

Supporting micro and small entrepreneurs and vulnerable households for a fair green transition

2024



“The European Green Deal stresses that the transition must be fair and inclusive, putting people first and paying particular attention to supporting those regions, industries, workers, households and consumers that will face the greatest challenges¹.”

As representatives of the microfinance sector in Europe, we consider that ensuring a fair and inclusive transition, requires **vulnerable consumers and micro/small business beneficiaries to be financially incentivized, by making all grant schemes for these groups enable them to save money the greener they become.** Only by aligning green transition with bottom line financial benefit through 'win-win' solutions can market forces operate to result in high level take-up.

Background

Since 2018, the European Union has accelerated its walk to climate neutrality with its European green deal and the subsequent (legislative) initiatives. For micro-enterprises and vulnerable households, these initiatives have direct consequences on them, for instance in the areas of mobility and energy efficiency². The success of the green transition will not only lie in reaching climate neutrality but also in ensuring a fair process in reaching its goals². In Europe, micro-enterprises represent today 93.7% of the SMEs and 45.8% of SMEs' employees³.

We estimate the target population for business microcredit at **30.7 million of micro and small enterprises⁴**. In 2022, **95.3 million people** in the EU were at risk of poverty or social exclusion which represents 21.6% of the population. For these target groups, the green transition is essential, but they are facing several obstacles such as the cost of investing in green technology and the lack of expertise and know-how in green technologies.

Recommendations for a fair and just green transition - Microfinance as a supporting tool for micro-entrepreneurs and vulnerable groups

How to make sure that the 30 million micro entrepreneurs and 95.3 million⁵ vulnerable households are included in the green transition?

With more than 450 institutions in Europe⁶, **microfinance institutions represent the main providers of financial and non-financial services for vulnerable households and MSMEs with limited financial means and access to credit. Microfinance institutions (MFIs) hold the potential to play a critical role in supporting microentrepreneurs and vulnerable groups through the green transition thanks to their expertise and strong customer-relation with their clients (a microloan is usually accompanied with non-financial services to support the client in the realisation of his/her project).**

¹ Council Recommendation on ensuring a fair transition towards climate neutrality.

² **Mobility:** In some cities/regions/countries, national regulations already ban (or will ban in the coming months/years) the use of certain motor vehicles considered too old and/or too polluting. At the EU level, the co-legislators approved in June 2022 a European Commission proposal as part of the “Fit for 55 package” which sets the path towards zero CO2 emissions for new passenger cars and light commercial vehicles by 2035 (i.e. to reduce CO2 emissions produced by new cars and vans by 100% compared to 2021). The intermediate target set by 2030 is to reach a 55% reduction for cars and 50% for vans.

Energy efficiency: The climate change and the high energy prices have accelerated the need for house renovation and the installation of more recent heating installations or of alternative sources of energy to reduce the energy bills and to contribute to the green transition.

³ European Commission (DG GROW and JRC), [SME Performance review](#)

⁴ European Commission market study Microfinance

⁵ According to Eurostat, there were 95.3 million people at risk of poverty or social exclusion in the EU. Over one-fifth (22.4 %) of the EU population living in households with dependent children was at risk of poverty or social exclusion in 2022.

⁶ According to the last EMN-MFC Over Survey 2022, the microfinance sector counts 1.33 million active borrowers with a gross portfolio of EUR 4.4 billion in 2021.



1

The current European legislative framework needs to include concrete and binding measures for Member States to set up specific support for MSEs and vulnerable groups to support them in their green transition with tailored financial and non-financial tools.

The European Commission's Communication on transition finance,⁷ albeit a good first step, only target traditional finance providers, investors and SMEs. Social finance providers are not considered and MSEs do not benefit from any specific support.

