SOCIAL FINANCE TRENDS

2024

THE PUBLIC SECTOR

EC APPROVES EU COUNCIL RECOMMENDATION

The EU Council Recommendation is the first EU-level legal act on the social economy. It improves access to the labour market, social inclusion, sustainable economic and industrial development, and social and territorial cohesion by supporting member states (particularly national and local policymakers) to integrate the social economy into their policies and legal frameworks, and develop administrative and institutional structures to support those policies.

The Council Recommendation covers areas as diverse as employment and social inclusion, access to finance, public procurement, state aid, taxation, social impact measurement, and data and statistics. Social economy entities face challenges due to their non-profit nature and reinvestment model. Data and statistics are crucial for increasing the visibility (and understanding of) the social economy. Access to finance tailored to each stage of development and business development and investment readiness support are vital for social economy entities to thrive. To achieve this, we need to leverage both public and private financing through a range of financial instruments to de-risk MFI and ethical bank support to vulnerable groups.

A NEW ROLE FOR THE PUBLIC SECTOR

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The public sector's role in microfinance is evolving. Governments increasingly see financial inclusion a key objective to support post-pandemic job creation. For example, in Central Asia, governments are even setting employment generation targets for MFIs.

*Based on session at the 2024 MFC Annual Conference in Cracow.

This briefing paper presents trends discussed during "Social Finance Vibe 2024: Leadership and Diversity".

In the past, the public sector has focused on formal enterprises. However, there's a growing realisation that to create more jobs we must embrace the informal sector—and so we must embrace a scaled-up microfinance sector.

Historically, the public sector supported financial infrastructure such as credit bureaus and collateral registries, and created an enabling environment whilst protecting consumers. However, it left the responsibility of reaching out to clients to the market (namely MFIs). Yet inclusion gaps remain in most markets, and the public sector has an opportunity to reposition itself in a way that promotes innovation while also safeguarding consumers.

Additionally, we must address the underlying supply and demand barriers in the microfinance ecosystem. These include a lack of sustainable, affordable, long-term funding—as well as a precarious relationship with regulators, investors and the banking sector. In many markets, MFIs struggle with payment processes and frequently rely on banks and other entities to conduct transactions and meet client needs. At the same time, there's often a lack of MFI capacity to commercialise and transition towards "microfinance plus" to offer not only credit but a full range of financial services.

These challenges and their "humbling" impact on the sector can lead to governments schemes introduced by politicians aimed at creating jobs, generating publicity, and gaining votes. However, many of these schemes can distort the market (for example, large subsidies often reduce interest rates without justification). These large-scale programmes tend to be unsustainable, leading to high levels of non-performing loans and crowding out the private sector.

Another factor is pricing (where microfinance earns its predatory reputation), yet there's little public understanding of why pricing can be so high for clients. It's most often due to high cost structures and funding costs, especially for reaching clients in rural areas. Most MFIs tend to focus on urban areas, exacerbating this perception issue.

The final constraint on demand is low client financial and digital literacy levels. No efforts at financial inclusion will be effective without first focusing on digital inclusion. This is another area where public sector has a role, and it is well-positioned to collaborate with the telecommunications industry to get mobile phones into the hands of the entire adult population so they can access digital financial services.

The public sector can play a crucial role in supporting a more sustainable microfinance sector. The first step is to address the funding issue and develop longer-term funding platforms that blend both private- and public-sector financing while facilitating access to capital markets. With the right support, state banks can reposition themselves as apex institutions to wholesale lend to the microfinance sector.

For many MFIs, the digital transition is in its early stages and the costs of entry can be prohibitive. There's an intervention role for the public sector here to support the entire sector to move to the digital space. For example, in Pakistan, the ADB has partnered with the microfinance association and its members to develop a shared platform (essentially a core banking system) that all MFIs, bar the largest players, can utilise on a pay-as-you-go basis. In the Philippines, the ADB helped develop cloud-based platforms to transition the entire sector into the digital space at once.

In the European context, regulators are particularly sensitive to data privacy regulations such as GDPR. It is essential to ensure that

digitalisation occurs in a safe legal environment, helping European citizens feel comfortable with this transition. Here, increasing customer trust can be achieved through clarifying legal frameworks, developing technical interfaces and data standards for digitalisation.

Future government schemes should aim to incentivise the industry appropriately and, as needed, to de-risk areas of the market that the private sector may hesitate to support. Government-supported funding should incentivise and support the private sector to provide end loans, rather than doing so directly. This is particularly important for areas such as women, climate, youth, start-ups and early-stage businesses where there is a lack of risk appetite.

A thriving microfinance sector requires the right regulatory environment, and in future regulators should adopt a market development role. In mature markets, initiatives such as regulatory sandboxes, promote innovation. However, in developing markets, regulators should establish a clear market development strategy and drive this strategy with specific targets. This represents a significant mindset shift for many regulators. As part of this, regulators need to actively update laws and sub-laws to reflect evolving market conditions, especially in mature markets. For example, in Bosnia and Herzegovina, MFIs still operate under legislation written in 2006.

PUBLIC SECTOR SUPPORT FOR SOCIAL INCLUSION AND CONSUMER PROTECTION

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Financial Access Initiative

Read more insights on this topic in Tim's recent paper "Lessons for Global Microfinance from... the United States?", which you can read in full here: **https://bit.ly/3P2ikY9**

There are four key lessons that the global microfinance industry needs to learn from the United States—with its long history of attempts, struggles and failures in financial inclusion:

1. **Subsidy for financial inclusion is permanent.** There's no magic formula to make it profitable and desirable to serve marginalised and low-income people with high-quality financial services.
2. **Competition can increase costs.** Reaching marginalised clients through the noise that competition can bring drives up costs for MFIs. Competition alone won't deliver inclusion.
3. **Technology won't fix the inclusion problem.** Technology tends to drive down costs across the board—so the relative cost of serving more marginalised populations doesn't change in relation to better off populations. The temptation for mission drift to increase sustainability will always exist.
4. **The work of consumer protection is never done.** Even with the right regulations, the right financial authorities, the right governance—predatory lenders will still exist. We need to be vigilant, because they'll be using the same digital innovations to increase outreach as responsible lenders.

This autumn, the US Treasury Department released its first-ever national financial inclusion strategy. You might be wondering: why the US hasn't figured this out already? It's the same reason that France, the UK, Denmark, or any other country hasn't figured it out. No one has found the magic solution to delivering financial inclusion sustainably to everyone because it doesn't exist.

Financial inclusion is a centuries-old and very difficult challenge, and very smart, well-meaning people have been trying to solve it—so we need to keep trying, because as soon as we stop, we drift from our missions. We let predatory lenders in. We stop listening to clients.

We have to keep talking about the need for financial institutions to do the hard work of reaching marginalised people and how to enable them to do so. We have to keep talking about how to balance regulation for consumer protection and efforts to reduce barriers to outreach. We have to keep talking about how to use technology to increase access and quality rather than simply becoming slaves to technology that pushes scale its own sake. We have to keep talking about governance that keeps mission drift in check and investment in human capital to ensure that institutions are well-run and attentive to the customers we seek to serve. These conversations will evolve over time, and we need everyone involved: researchers, practitioners, regulators, investors and more.

If we look at the data, we'll know how much we've achieved so far. Far more people have access to higher quality institutions than they did 20 years ago. To make more progress, we need to keep the conversation going. To protect what we've already achieved and not slip backwards, we need to keep the conversation going.

This year, I urge you: don't shy away from conversations about why financial services for excluded people are necessary; why they deserve subsidy. Don't shy away from conversations about thoughtful policy that protects people from bad actors. Don't shy away from conversations about regulatory frameworks that allow us to do the important work at affordable costs for customers. Invest time in studying excellence: What are the best governance models? What are the best human capital models? How can we make sure that MFIs are not only capable of imagining innovation, but implementing it to increase our impact and reach? Keep the conversation going. Today, tomorrow, and the day after that.

TRENDS FOR INVESTORS AND REGULATORS

Sebastien Duquet*
Mirova

At first glance, the current trends seem contradictory. On one hand, globalisation makes many things easier than they were in the past. Yet in the sixties, my father drove from Paris to Tehran—a trip which simply isn't possible now. The world of today is more open, but also much more unstable. Against that backdrop, investors are looking for stability. That means while overall assets have grown, the percentage of assets in the frontier and emerging markets has declined.

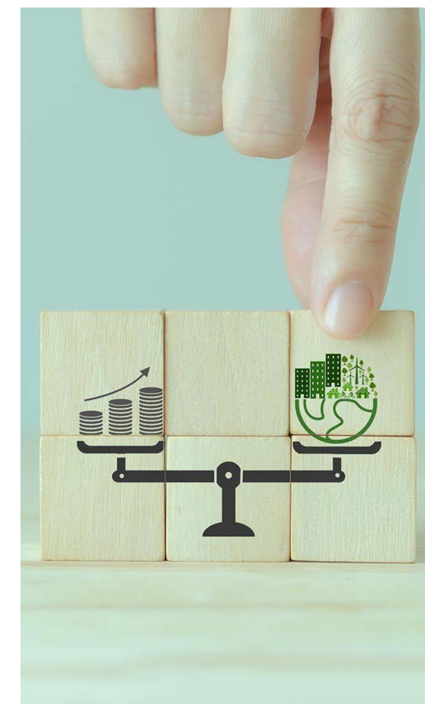
Another trend is a rise in regulation—the first wave of which was in 2008 and 2009 post the Madoff and Lehman Brothers crises. Today, a new set of regulations exist around climate and biodiversity—this in response to the failed hope that the market would regulate itself and increase the financing of green technology and green assets. This is also a response to an increasing risk of greenwashing. Here, investors are facing contradicting trends. On one hand, regulators are asking them to invest more in green. On the other, investors fear reputational risk and accusations of greenwashing.

