental and climate changes through debt instruments (e.g. green bonds)
- Need for raising client's awareness on climate change to increase demand for green practices, build incentives to overcome client's reluctance to apply new methods or install new equipment and technology, which is more costly compared to existing ones
- Integration of ESG (environmental component), The Task Force on Climate-Related Financial Disclosures (TCFD), Net Zero, climate risk into governance and operations
- Knowledge of how to collect/calculate scope 1,2,3 emissions (especially the portfolio impact)
- Green certification of MFIs; case studies of promotion campaigns for green MFIs and green microfinance products

3. IMPACT MEASUREMENT RELATED TO ESG AND SDGS

Similarly, to the previous year 2023, the use and importance of the ESG and SDGs have been increasing. There is still not one single approach or harmonized set of indicators; but common standards and principles are evolving as new regulations and public awareness require more transparency, accountability, and measurable evidence. Microfinance and social economy finance providers ("MF/SE providers") in Europe can contribute significantly to the social, economic, and environmental impact.

Topics:

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

4. VISIBILITY OF MICROFINANCE SECTOR

There is a need for ongoing advocacy and justification of the impact and contribution of the microfinance sector in front of important national stakeholders: government, financial sector players, regulators. Various events, campaigns and advocacy efforts as well as utilizing of European Code of Good Conduct for microcredit provision create opportunity to clearly distinguish MFIs from other non-bank institutions that are causing negative PR often generalized over the whole sector of microlending.

The same as last year, MFIs want to establish a strong image of responsible financial and non-financial products providers to applicants, who in the majority belong to vulnerable groups and have no access to mainstream financial system.

Topics:

- Creating public awareness/positive image about microfinance
- Utilizing market intelligence/market research
- Use of social media and networks – tools
- Building alliances to advocate for continuous support of MFIs through financial instruments like senior debt, quasi equity, equity, guarantees as well as technical assistance offered by EU nominated financial institutions through their product and services.

5. SOCIAL ECONOMY (SE)

The Social Economy Action Plan emphasizes the challenge of limited access to finance for social entrepreneurship. This hinders the growth of social enterprises and micro-enterprises, particularly those belonging to vulnerable groups (women, youth, senior, unemployed, refugees and migrants, ethnic minorities). The plan underscores the importance of microfinance and social enterprise finance in fostering social and inclusive entrepreneurship. It also acknowledges the diverse legal and institutional frameworks in EU Member States, which contribute to the heterogeneous nature of the microcredit providers. The plan aims to address these issues and enhance social investment, support social economy actors, and create a favorable environment for the social economy to prosper.

Topics at MFI level:

- How to overcome challenges faced by missing entrepreneurs

- Business models and characteristics of social enterprises
- Financial and non-financial products and services to support SE by social finance providers
- SE projects/loan application assessment – models, parameters, indicators
- Product development for social enterprises
- Business development services for vulnerable groups
- Legal frameworks for social economy

Topics for SEFP (Social Enterprise Finance Providers):

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

6. SUSTAINABLE AGRICULTURE

More than three quarters of farm holdings in the European Union are small – below 10 hectares – with a large number being below five hectares. Agriculture acts as the backbone of rural communities across the EU. These communities face many challenges, such as ageing demographics and under-developed infrastructure, as well as a lack of services and job opportunities. In 2023, we have observed a growing interest in discussion of the topic and the need for exchanging good practices. We have also observed an evolution in the need for topics covered.

Topics:

- Financial and non-financial instruments available for agricultural loans

- Climate smart finance – adapted to lower environmental risks
- Digital solutions helping to assess creditworthiness of the applicants
- Financial education of farmers
- Improving digital skills of farmers
- Increasing knowledge of farmers in environmentally friendly agriculture
- Development of products for sustainable agriculture/green products
- How to continue and increase the number of agriculture clients when young people step out of doing agriculture?

7. MIGRANT NEEDS FINANCING

Building capacity of MFIs and SEFP to provide services for the migrants and refugees becomes more and more important with continuing war in Ukraine as well as influx of refugees into EU. Their unclear plans, legal status and language barrier are identified as key barriers in serving this population.

Topics:

- Practical strategies and tools to support and serve migrant and refugees
- Handling cultural, legal and administrative challenges
- Promotion financial education and consumer protection for displaced people enabling them to become financially independent

8. RISK MANAGEMENT

Risk management strategies of social finance providers should prioritize social benefits over economic benefits. Effective risk management can help to identify and mitigate risks, such as credit risk, operational risk, and reputational risk, and ensure the sustainability of their operations.

Additionally, risk management can help build trust and confidence among the clients and stakeholders.

Topics:

- Monitoring. Early warning - Prevention of over-indebtedness and debt collection
- Credit risk assessment with climate adaptation
- Risk management in financing social economy
- Environmental and social stress test/risk management
- Business continuity plans with natural disasters

9. OTHER TOPICS

New products

- Micro insurance
- Factoring
- Micro leasing

Legal

- Best practice in contract management for MFIs
- Promissory note and promissory note surety
- GDPR, Personal Data Protection
- Lawsuits, bailiff enforcement

Sales and Marketing

- Customer acquisition, talking to "difficult" customers
- Sales techniques (effective)
- Marketing of new products
- How to reach customers and how to build long-term relationships with them? The model of cooperation is changing from face to face to digital
- Team and time management

Talent management and Governance

- Managerial and leadership skills
- Team management: leadership with non-financial motivation
- Soft skills for MFIs' front desk/credit officers: team/time management, communication
- Management by values
- Communication and team integration
- Shaping the organizational culture of the company through leadership
- Agile management
- How to provide positive feedback
- Training for boards of directors on good governance

ADDRESSING CAPACITY BUILDING NEEDS

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

MFC identifies the following solutions to address the identified needs:

- Webinars for building awareness in the new topics (like social economy actors) and for good practice promotion
- Virtual and onsite trainings for improving technical skills of microfinance and social enterprise finance provider's staff
- Peer to peer visits, small group good practice exchanges, study visits

MFC will deliver 10 webinars focused on:

- Digitalization/technology
- Migrants and entrepreneurship

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

KEY CAPACITY BUILDING TOPICS

Digitalization and artificial intelligence

Climate finance/ Green finance

Visibility of microfinance sector

Social Economy

Sustainable agriculture

Migrant needs financing

Risk management

New products

Sales and Marketing

Non-financial services for clients

Talent management