

# 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 2024, 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 microfinance providers (MFPs), Social Enterprise Finance Providers (SEFPs), support organizations, associations and consultants providing services to MFPs and SEFPs.
- 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
- SIFTA Programme capacity building users, that provided their feedback during evaluation of the events 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 2025.

We group the needs into the following categories.

## 1. ACCESS TO CATALYTIC CAPITAL AND FUNDRAISING

Financial intermediaries are expanding their operations and diversifying their product offerings to include new products and services while also embracing digitalization.



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However, many microfinance providers struggle to access adequate sources of debt and equity, underscoring the need for European-level support through funding, guarantees, and capacity-building initiatives. There is still large group of potential clients interested in entrepreneurship with lack of credit history and collateral, many start-ups, socially marginalized groups as well as refugees and migrants, who are a growing group resulting from geopolitical situation. These clients cannot be addressed without the intervention/risk leverage of international and/or local stakeholders.

Topics:

- Knowledge of EU programmes and financial instruments supporting MFPs and SEFPs on EU and country levels
- Showcases and guidelines to access catalytic capital
- Sources of impact capital including grants for social projects
- Crowdfunding for social enterprises
- Use of bonds for financing the microfinance and social enterprises finance providers
- Getting access to financing from stock exchanges
- Sources of funding for offering green products (renewable energy, energy efficiency)
- Sources of funding for cooperatives
- Sources of financing for digital transformation, including client onboarding, scoring, reporting and so on
- Applying for EU grants as an individual organization (not consortium)
- Write-up skills for preparation applications under Erasmus+ and Horizon programs, incl. preparation of project budget

## 2. DIGITALIZATION AND ARTIFICIAL INTELLIGENCE (AI)

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

Digital transformation with utilization of AI and Machine Learning powered solutions helps to adapt new ways of doing business which significantly lower client acquisition time and costs, enables automatization of tasks, large data processing, fast decision making, identifying alerts and frauds, using behavioral biometrics and predictive analytics, resulting in provision of tailor-made financial and non-financial services.

Topics at MFP/SEFP level:

- Digital platforms for loans and beneficiaries' management
- Adopting new technologies and digital tools to improve efficiency and resource management.
- Data integration & cybersecurity
- Digitization and benefits of digital work for employees and customers
- Evaluation of applicants using AI solutions and psychometric tests
- AI-driven credit risk management, including credit scoring of loan applications
- Using AI in social impact measurement
- Practical use of AI in professional work
- AI related regulatory obligations

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

## 3. ESG AND GREEN FINANCE

More MFPs and SEFPs are engaging in introducing the ESG agenda to develop ESG strategy, at the same time seeking external and tailor-made advice to be able to comply with the demands of investors and creditors but also with introduced national legislations.

While Social and Governance components have been tackled by many MFPs historically, Environmental element is gaining importance in the whole financial ecosystem - at the level of funders, investors and other stakeholders. MSMEs begin to pay more attention too, mainly due to various programmes and interventions that are made available for supporting, among others, green transitions, circular economy, renewable energy and energy efficiency. MFPs will have a role to play in green transformation of society.

Many MFPs still struggle with 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 have a process in place to manage the risks of its clients and portfolio.

Topics:

- Implementation of ESG strategy adopted to nature of MFPs operations and capacities
- Implementation of ESG topics and issues into risk policy and decision making. Especially Environmental component.
- Engaging in a circular economy
- Quantitative models/frameworks to measure and claim ESG impact measurement (data management)
- Principle of double materiality for ESG issues

- 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
- Methods for raising client's awareness on climate change to increase demand for green practices
- Incentives system to overcome client's reluctance to apply new methods or install new equipment and technology, which is more costly compared to existing ones
- Knowledge of how to collect/calculate scope 1,2,3 emissions (especially the portfolio impact)
- Green certification of MFPs; case studies of promotion campaigns for green MFPs
- Developing climate insurance products

#### 4. SALES AND MARKETING

Sales and marketing are essential for microfinance and social enterprise finance providers to navigate competitive markets, build customer relationships, and achieve sustainable growth while promoting reputation of responsible financial practices providers. Leveraging digital marketing channels such as social media, email, and mobile can significantly increase visibility and awareness among potential and existing customers. Digital marketing is particularly effective for reaching low-income customers who may not have access to traditional banking services. .