*Based on session at the 2024 MFC Annual Conference in Cracow.

We'll soon meet new regulations coming from the EU: EU Taxonomy, SFDR, CSDR and more. CSDR means that all 50,000 investors in Europe will be required to report on a full set of indicators about how they comply with the EU Taxonomy in terms of green financing, natural capital preservation, biodiversity and the like. For asset managers, it means reporting how many of their funds are aligned to the EU Taxonomy. This will have serious implications for projects underway in non-EU countries, because they won't be equipped to report on the EU taxonomy, and then you are not aligned with the EU taxonomy.

Yet most investors are still European, and while we may have hoped that the US or Asia would replace Europe as the main investors in microfinance, it hasn't happened. There's money in the Asian market, but they are looking for high returns and therefore less interested in impact. In the US, a new generation is demanding impact, but at the same time there's a debate on whether the fiduciary duty of a fund is to ESG or the financial return—and in recent years there have been fewer funds doing ESG investment.

A final consideration is that Europe, the US and Japan currently need a lot of investment. A decade ago, EU investors were encouraged to invest in Central Asia, Africa and elsewhere—yet now funds are needed at home for the transition to the green economy and to care for an ageing population. What's more, the returns are higher here than in emerging markets, and the landscape is more stable.



ESG FOR THE SOCIAL ECONOMY

APPLYING ESG STANDARDS TO MICROFINANCE

Environmental, Social & Governance (ESG) standards are taking centre stage globally with new frameworks, expectations, and demands from stakeholders emerging—especially for investors based in the EU, where ESG and sustainability indicators form part of EU legislation.

In Europe, the SFDR (Sustainable Finance Disclosure Regulation) includes Articles 6, 8, and 9 financial products, all of which must incorporate ESG criteria. Article 9 products are the most advanced in terms of pursuing positive social and environmental impacts while minimising negative ones.

MFIs and social enterprise organisations seeking funding from EU investors need to understand ESG frameworks and how they relate to frameworks such as Social Performance Management (SPM) that are more well-known in the microfinance sector.

ESG has three main components: disclosure (especially of negative impacts), risk management (the risk to investors), and mitigating negative impacts.

Investors distinguish between ESG risks that are "outside-in" versus "inside-out". The former are risks that external factors pose to investments and the latter are potential risks that the investee may create for its stakeholders. These are distinct but interconnected. Outside-in risks can include floods, corruption, or a saturated credit

image credit: Freepik

market. Inside-out risks can include over-indebtedness, fraud, or environmental damage. If any risk become significant, it can lead to liabilities for investments, which in turn create costs for investors, either in the form of legal liabilities or reputational damage.

The concept of “impact” in the ESG framework helps bridge the gap that has existed between the microfinance industry (with its social and environmental performance management agenda) and the larger global financial market. However, is this merely a “rose by any other name” or should MFIs abandon their social and environmental performance management strategies in favour of an ESG framework, despite the fact that ESG standards are constantly changing?

ESG is a standardised framework applicable to every type of organisation. Social and environmental performance management is well understood within the microfinance sector, however lacks broader recognition. It is, however, very well adapted to the specifics of the sector. As MFIs adapt to ESG practices and expectations, it’s crucial to find the right balance.

INVESTOR’S PERSPECTIVE: INPULSE

Inpulse is a Brussels-based investment manager promoting sustainable investment. Each of its five funds are fully compliant with SFDR Article 9. Its ESG approach is aligned with the SDGs, the USSPM, GIIN-IRIS, the Smart Campaign and the 2xChallenge Initiative—as well as the Green Index 3.0 and the EU Code of Good Conduct.

Inpulse’s ESG impact management and measurement system is now a fully digital platform, significantly reducing the time and effort required for data collection and processing.

This ESG framework is integrated into the entire lifecycle, from pre-investment assessment and to the investment committee that evaluates both financial and non-financial criteria. Based on this analysis, Inpulse writes ESG impact pledges into its contracts with investees, who report data annually which forms part of its external reporting and internal portfolio analysis. In terms of environmental issues, Inpulse’s analysis includes both external and internal environmental risks, as well as the availability of green financial and non-financial products and clients’ perceptions of climate risk. It assesses the effect of climate change on clients’ activities and its estimated impact on default rates and governance (business planning, effectiveness and independence, management, human resources, external accountability and more).

In the social dimension, Inpulse analyses women’s empowerment by assessing whether investees evaluate employee satisfaction and have human resources policies to address harassment, gender equality, gender pay gap and more.

On the governance side, Inpulse evaluates four criteria: business planning; board effectiveness and independence; management, human resources and operational manuals; and external accountability.

INVESTOR'S PERSPECTIVE: SIDI

Solidarity International Development Investing (SIDI) is an investor working with 124 partners in 33 countries. SIDI's focus on ESG principles means it engages heavily in countries with low HDI ratings and high climate change risk. It primarily invests in rural MFIs with robust agricultural portfolios, agroecological cooperatives and other agricultural entities.

Its investees are typically small, data-poor organisations—so often lack ESG capacity. SIDI therefore adapts its requirements to the capacity of its partners, and helps them improve their ESG practices in the long term through training and support.

SIDI uses SPI5 ALINUS at the due diligence level, supplemented with additional indicators that allow it to assess its progress in meeting social objectives over time.

It also has a mission scoring system: during due diligence, it generates a mission score for each potential investee. This is weighed against the risk associated with its investments to evaluate whether potential positive impacts justify SIDI taking greater risks.

The mission scoring tool also helps SIDI manage its portfolio over time, objectively determining whether a partner continues aligning with its mission, or whether disinvestment is appropriate.

INVESTOR'S PERSPECTIVE: RESPONSABILITY

ResponsAbility is a Swiss impact asset manager offering private debt and equity in emerging markets to support financial inclusion, climate finance and sustainable agriculture. Its assets of $5.1 billion across 300+ companies are all Article 9 funds.

ResponsAbility uses both ESG and impact methodologies. Impact assessments help identify positive outcomes from any investment that reflect the final impact of the investment. ESG methods identify environmental and social risks inherent in the investment and its underlying portfolio, ensuring it does no harm as required by SFDR.

As such, ESG factors are firmly integrated into ResponsAbility's investment process. This process starts with a screening process including a reputational check and a review against the IFC Exclusion List of activities or businesses that could have a significantly negative impact on the environment or society. ResponsAbility also expects its investee MFIs to use a similar screening mechanism on their clients.

Identified ESG risks are categorised to determine the level of due diligence required, with higher risk triggering a more in-depth examination of the potential investee's operations. The risk categorisation for MFIs is primarily based on their exposure to high-risk activities such as mining or quarrying.

The due diligence process assesses compliance with the IFC Performance Standards. For MFIs, this includes evaluating whether its labour conditions and practices align with local regulations and IFC standards, and manage ESG risks for borrowers. Cases of non-compliance identified during the due diligence process are subject to an Environmental and Social Action Plan outlining specific deliverables and timelines to address gaps identified. The plan is included in the loan agreement, making it binding for the investee. ResponsAbility also works with MFIs each year to monitor their ESG impact indicators and review action plan implementation.

ResponsAbility uses a number of frameworks for its ESG analysis. In addition to the IFC Performance Standards, it relies on the ILO standards around good labour practices and human rights; client protection standards as developed by the Cerise and the SPTF. Additionally, its framework is aligned with the UN Global Compact principles, the OECD guidelines for multinational enterprises, and the EU SFDR.

MICRLOENDER'S PERSPECTIVE: CRÉDAL'S ESG MATRIX

Crédal (Belgium) was named MFC's 2024 Leader in Building Sustainable and Green Businesses for introducing an ESG scorecard into its credit analysis process. This tool enables faster eligibility decisions based on objective analysis of important factors such as carbon footprints, waste production, engagement in the circular economy, use of organic, local and seasonal produce and more.

Crédal was the first microlender in Belgium and the first to launch a program for women entrepreneurs. Today, Crédal has nearly 4,000 investors and a portfolio of €55 million, all of which is on-lent to over 4,000 clients. Crédal's lending is focused on nine key sectors, three of which are environmental: energy transition, green loans and sustainable food.

The ESG Matrix is an in-house tool developed by Crédal's credit officers in response to increasing numbers of entrepreneurs applying for loans that were claiming to create a social impact.

Crédal created a two-part qualitative evaluation grid. Part one is comprised of general considerations: project location, organisation size, and loan purpose (the latter to ensure it was not financing prohibited sectors, e.g. sex work, alcohol, weapons, gambling, etc.) Part one also looks at the business model and the qualifications of the entrepreneur.

Part two is the ESG checklist: a matrix of 26 criteria (10 environmental, 11 social impact, and 5 governance criteria). If the loan applicant fails to meet one of the mandatory criteria, it will fail in its application.

The environmental criteria are: working with local suppliers; limiting the number of intermediaries between producer and consumer; undertaking concrete actions to limit/reduce/offset ecological footprint; zero waste and circular economy actions with at least 30% of the raw materials or supplies upcycled, recovered, reused.

The social criteria include: pricing adjusted to the market average; availability of products/services to less-privileged groups; inclusion of vulnerable people (unemployed, low-skilled, disabled); awareness raising on social, societal, environmental issues; and strengthening links between people in the community.

The governance section includes such criteria as collaboration with partners; co-creation with stakeholders (employees, customers, suppliers); and mutualisation with pooling investments, experiences, knowledge and know-how.