The Council recommendation on ensuring a fair transition towards climate neutrality⁸ invites Member States to develop national measures and implement supporting programmes based on the Just Transition Fund⁹ and the Social Climate Fund.¹⁰ **The European Union should make sure that at least ¼ of the overall budget goes to the green transition of MSEs and vulnerable groups.**

These non-legislative initiatives are non-binding and do not address the specific situation of MSEs and vulnerable groups. We need **strong and binding obligations directed to Member States to set up supportive measures for social finance providers, MSEs, vulnerable groups** and to ensure that the Just transition fund and the Social Climate Fund are directed to these target groups at the national level.

At the national level, we believe that every national energy regulatory body should **allow each vulnerable community (e.g. rural), villages and poor municipal areas which try to develop green transition strategies to be able to sell the surplus of green energy produced by them to the national grid.** Although some countries already allow this the others do not, and it is a vital potential source of income for the community as well as incentive to use less energy.

2

Reduce the financing gap in microfinance services estimated to reach 16.7 billion in 2027

To resolve this funding gap we need to increase the resources and develop financial instruments with guarantees, grants from EU and national institutions (for all EU countries and EU candidate countries), equity and longer-term loans, interest rate bonifications and third-party investors schemes to support social finance providers in the development of green microfinance products. We must also ensure that microfinance institutions can access those fundings irrespective of their small size (to this end, we need to reduce funding rates, cost of fundings, administrative and reporting burden...).

The overall EU budget for 2021-2027 was set at EUR 2,018 trillion which includes EUR 503 billion for climate and environment. This budget is dispatched through InvestEU guarantees, the Just transition Mechanism (JTM) and national co-financing.

Out of this EUR 503 billion, the estimated amount needed is a minimum of 700 million¹¹ over the next 4 remaining years to cover the need of green microfinance for MSEs and vulnerable consumers.

Dispensing more subsidized and free funding to microfinance institutions and social finance providers, who have a privileged access to these target groups, could play a key role in ensuring the green transition is properly deployed and that the expertise is acquired.



Furthermore, we advocate for enabling MFIs and other social finance providers to expand their loan products within a suitable regulatory framework to include community financing structures for clean energy solutions, so that instead of the slow and expensive transition support for one customer at a time, whole communities can start borrowing or receiving grant support together. This may not only be more impactful and efficient but also may encourage offset agreements between neighbours e.g. to use energy at different times.

Ultimately, all this will contribute to the European Green deal objectives since more MSEs and vulnerable households will be able to invest in their green transition and will also contribute to the implementation of the European Pillar of Social Rights.¹²

3

Lack of knowledge and awareness on the green transition and available green solutions

The green transition will only be successful if social finance providers are well equipped to advise their clients and if the final beneficiaries have the right information to make the best choice when it comes to green technology. Getting expertise on green transition projects and **developing specific business development services (BDS) represent however a high cost for MFIs and social finance providers.**

Grants and specific subsidies should be created to fund the technical assistance to MFIs and for the development of non-financial services for microfinance beneficiaries such as Client development services and Business development services.

Ideally, experience shows that to be effective and efficient, this funding should come from a centrally managed budget. However, if this was not possible, the budget could come from the Just Transition Fund or the Social Climate Fund which are/will be managed at the national level. In that case, the support of the European Commission would be essential to further sensitize managing authorities to develop supporting programs towards that goal.

For the next 4 remaining years, we consider that the European microfinance sector would need to dedicate one third of € 700 million envelope to non-financial services in the form of grants and subsidies.

⁷ [Communication from the Commission](#) on a sustainable finance framework that works on the ground

⁸ [Council recommendation](#) on ensuring a fair transition towards climate neutrality – recital 22

⁹ Just Transition Fund has an overall budget of EUR 17.5 billion for 2021 to 2027

¹⁰ [Social Climate Fund](#) will provide EUR 65 billion in EU funding over the 2026-2032 period

¹¹ Under the InvestEU Social investment and skills, the budget was set at 2.8 billion for 2021-2027. With one quarter of the MFF dedicated to climate and environment, we consider that one quarter of the InvestEU Social and skills window should also be dedicated to the green transition.

¹² European Pillar of Social Rights [Action Plan](#)