##### Topics

- Sales process automation and CRM benefits
- How to use ChatGPT to support marketing/sales
- Digital marketing strategy and digital marketing tools
- Customer acquisition, talking to "difficult" customers
- Education of customers about online products

- Social media marketing
- Using Google ads
- Getting to profitability in credit unions
- Development of skills in customer service, negotiation, and sales techniques to improve client interactions

#### 5. SOCIAL ECONOMY (SE)

The social economy continues to encompass a wide range of entities with different business and organizational models that share the objective of systematically putting people first, producing a positive impact on local communities and pursuing a social and/or environmental cause. Limited access to impact funding and capital represents challenges for both micro-enterprises and social enterprises. There is a clear need for blended capital that would trigger new opportunities to attract impact investors to support underserved and inclusive entrepreneurship.

##### Topics:

- Equal opportunities & accessibility for people with disabilities (EU regulation)
- Valuation of social enterprise
- In-depth financial analysis of social enterprises
- 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
- 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. Microfinance is crucial for supporting farmers especially those in remote in rural areas by providing access to credit, promoting investment in technology, managing risks, strengthening cooperatives, offering holistic financial solutions, fostering social impact, and empowering through education. These factors collectively contribute to improved agricultural productivity and economic stability for farming communities.

##### Topics:

- How to support agriculture sector and youth entrepreneurs in rural areas?
- Financial and non-financial instruments available for agricultural loans
- Climate smart finance – adapted to lower environmental risks
- Financial education of farmers
- Improving digital skills of farmers
- Increasing knowledge of farmers in environmentally friendly agriculture
- Development of products for sustainable agriculture/green products

#### 7. MIGRANTS AND REFUGEES

Building capacity of MFPs and SEFP to provide products and services for the migrants and refugees is becoming increasingly crucial due to the ongoing war in Ukraine and other geopolitical conflicts related influx of refugees into the EU.



Key barriers identified in serving this population include their uncertain plans, legal status, usually no collateral and language difficulties.

Topics:

- Tools supporting migrant entrepreneurs in getting clear understanding of local business environment
- Practical strategies and tools to support and serve migrant and refugees
- Handling cultural, legal and administrative challenges to enable smooth third country nationals integration
- 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 is vital for MFPs and SEFPs not only to safeguard their financial health but also to enhance their capacity to serve vulnerable populations sustainably and responsibly in an increasingly complex economic environment.

Topics:

- Portfolio analysis
- Monitoring of early warning indicators
- Prevention of over-indebtedness
- Debt collection and restructuring
- Loan collateral assessment

- Review of risks attached to financing of microcredit providers
- Anti – money laundering
- Analysis of documentation of social economy entities
- Credit risk assessment with climate adaptation
- Environmental and social stress test/risk management
- Business continuity plans with natural disasters

## 9. OTHER TOPICS

### Networking and Partnership

- Building alliances to advocate for continuous support of MFPs and SEFPs 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.
- Fostering public-private partnerships in social finance
- Advocacy strategies at the national level
- Strengthening partnerships with IFIs, banks, and institutional investors
- Public-private partnerships in climate insurance

### New products

- Micro insurance
- Factoring
- Micro leasing

### Legal

- Legal compliance for guarantee instrument
- EU legislation and obligations for engaging AI

- Regulations applicable for crowdfunding
- Legislation related to loan restructuring
- Public procurement and social agenda clauses
- GDPR, Personal Data Protection
- Nuances of setting-up a social impact fund

### Financial Management

- Financial management of MFPs
- In-depth financial analysis of financial statements and key ratios
- Analysis of loan applications focused on investments in energy efficiency

### Talent Management and Governance

- Managing difficult clients
- Optimization of HR role in lending processes
- Social project management, impact analysis, and use of technology
- Ways to Increase work efficiency
- Training for boards of directors on good governance and ESG
- Team building and communication
- Managerial and leadership skills
- Soft skills for MFPs' front desk/credit officers and team/time management
- Management by values
- Shaping the organizational culture of the company through leadership
- Agile management
- Providing positive feedback

## 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

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## KEY CAPACITY BUILDING TOPICS

Access to catalytic capital and fundraising

Digitalization and artificial intelligence

ESG and green finance

Sales and marketing

Social economy

Sustainable agriculture

Migrants and refugees

Risk management

Networking and partnership

New products

Legal

Financial management

Talent management and governance