The criteria considered mandatory vary by sector. Some criteria will be more important than other depending on the type of a business. For instance, for restaurants to get a loan, there are five mandatory criteria: market pricing; using supplies mainly from Belgium or border countries; in-country processing; limiting number of intermediaries between producer and consumer; and using seasonal produce. For a bakery, there are only four mandatory criteria: craftsmanship (artisanal, non-industrial production); using organic farming products; limiting the number of intermediaries between producer and consumer; and in-country processing.

WOMEN

ACCION'S WOMEN TRANSFORMATIVE MODEL

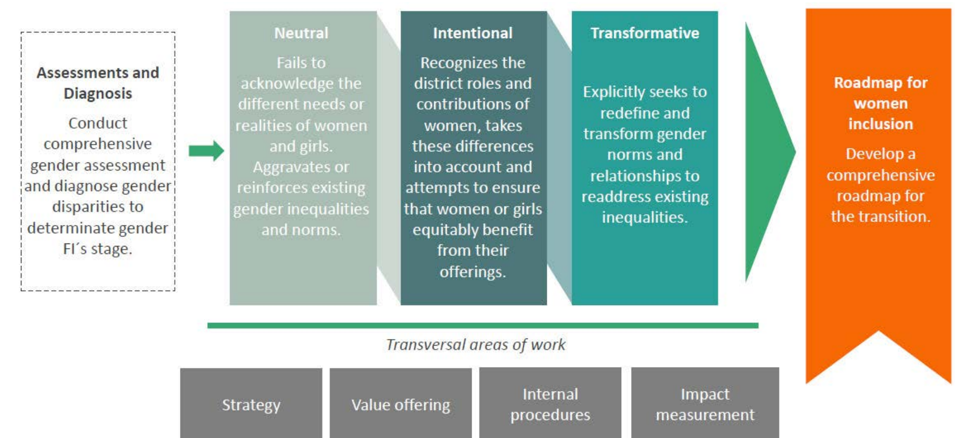
Why are nearly one billion women still outside the reach of formal financial services? According to ACCION research, data is a huge challenge for service providers. They have data, but it's not sex-disaggregated, so they don't know how many women they serve, and how they might use services differently than men.

There's also a lack of incentives for institutions to serve women, coming either from regulators, investors or other stakeholders—so there's no data and no opportunity to make the business case for serving women. Other operational priorities also take precedence, such as digital or green transformation.

Yet the business case for serving women is clear. We can tap into $2 trillion in new deposits per year, and unlock up to $1.7 trillion in capital to women-led MSMEs.

Accion's Women's Transformative Model guides and supports financial institutions in their transition from a gender-neutral to a gender-transformative institution (see graphic below).

Accion collaborates closely with financial institutions and expert teams across various areas to guide and support them in defining and executing their gender strategy. Together, they address internal and business-oriented gaps, working across key areas to ensure comprehensive gender integration. For instance, when starting to become gender transformative, the institution needs to start not only with the strategy, organisational change and talent, but also look into business-oriented activities—what products are offered and how; how risk is assessed; what data the institution has and how it manages and uses it; and what kind of activities and initiatives are in place to build the capacities of the women the institution serves.



Above:
ACCION's Women Transformative Model

ALTER MODUS: WOMEN IN BUSINESS TRADEMARK

In Montenegro, women outnumber men in terms of population but only 30% of companies are currently owned or managed by women—and Alter Modus believes that it can play a role in helping to close that gap.

That's why this year, Alter Modus launched a "Women in Business" Trademark in Montenegro (with support from the EBRD and in coordination with Competitiveness Council of Montenegro and the UK Embassy in Montenegro), awarded to companies that are owned and led by women, as a way of giving them a greater visibility in society.

Montenegrin culture has strict rules for women in family, businesses and public life. Alter Modus understands that the potential impact of its non-financial support to women (in terms of personal empowerment or business skills) is limited by the extent to which the broader culture undermines those qualities. Raising the visibility and credibility of women-owned businesses is an important step in tackling this.

The trademark benefits Alter Modus as a financial institution, because it speeds up its due diligence processes. Alter Modus tracks the social performance of its financial and non-financial support to women using common metrics such as numbers of clients, portfolio share, regional dispersion, changes in income levels over time.

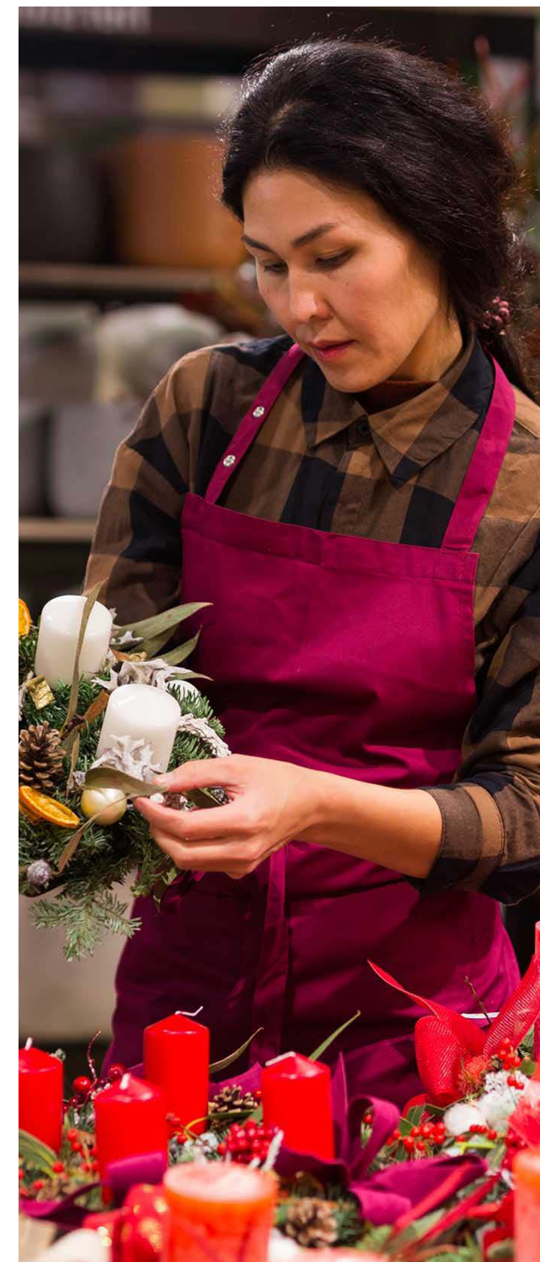
More broadly, it expands its circle of allies in its efforts to ensuring gender equality. In terms of benefits for women, having a trademark gives them access to additional support to improve their business, networking opportunities, financial and non-financial opportunities.

CRYSTAL: GENDER IMPACT BONDS

At present, 57% of Crystal (Georgia) clients are women. Internal data shows that women are much better at loan repayment but they're taking smaller loans (with portfolio exposure only 47%). Crystal points to a number of driving factors, including cultural and socioeconomic barriers, and differing attitudes in rural and urban areas. Over the past decades, Crystal has been supporting women through women-to-entrepreneurship support programmes to equip women with the knowledge and confidence to start and grow their businesses.

In recent years, Crystal started working with the ADB to issue gender impact bonds that are certified by an independent rating agency, and fund women clients or women-owned SMEs. (The cost to bring the bond to market was funded by EBRD). This decision wasn't driven by a need for funding so much as a desire to pioneer new solutions for gender empowerment and (when subjected to external assessment) test its theory of change.

Measuring impact is built into the requirements of the gender bond, and Crystal also includes the bond in its biennial social performance monitoring study tracking simple indicators around numbers of women micro or small business borrowers, number of borrowers in rural areas, loan sizes and



portfolio at risk. It pairs this quantitative data with qualitative interviews with clients around how their living conditions have changed, any innovations they have introduced in the business and more.

In terms of recommendations to others seeking to introduce gender impact bonds, Crystal reflects that there's a strong business case for serving women—so it's not about weighing trade-offs so much as clarifying strategy and tactics. Working with impact investors can be a bit more complex, but in Crystal's view, it's been a successful collaboration.

YOUTH

YOUTH IN BUSINESS PROGRAMME

The EBRD's Youth in Business programme is a holistic and specific solution to support young entrepreneurs in a landscape where economic integration of youth (including access to finance and training) falls short in many countries, leading to significantly higher unemployment rates than older adults and "brain drain" (emigration).

There are, however, promising signs in terms of structural trends. Unlike in more developed countries, EBRD is working in places (Central Asia, the Western Balkans, Turkey, Morocco and Egypt) with relatively young populations (37% of the Balkans and 53% of Tajikistan are under the age of 34) and relatively high educational achievement. Finally, there is a wave of new and succession business launching to market. In the Western Balkans, for instance, businesses owned and managed by individuals up to 34 years comprise between 20 and 40%, depending on the country, and contribute between 10 and 28% of GDP.

Against this backdrop, the Youth in Business Programme seeks to address both demand and supply side challenges that financial institutions and young entrepreneurs face. It comes with four key, distinctive elements.

- **Finance:** EBRD provides finance to microfinance institutions and banks to increase their liquidity and the amount that banks and MFIs onlend to young entrepreneurs.
- **Technical assistance:** Support for banks by international and local consultants to create tailored youth banking products, improve services and processes, and train staff to effectively manage the products.
- **Credit enhancement:** First-loss risk cover or result-based compensation to incentivise youth lending. EBRD shares the risk in non-performing loans up to 70%.
- **Non-financial services for young entrepreneurs:** Training channelled directly through MFIs or provided directly by the EBRD.

The project is partnering with 23 financial institutions, eight of which are MFIs, lending €175 million for onlending to youth entrepreneurs. To date, over 6,500 loans have been approved, almost 1,600 young entrepreneurs have received support and training. Two years into the project, non-performing loans are less than 0.1%.

SUPPORTING YOUTH BUSINESS IN EUROPE

The Better Incubation Pilot (funded by the European Commission) was a two-year programme fostering inclusive and social entrepreneurship in Europe by mobilising and empowering business support organisations to effectively help social enterprises and potential entrepreneurs from marginalised groups access financial tools and grow sustainable businesses for the long-term.

The pilot was implemented in partnership between European Business Innovation Centre, Impact Hub and the European Venture Philanthropy Association (now called Impact Europe) and focused on five marginalised groups: migrants/refugees, people with disabilities, seniors, women and youth.

The programme was structured into five "communities of practice" (one for each target group), and each included business incubators, EBN members, impact hubs, thematic experts, marginalised entrepreneurs and impact investors.

Each community started by mapping current efforts: what was working, what wasn't working, gaps and potential solutions. Communities catalogued 103 good practices, tools and resources and conducted 27 "empathy interviews" with members of the target group. Based on this research, they piloted specific methodologies and tools to design and implement incubation programmes tailored for the specific target group.

Finally, a reflection phase gathered insights from the pilot programme phase: what happened, what worked and what didn't (and why). These lessons were captured in reports available from the Better Incubation website. It's also important for incubators and other business support organisations to understand the specific needs of the different groups within their youth entrepreneurship programmes and be mindful of the intersectionality of marginalised identities. That is: young entrepreneurs who are women will have different needs than those who are disabled or migrants. For each, we need to understand what we can expect from them, what their specific traits are, and how to motivate them to join and remain with the programme in the long term.

Role models are also important in terms of offering individual support to youth entrepreneurs because they can share stories of success (and failure) and build a picture of what a potential entrepreneurial path could look like. Role models can also help young entrepreneurs to break down their entrepreneurial project into actionable steps and ideas, potentially making their plans more realistic for potential investors.

Finally, it's important to use an ecosystem approach to supporting young entrepreneurs. No one organisation – no one funder, supporter, or educator – can do this work on their own. It takes a village to raise an impact-driven start-up, and we need all these actors working together to make all these different products and programmes not only impactful but sustainable in the long run.

MIGRANTS & REFUGEES

PAFMI MIDTERM REPORT LESSONS

Partnerships and Financing for Migrant Inclusion (PAFMI) Programme, an AMIF-funded project launched in 2023 and managed by the Council of Europe Development Bank (CEB), aims to test the use of financial instruments for integration projects (through a combination of grants and loans/guarantees) and identify and disseminate lessons learnt. It is a flexible and multidisciplinary approach that fosters cooperation between financial and non-financial actors. The midterm report reveals key lessons around:

Relevance: All projects remain highly relevant to the needs in the field, but in practice connecting people who need services to service providers requires significant time and effort. Migrants might need services but might not be able to attend because they are absorbed with integration activities (sorting out their residency), doing shift work to earn money, lack the language skills and childcare needed to participate, etc.

Flexibility: Adapting to evolving needs and maintaining flexibility in implementation timelines and how we define/measure impact is important given the changing landscape. This includes local MFIs offering culturally sensitive services to migrants (for example, Islamic banking services).

Practicality: Providing BDS in different languages, including a simplified version of the host-country language, is essential. The format and schedule of activities should consider the working hours of migrants.

Advocacy: A strong advocacy component is crucial to facilitate collaboration with public institutions, who play a key role in integration and inclusion of migrants.

Partnerships: Collaboration with migrant-led NGOs to co-create project will increase effectiveness. NGOs can act as “community ambassadors” to raise awareness, establish trust, ensure participation and act as cultural bridges for project beneficiaries.

Foundations: MFIs play a foundational role in migrant entrepreneurship projects because they can provide not only loans but also tailored business development services (BDS) that are tailored to the individual’s culture and language and advice on financial plans. However, reaching this group is costlier, more complex, and potentially riskier than reaching local clients. Having funds earmarked for migrants forces MFIs to go to the extra mile.

Key recommendations for policy makers include:

Prioritise BDS: Consider financing an action for member states to provide BDS grants for the financial inclusion of migrants and refugees as a particular category of vulnerable population. Guidance on local requirements to open a business, in particular, helps mitigate some of the risk involved in offering repayable financial products.

Raise awareness: Consider designing and funding an awareness-raising and capacity building action for EU Member States around enabling environment to improve the financial inclusion of this migrants and refugees.

SUPPORTING MIGRANT INTEGRATION WITH FINANCIAL INSTRUMENTS

A recently published fi-compass study explored the potential of financial instruments to support migrant integration in the EU. This comprehensive study started in late 2022 and was published in June 2024. (Read the report here: **https://bit.ly/41ECIX4**).

The report starts with a market assessment of the demand and supply sides of the finance market (based on data from six EU countries: France, Germany, Italy, Lithuania, Poland and Romania). Based on this indicative sample, a picture emerges of a finance gap that is potentially substantial in all sectors, especially microfinance.

The report offers up "design options" recommendations that can be used by any existing financial instrument, including AMIF (which supports early integration measures) and ESF/ESF+ (which offer medium- and long-term support).

In terms of demand side: according to Eurostat data, the average entrepreneurship rate of third-country nationals is only slightly lower than that of the local population, and slightly higher than that of internal EU migrants. Obstacles for migrants include legal constraints, cultural and institutional differences, language barriers, and poor access to information on available support and opportunities. Another challenge is bias, when the local population believes that refugees are less capable or trustworthy.

In terms of the typical entrepreneurial journey of third-country nationals, the needs for services of those newly arrived differ from those in the early integration and long-term integration stages,

However, at every stage, migrants have limited access to enterprise finance and BDS that is tailored to their needs.

On the supply side, MFIs are actively supporting migrants with loans and (in many cases) BDS (coaching and training, directly or through partnerships). While MFIs may might not need to tap external financial sources (such as the EIB), the InvestEU guarantee can support providers lending to riskier groups such as migrants.

The study also highlighted MFI interest in additional liquidity support, so that they would not need to pass their own high interest rates on to vulnerable clients.

On the BDS side, when provided it's with internal resources, which are limited. Broad expansion would rely on external support. Either way, a funnelled BDS approach can make best use of funds. That is: the initial offer would take the form of group trainings, and only those who are ready and willing to start their own business would "graduate" to more cost-intensive individualised services.

Three key recommendations emerge from the study:

- Expand the InvestEU instrument through top-ups from other existing EU-level instruments such as AMIF and ESF+
- Provide grants to MFIs to develop their BDS offer (from the CEB, for instance)
- Implement a shared management loan instrument that can be combined with other financial instruments (interest rate subsidies and/or BDS grants) to ensure good communication between managing authorities, produce synergies and ensure that no one falls through the cracks.

HOUSING

SOCIAL RENTAL AGENCIES IN POLAND

A Social Rental Agency (SRA) is a tool allowing a municipality (or NGO) to act as a mediator between people in need of affordable housing options and private rental properties. It facilitates affordable housing offers and housing units outside of the traditional municipal housing stock.

In Poland, SRAs serve low-income tenants in the so-called rental gap: the 35% of the population earning too much for social or subsidised housing, and too little to rent or buy a property. It can also help municipalities house social tenants in difficult situations before a municipal property becomes available, as well as when existing tenants outgrow their assigned property. SRAs can also serve other excluded groups (migrants, single parents, people living in institutions, people living with homelessness or in shelters, and more) overcome barriers to gaining social housing. Finally, SRAs view "essential workers" (healthcare, education and social service workers) as preferred clients to ensure that they don't get priced out of local housing market and take their valuable skills elsewhere.

The financial model for SRAs is typically as follows: SRAs establish multi-year cooperation agreements with the municipality that both stabilise the system and offer longer-term accommodation for tenants. SRAs have a variety of income streams: property management fees, rent subsidies for tenants. In Poland, there's also money available from the government for SRAs to renovate empty stock or adapt premises for housing.

Funding for social services also comes into play, where SRAs receive government money to provide additional services in line with tenants' needs. For migrants, that might be help with language and social integration. For at-risk youth, that might be life skills and financial literacy. Tasking the SRA with social work is a relatively new approach, so it's too soon to judge its sustainability.

Examples of SRAs in the UK and Belgium have proven to be financially sustainable, but Poland and other Central European countries it's only recently that municipalities have been able to tap into the private housing stock. However, it is the case that a property portfolio can be built by the municipality very quickly with a relatively low investment, especially in times of crisis (such as in Warsaw in 2022, when SRAs were on the front line for housing Ukrainian refugees).

From the landlords' perspective, the benefit lies in having a long-term lease agreement (up to five years) that provides stable income with no rent arrears or gaps between tenancies, to have property management outsourced to the SRA, and a tax exemption on that income (up to 20% in some cases).

SOSTRE CÍVIC HOUSING COOPERATIVE IN SPAIN

Sostre Cívic is a non-profit cooperative to create alternatives to both the rental and the homeownership market by building residential houses for families who cannot afford to buy homes. Spain has 2% social housing stock, compared to the 15% on average in the EU—which is why Sostre Cívic also undertakes advocacy for collective ownership and right-to-use dwellings as a viable, sustainable and environmentally sound model.

Sostre Cívic currently has 175 dwellings through 13 projects, with another 12 projects and 385 dwellings underway. Each new housing project is managed independently and has separate financial management and funding, but receives support from the whole organisation. Projects are developed by establishing a group that self-develops the dwellings, with future residents deciding what the shared and private spaces will be. A technical team supports each group.

Some homes are built by finishing the construction of unused buildings; others are built from scratch on land leased from the state or bought outright through loans with the Catalan Public Bank. For construction, Sostre Cívic also created its own non-profit, ethical and sustainable construction company that uses pioneering eco-building techniques.

Members pay an initial contribution of share capital (up to €20K per dwelling, returned when members leave) to contribute to project financing, a one-off solidarity fee (€1,500) and a monthly membership fee (€10 per month), to cover development costs. It projects are completed at cost with the help of subsidies from the Next Generation EU programme or state/regional grants. The project also pays the cooperative monthly fees, either in the development phase or once residents move in. Monthly fees are typically half of what one might expect to pay for a lower-quality dwelling of similar size in similar areas.

External funding for these projects comes from public sources or ethical banks. To date, these have been local sources, which places limits on what Sostre Cívic can achieve given the exposure limits of these relatively small banks. Local private investors don't understand the collective housing concept, and fundraising for seniors is problematic when the loan will survive the tenants in question. At the EU level, it has recently started a cooperation with CEB for €31 million, which it will use to develop a further 300 dwellings.

THE SOCIAL HOUSING AND BEYOND TOOLKIT

In early 2024, DG EMPL published the Social Housing and Beyond Toolkit (download here: **https://bit.ly/3BoArEK**). It contains 20 cases of how funds for housing were used in different countries. The annex provides a breakdown by country in terms of funds available. These include:

- **The Resilience Facility** includes €21.3 billion for social housing and other social infrastructure, as well as affordable housing.
- **The Cohesion Policy Fund** contains €10 billion for housing investments in housing, mostly for energy efficiency measures. The InvestEU programme offers guarantees to mobilise additional public and private investments. Under the social investment and skills window, €2.8 billion in guarantees is available for microfinance, social finance, affordable housing and social housing. A further €9.9 billion in guarantees is available for sustainable infrastructure (such as energy efficiency renovations).
- In 2026, the **Social Climate Fund** will help vulnerable households in energy efficiency renovations, including for social housing.
- **ESF+ and other funds** can also facilitate access to housing, innovation in housing and other integrated approaches where housing is linked to social services.
- **Horizon Europe** is the EU research programme that can help document innovative practices and provide a research foundation to help policymakers put in place innovative approaches.
- **The Technical Support Instrument**, supports national reforms including in the area of housing.
- **The Affordable Housing Initiative** builds partnerships to provide affordable housing and ensures that the renovation of social housing stock promotes affordability.
- **The Asylum Migration Integration Fund (AMIF)** is only for migrants, but includes the priority of helping migrants to access housing.

In future, there will be a new EU Commissioner responsible for housing and energy, and there are many actions in the pipeline on housing: a new Plan for European Affordable Housing, a new Pan-European Investment Platform for Affordable and Sustainable Housing, and a potential revision of state aid rules to allow more support for affordable and energy-efficient housing.

GREEN INNOVATION

SUSTAINABLE AG SUPPORT IN THE BALKANS

Finance in Motion is an impact asset manager with six global funds and a strong focus on sustainable agriculture, including through its European Fund for Southeast Europe (EFSE). The EFSE Green List (see graphic) is an eligibility check to determine if loans given by investees to clients qualify as a "sustainable agricultural measure". The list is tailored by country and includes up to 30 measures in 6 categories: sustainable soil and land management, resource efficiency, water efficiency, sustainable certification, circular agriculture, and livestock farming.

Green List Measures					Impact
Number and Name of eligible measure	Definition of eligible measure	Applicabilty	Eligible Investments	Vetting	
Resource Efficiency / Inputs					
No.9: Liquid fertilization for root nutrition	The use of fertilizers in liquid form for application at soil level, be it through a top dressing (surface application) or side-dressing (soil application).	All crops	Liquid fertilizers: Applicator systems (liquid fertilizer stream bars) Liquid fertilizer (hinged) tanks Drip fertigation systems Liquid manure injection equipment	Invoice for the relevant machinery/equipment/input.	Provides a more rational use of fertilizer investments and yield increase, due to better absorption of nutrients by plants and reduced risks in dry conditions. This practice avoids nutrient waste and pollution of air and underground water.
No.10: Digital agriculture	The integration of information technology, data analytics, sensors, and automation across various aspects of farming.	All crops, livestock farming	Tractor GPS system Fleet monitoring system Agricultural drones Scouting drones Climate control software (greenhouse production) Smart sensors for monitoring and exploiting soil, crops or livestock	Invoice for the relevant machinery/equipment OR subscription or licence for a digital agriculture software.	Linked with resource efficiency, the use of digital agriculture tools foster sustainability of farms from both environmental, economic and social point of view. Digital tools help farmers optimize their use of production inputs, threfore reducing the environmental footprint of the farm.
No. 23: Sustainable protected agriculture	The use of solutions aimed at sustainabily, , like the protection of crops from hail, frost, reduction of diseases and pests.	Fruit crops, vegetable crops, flowers.	Multi-layered plastic or polycarbonate greenhouse-cover with better insulation and longer durability; Netting for protection against hail, heat and pests	Invoice for the relevant machinery/equipment/inputs.	This measure contributes to a more efficient crop protection and less use of irrigation water. Provides an enhanced productivity

Above:
Sample measures from EFSE's Green List

Finance in Motion's targeted credit lines for MFIs carry sustainable agriculture lending requirements in line with the Green List. To support this, it runs training workshops for staff and partners on sustainable agriculture and climate change—and the same training for farmers so they can improve their practices.

AI CHATBOT HELPS CLIENTS GO GREEN

Filbo is a digital finance platform launched by OMRO (Romania) in 2020. Filbo serves microenterprises, farmers and rural businesses, and is committed to energy and green transition.

To support this, it recently launched Hermina, an integrated cloud-based chatbot on its website. Hermina helps small entrepreneurs learn more about green projects and investments, and connect with green partners. It can also help users apply for a green loan. Hermina was developed in partnership with the Microfinance Centre and Cerise + SPTF, with funding from the Transform Together Fund.

It took six months of research and development to create and launch the first iteration. Hermina

was built using ChatGPT, Azure Bot Service and Cloud, and OpenAI. It was trained on a vast amount of data, including online sustainability articles, EU Taxonomy and ESG frameworks. It was tested and refined using feedback from Filbo's staff and green experts.

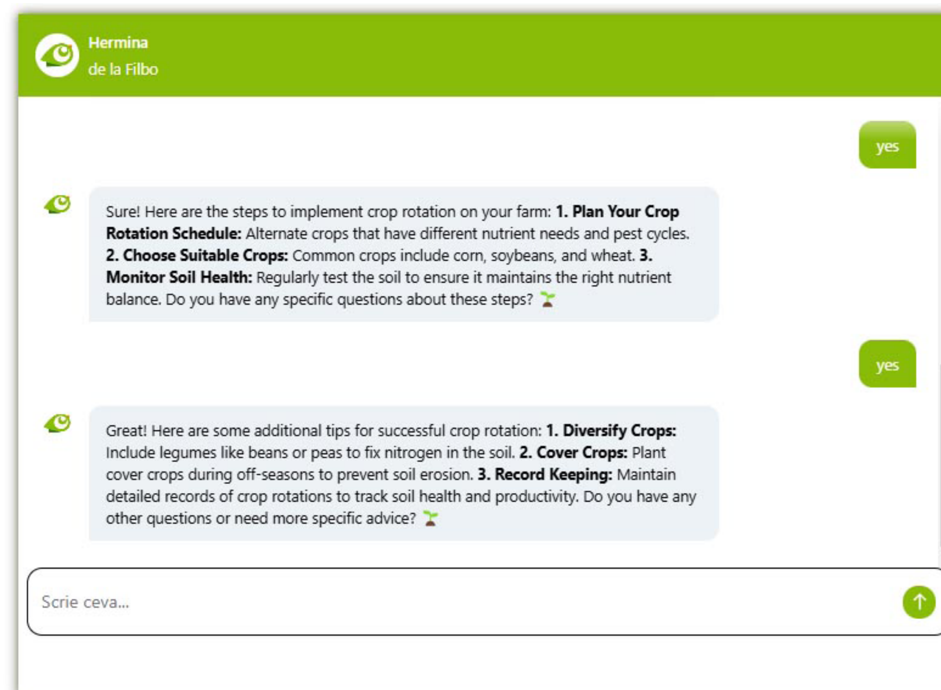
Over the past three months, Hermina has had over 90 conversations and granted three Green Loans. If Hermina detects she is being asked a question that is unrelated to sustainability (for example, dating advice), she will politely decline to answer.

SOIL MANAGEMENT

FAER (Romania) was named MFC's 2024 Leader in Sustainable Agriculture Innovation for its innovative soil management initiatives. As a pioneer in soil sampling and analysis, FAER facilitates soil analysis and adjustments that benefit both the environment and farmers' economic outcomes.

FAER MFI was launched in 2005 under the aegis of the FAER Foundation, founded in 1992. The foundation supports economic and social development through training, counselling, adult education and youth projects in the local community. FAER MFI supports this by funding local businesses, community projects and economic development initiatives in the local community.

Regarding its green policy, FAER uses a hands-on approach, listens deeply to community needs, and brings on board project partners to support its work. One of these is the Transform Together Fund (TTF) project with MFC, Cerise and SPTF. FAER encourages its agriculture clients to do soil testing. It also organises study visits for clients who want to visit other farmers that are advocates of benefits coming from understanding the soil chemical composition.



Above: Hermina can help you go green, but she can't give you dating advice.

The idea behind free soil testing is to help farmers see the chemical composition in their land and understand what the results mean. For instance, adding phosphorus to soil that already has enough means it only wash away (along with the money they paid for it) rather than being absorbed by the plants. With better data, farmers can apply fertilisers in a more targeted way.

The project was piloted with around 40 farms, with 100 more underway as part of the TTF project implemented by Microfinance Centre and Cerise + SPTF. This second tranche will be conducted in

two phases to provide a "before and after" snapshot to determine whether soil testing and advice helped the farmer improve soil quality. Optimally, in future FAER would be able to help farmers observe soil quality trends over a longer time period, as soil needs up to five years to regenerate.

In terms of challenges, it finds that its soil testing efforts fly in the face of generational resistance to change and a lack of technical and scientific knowledge around how pesticides and fertilizers impact the soil. The only information a typical farmer would receive about a chemical would be from the person selling it them—so it rarely objective and balanced information. There's also a lack of knowledge and awareness among policymakers and a lack of consistent resources available to fund national programmes dedicated to (for example) soil testing.

MEASURING CARBON FOOTPRINTS

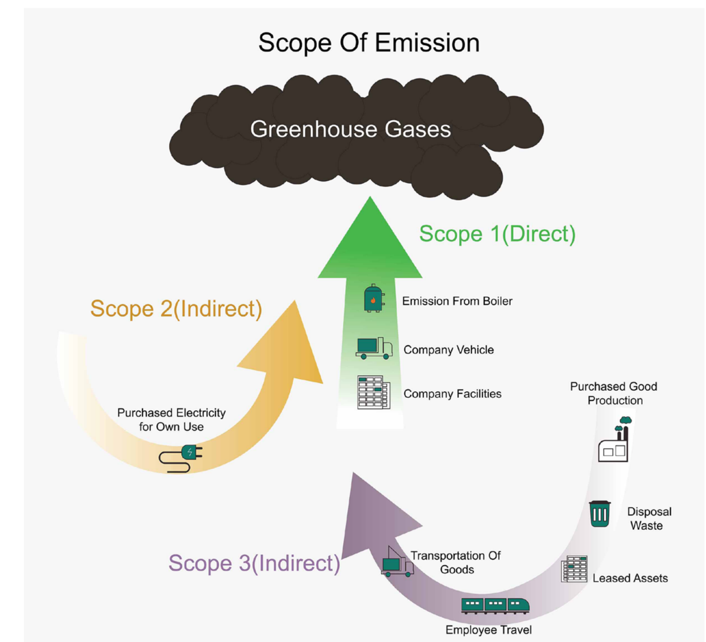
One of the main drivers of climate change is the emission of greenhouse gases (GHGs): carbon dioxide, methane and other gases emitted by burning fossil fuels, deforestation and conventional agriculture.

Since the turn of the 21st century, the term "carbon footprint" has become a popular shorthand to describe the climate impact of the amount of GHGs directly or indirectly caused by an activity.

Ethical finance providers contribute to climate change mitigation through investing or lending to organisations involved in cutting GHGs. As such, no impact strategy is complete without an assessment of a funder's influence on GHG emissions at the organisational and portfolio level.

When describing the carbon footprint to a company or financial institution, a typical approach is to measure upstream emissions in the value chain:

- **Scope 1:** Direct emissions produced by the company, e.g. fossil fuels for company vehicles, electricity for lights and machines in company properties
- **Scope 2:** Indirect emissions from the production of electricity used by company
- **Scope 3:** Indirect emissions associated with the materials and resources purchased and used by the company as well as employee travel.



Above: Three scopes of GHG emissions

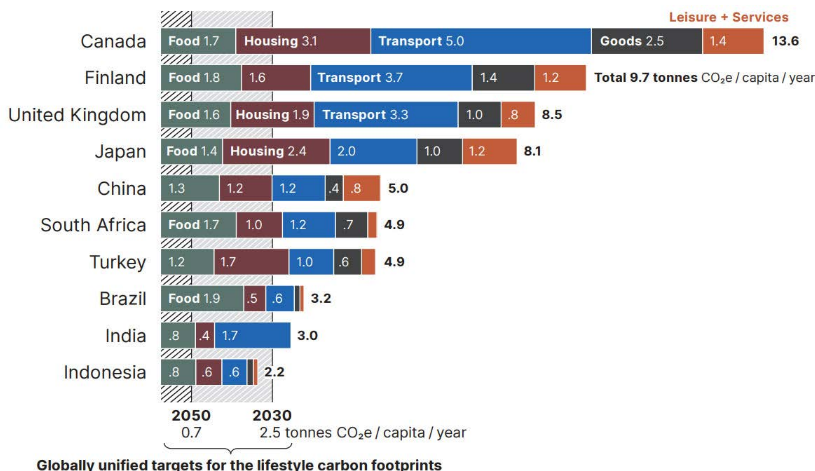
LIFESTYLE CARBON FOOTPRINT

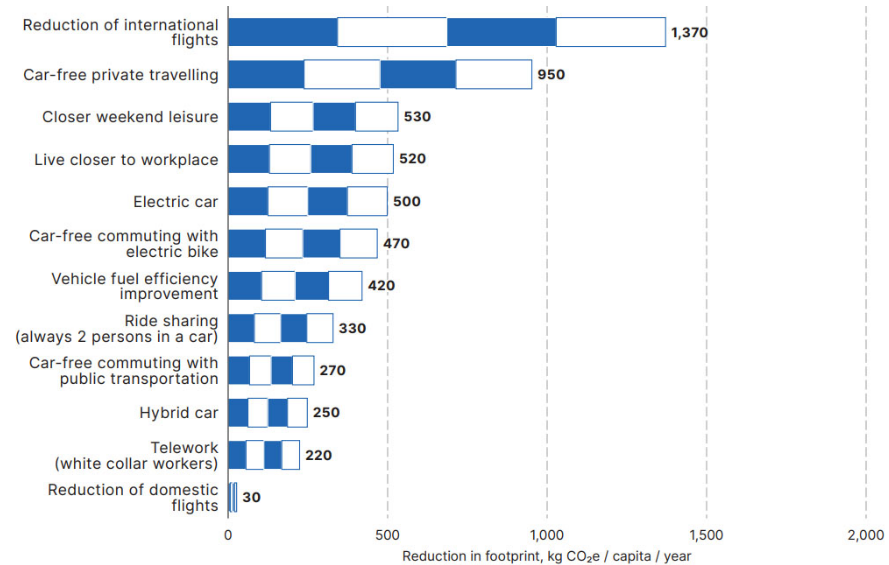
The Hot or Cool Institute (Finland) considers the carbon footprint of countries and individuals, rather than companies. This is a more complex schema with assessment boundaries that differ slightly from a straightforward value chain assessment, as it tries to capture all the emissions associated with the final consumption activities of individuals during their daily life within a country.

The Paris agreement seeks to limit planetary temperature increase to a maximum of 1.5°C compared to pre-industrial levels. Converting this into a per capita quota, this works out as 2.5 tonnes of Co2 per capita per year by 2030, and only 0.7 tonnes by 2050. And yet—when we consider current national per capita carbon footprints against this target, the picture revealed is a stark one. We also see that food, transportation and housing are major contributors to GHG emissions (see below).

Against this backdrop, Hot or Cool investigated potential interventions in each of these areas to help countries reduce their carbon footprint. These are solutions that can be scaled up globally in the transportation, nutrition, consumer goods, housing, leisure and service sectors (see right).

Right:
. Carbon footprint and its breakdown between consumption domain





Left:
GHG reduction solutions by sector and carbon saving (UK data)

Hot or Cool clustered potential solutions in three areas: improve, shift and avoid. Taking the example of the mobility sector, we would then see solutions such as:

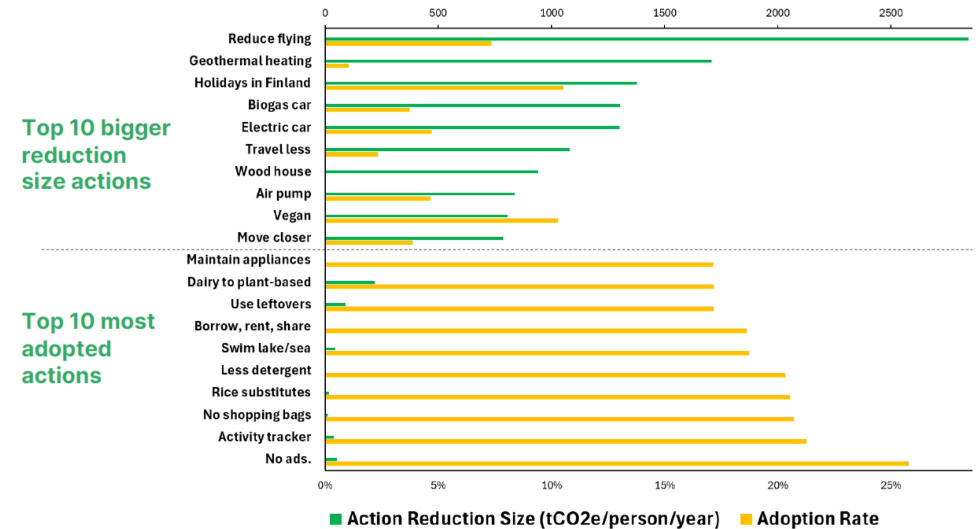
- Improve personal transport efficiency by using personal electric vehicles
- Shift to public transportation rather than personal vehicles
- Avoid emissions by organising communities to ensure that goods and services are within walking distance.

However, no single solution will suffice: we need a combination of solutions to stay within the limit of a 1.5°C or even 2°C increase in global temperature.

Hot and Cool has conducted citizen labs in Finland and across Europe to understand which solutions were perceived as more or less acceptable. Unfortunately, the solutions with the highest potential capacity to reduce carbon emissions are also those with the lowest uptake rate, and vice versa (see right).

"Lifestyle", defined as the set of decisions we take every day to satisfy our individual needs and wants, is driven by more than our personal preferences. Our choices are shaped by community aspirations and social norms where we live—as well as the political, technological and economic structures that surround us. While it's easier to influence the actions of individuals, these have a more limited impact on carbon reduction. Conversely, gaining any small leverage on social systems and structures, can reshape social aspirations and norms and individual preferences in future.

Applying this to financial service providers: you can use carbon footprint assessments to understand your internal operations and make them more efficient and increase staff awareness of the importance of energy efficiency at work and at home. Yet it's only when you start to intervene to optimise your provisioning system, or create new systems and new aspiration in society that you make the biggest impact.



Above: Comparing the impact of most- and least- adopted lifestyle changes to reduce GHGs

CARBON FOOTPRINT CALCULATOR

La Nef, the leading ethical bank in France, understands its social purpose extends beyond the companies it invests in. For this reason, it measures its carbon footprint. For La Nef (as with any bank), its carbon impact lies in the activities it finances; therefore, while Scopes 1 and 2 are important, most of its carbon footprint lies in Scope 3. It calculates the carbon footprints of its borrowers by multiplying each loan amount by the company's carbon footprint over the total value of the company.

On an aggregate level, La Nef can calculate the carbon footprint of its activities (including that of its loans) and allocate this to clients who save with La Nef. In other words, it can pinpoint that for each €1 saved in La Nef, savers will produce a given number of tonnes of equivalent CO_2. It uses an external data quality to ensure methodological equality with other institutions.

Using an external data provider is helpful, but it's also possible to measure carbon impact in-house, especially using open data through useful websites such as opencarbonwatch.org that offer aggregate carbon impact measurements of a company based on its size and NACE code.

La Nef also calculates avoided emissions—an interesting but not widely accepted concept. Reduced emissions are the efforts of a company (for example) to reduce its carbon impact. Avoided emissions, on the other hand, measure the contribution of an activity to the energy transition. For instance, if you're building a train station, you would measure emission linked to the construction, but this doesn't capture how increasing train use will decrease the use of carbon across the local community.

La Nef's methodology explicitly addresses the issue of double counting (when a methodology counts as part of its Scope 3 carbon output that is part of another enterprises' Scopes 1 or 2). The methodology used by La Nef's external data provider divides its Scope 3 in three to ensure that it's not financing emissions that are already calculated in the carbon footprint analysis of other companies. The result for La Nef is 121 tonnes of CO_2 equivalent emitted per €1 million invested, and avoided emissions of -97 tonnes equivalent Co_2 equivalent per €1 million invested.

However, carbon footprints offer an incomplete view of the world and can lead to suboptimal decision-making. For example, the primary and secondary sectors emit more carbon than the tertiary sector, yet society needs all three to work. As a financial institution, it's not enough to stop financing farms and only finance tertiary sector organisations such as a PR firm—because we need to eat, and farms need finance. Loans to individuals also emit less carbon than loans to businesses—and likewise, we need businesses and businesses need loans.

Organic farming emits more than conventional farming, because for the same carbon unit consumption the output yield will be lower. From a straight carbon perspective, it's better to finance conventional farming—therefore we need to look at ecological food production from a wider perspective than simply carbon use.

Given all this, La Nef extended its impact measurement beyond simple carbon footprint measurements and established complementary impact indicators for ecology (production of renewable energy, organic products, recycled waste) society (job creation, social inclusion, social housing, women's entrepreneurship), and culture (education, training, number of cultural events). La Nef's methodology uses borrower data rather than external data for the latter three. In future, La Nef aims to internalise its carbon footprint measurements and set targets for each indicator and actionable policies as part of its planning.

BUSINESS DEVELOPMENT SERVICES

BDS FOR MIGRANTS: BARRIERS AND DESIGN OPTIONS

A recently published fi-compass study explored the potential of financial instruments to support migrant integration in the EU through microfinance and BDS. This comprehensive study started in late 2022 and was published in June 2024. (Read the report here: **https://bit.ly/41ECIX4**).

The report considers based on data and case studies from six EU countries: France, Germany, Italy, Lithuania, Poland and Romania. It offers up "design options" recommendations that can be used by any financial instrument to support microfinance and BDS provision to migrants and refugees.

The study highlights the importance of BDS (mentoring, training, coaching and facilitating access to markets) for migrants to enhance their business skills, knowledge and performance and enable them to overcome legal, cultural and linguistic barriers to sustainability.

In the cases analysed, there were two main barriers on the supply side preventing third-country nationals (TCNs) from accessing and using BDS:

- Inadequate range of BDS tailored to the needs of TCNs at various stages of readiness and capacity to engage in entrepreneurship
- Lack of information on the BDS range of various organisations, including MFIs.

While many MFIs claim interest in expanding outreach to more TCNs, they find barriers to attracting TCNs and providing good quality and affordable financial and non-financial services. These are:

- Limited financing options for building the range of BDS for TCNs
- Limited liquidity to lend more and to more risky clients
- Fragmentation of the BDS provider sector resulting in gaps in the delivery chains of services
- Limited access to credit risk coverage instruments to lend to more risky clients
- Limited capacity to assess the creditworthiness of TCN businesses.

In terms of design options, the report proposes a new BDS grant scheme to complement existing InvestEU products. BDS grants will allow MFIs to:

- Expand their existing BDS offer to TCNs
- Developing their capacity to provide BDS
- Create a long-term, cost-effective BDS delivery system, including digital
- Build partnerships with external BDS providers and other public and private organisations (including municipalities)
- Increase outreach to TCNs and other vulnerable groups.

EIF: INNOVATION IN BDS

An area of significant innovation today is in business development services delivery—and this aspect is crucial as it is a mandatory part of accessing EIF's financial instruments. Microentrepreneurs have a much higher chance of success when they receive ongoing support.

BDS is challenging for MFIs because it requires substantial resources, juggle competing priorities and (sometimes) accepting failure. Microentrepreneurs themselves may feel uncertain about what they need to succeed. Yet EIF sees BDS as an essential component of the business model, highlighting these innovative examples from its partners:

Patria Bank (Romania) has begun offering virtual workshops for farmers. Some participants have reported attending these workshops while on their tractors, a remarkable advancement compared to what anyone could have imagined a mere five years ago.

FedInvest (Albania) is establishing a mentoring network that connects successful female entrepreneurs with those seeking guidance. This initiative might not have seemed feasible previously, but it is empowering many microentrepreneurs who may possess the knowledge but lack the confidence. Mentorship can play a crucial role in bridging that gap.

MicroBank (Spain) embarked on an extensive and thorough process to research their customers' needs. It has invested considerable effort into creating an online academy with courses tailored to different developmental stages: startup, growth, and consolidation. This allows customers to select training that fits their current activities.

TECHNOLOGY

3BANK DIGITALISES AGRI LOANS

Following the introduction of e-public services by the Serbian e-government (e-Agrar, e-Administration) accessible through a mobile ConsentID application (e-ID), 3Bank improved its already well-digitalised loan application and approval process by adding an e-signature module. This way, a loan can be obtained through a fully digital, paperless process without visiting a bank's branch.

The loan officer visiting a client at home with a tablet app to collect data and provide loan approvals—maintaining a personal touch and assisting farmers with digital signing. Clients can access their documents through a link sent via text message. After the documents are downloaded, a new page opens where the client clicks on eID KES—a cloud certificate of e-Government. A notification from the ConsentID mobile app asks the client click to confirm and sign the documents.

Clients benefit not only from quick cash disbursements, but they also receive training on using public key services and accessing e-platforms. Public platforms such as e-Agrar, e-Tax, e-Administration allow them to download certificates, renew their household status, apply for state subsidies, schedule health services, report tax debt, and more. However, these e-services are underutilised by farmers due to a lack of digital literacy and resistance to change.

The e-signature solution was developed in partnership with the Microfinance Centre and Cerise + SPTF, with funding from the Transform Together Fund.

VITAS MFI ADDS A FINTECH PLATFORM

Vitas is a regulated non-bank financial institution serving MSMEs and agricultural enterprises in Romania. Its digital transformation helped Vitas expand its geographic scope to serve businesses nationwide. First, it developed a CRM system (a customised version of Salesforce) on top of its core system and uses digital marketing to convert leads into applications. Vitas integrated an e-signature platform so it could offer a full range of products remotely without needing branch infrastructure in every region.

Next, it built an online lending platform with a dedicated online loan product. It could do so because it had: a robust scoring system, e-signatures, API data availability (company registry, credit bureau, tax records, court cases, and more), the Open Banking Directive (PSD2), experience in unsecured lending and a digital marketing platform.

To apply for a loan online, the client only needs access to a device with a camera, an ID card and recent bank statement. Clients don't need to create an account to start, they simply provide an email address and receive link to complete their application where they add their business and ID numbers and specify the loan amount and term. Then, Vitas will:

1. Scan trade registry database to check whether client has legal representation rights or whether a co-signature is needed Complete digital identification, a standard procedure that extracts data from the client's ID through Optical Character Recognition (OCR)
2. Verify client's phone number and get consent to access client's data for credit checks
3. Check client's bank account with IBAN provided.
4. Send contract for clients to approve (by clicking to sign).

This fintech lending platform is integrated with Vitas' core system (Web Abacus). Once the contract is signed, all data is automatically pushed into its core system (including copies of IDs, consent forms and the signed contract). The core system relays the credit decision back to the platform. Sitting in between these two systems is a decision engine that considers:

- Credit history and behaviour
- Financial history and behaviour
- Sector data that might influence business
- Group identification and behaviour.

Group behaviour finds where an client opened a business, went bankrupt, and started another business under a spouse's or relative's name.

In future, Vitas will further optimise its decision-making process by using AI to categorise client data in different formats from different sources and make a more nuanced assessment of credit histories to understand past default in terms of "how long" and "how long ago".

NOVALEND'S AUTOMATED LENDING

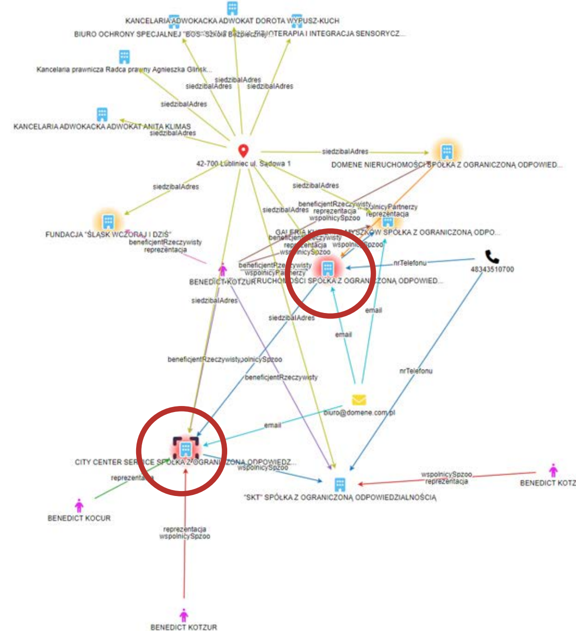
NovaLend is a new fintech serving Polish MSMEs with short-term working capital up to €100,000. To date it has disbursed 250 loans (€7 million) with a default rate of 2.5%.

Its team of 10 people brings experience in lending, banking and technology. Its core processes are built in such a way that it can scale up to 300% without adding further staff. Its staff takes care of what it calls "core business" (customer onboarding, credit decisions and disbursements, client monitoring) and the rest of its functions are outsourced (including IT, accounting, and more).

In past decades, microfinance was very relationship- and field-visit heavy when it came to assessing new applications. Today, however, clients' digital footprints make it easy to obtain and process information remotely.

To apply for a loan online, the client registers on NovaLend's portal and gives consent to data checks. Clients don't need to enter their tax number, identification number, company name, address, etc., as this information is pulled from the Public Registry. Once an application is submitted, NovaLend checks the client's credit bureau history (Polish law allows e-signatures). NovaLend also checks upwards of 50 databases, including open source data and those requiring client consent. It also uses open banking (through PSD2) to parse client transaction data. NovaLend decided not to develop its own credit model. Instead, it partnered with Algolytics to customise their technology with its own rules and decision weights to create the scoring. The customer signs the credit offer online, and NovaLend disburses the loan within 24 hours (if no collateral is needed).

In terms of decision making, the platform collects all the required data and creates a report for a loan officer to review within moments. It automatically flags issues of concern and follows rules for automatic rejections. It also produces a visual report of affiliations to see existing relationships of the client's company with other companies (current and historical). This is particularly important as loan defaults and bankruptcies of past business activities of the loan applicant are difficult to track in any other way.



Above: An example of an affiliation visualisation. Red nodes are areas of concern.

The platform also automatically creates a cash flow analysis for each client by parsing bank account data to build a profit and loss sheet. NovaLend can see the client's cleared revenue, loans, repayments, salaries paid and more.

Thanks to this automation, NovaLend can run credit history and background checks in one minute, build a cash flow in a further minute, complete scoring and decision making within 15 minutes, and send the client a loan decision in 60 minutes.

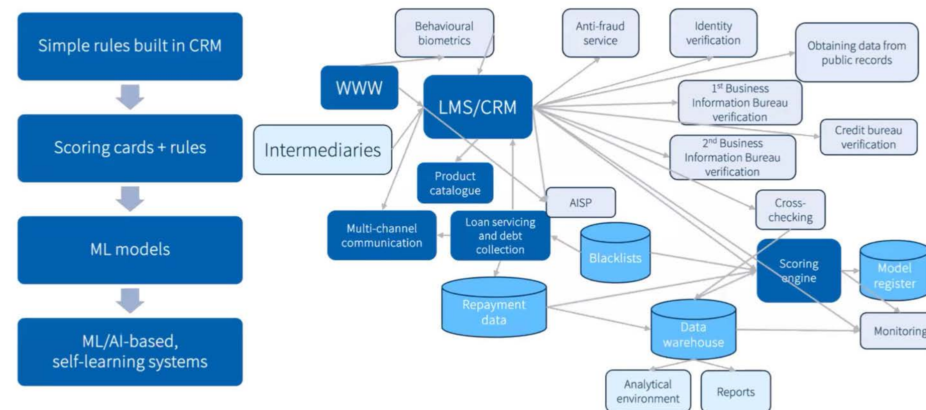
SMART TECH FOR CREDIT SCORING

Algolytics offers a data science platform integrating machine learning and AI tools to help businesses automate processes and make data-driven decisions. It has built credit scoring models for a range of institutions: banks, utility companies, telecoms and more.

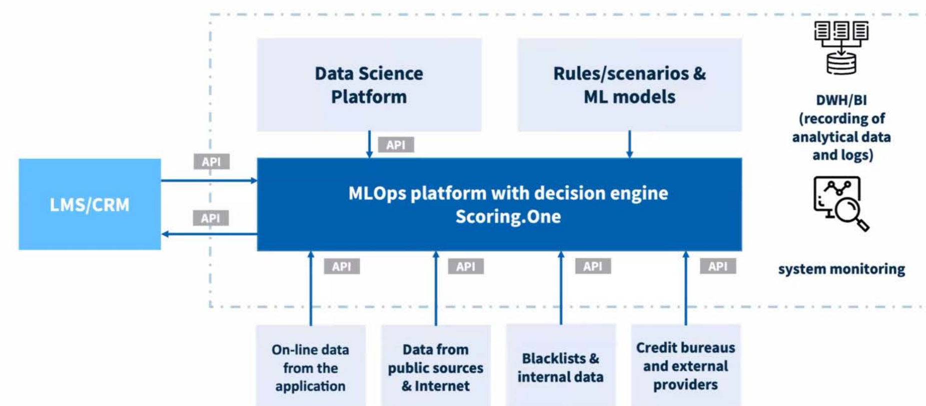
Based on its experience, Algolytics believes the digitalisation transformation will not be complete without access to data and using machine learning/AI to automate decision making. Yet most MFIs have customised legacy systems that are based on a series of different services and apps working in coordination. To integrate AI into every part of this service is complex and costly compared to building a dedicated scoring platform that integrates data, modelling, and different solutions that are interconnected through APIs.

Algolytics builds alternative risk assessment systems based on data that's not typically available in credit and business information bureaus. This includes devices and networks, email and phone number, location, social network and internet analysis, transactional data, telecoms scoring and psychometrics. It combines this with standard data points (company and individual) to create a credit scoring with a probability of default, recommended credit limit, credit rating and list of warnings.

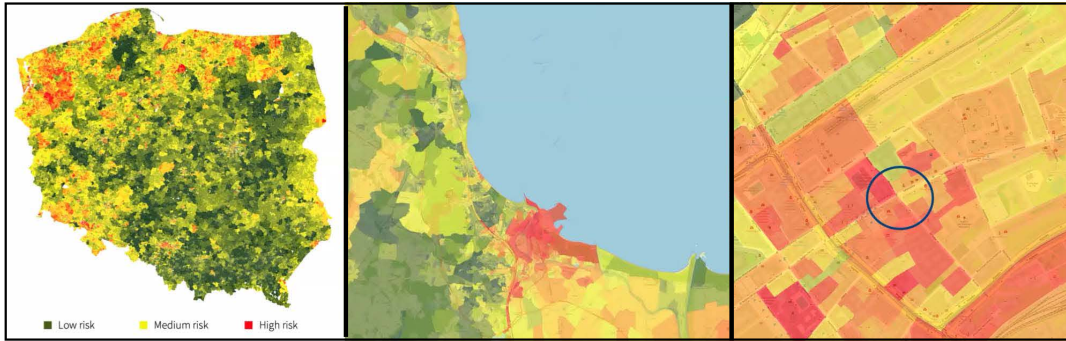
It also relies on behavioural biometrics (the analysis of human behaviour) that look at how a person is using a device (typing style, device movement, clipboard usage and more) to understand whether they're a fraud risk.



Above: The complex architecture of legacy credit scoring systems



Above: Simple architecture of an integrated credit risk management system



Above: Geolocation data looks at risk factors by where a client lives.

Geolocation data parses out risk factors based on where the client lives. For instance, a customer might apply with a residential address in a non-residential area (such as a commercial port). Or, they might list an income that is a unusually high compared for a region, for a particular street (or even for a particular apartment block on that street). Any of these things would raise a red flag for risk. Algolytics stresses that geolocation isn't a determining factor in credit scoring (and so doesn't lead to red-lining poorer or more marginalised people), it's simply additional information showing where risk can potentially be higher or lower.

CUSTOMER-CENTRIC DIGITAL TRANSFORMATION

Accion is a global NGO investing in a range of financial institutions, fintechs and digital platforms and delivering impact-focused advisory services to its partners.

Accion's customer-centric behavioural approach goes beyond statistics or surveys to understand clients. Rather, it delves deeper through focus groups and other research methods that employ a behavioural approach to understand how clients spend their time; whom they trust; what their fears, dreams and responsibilities are; and what they're thinking about at different times of the day.

Underlying this approach is the belief that significant investments in digital transformation and solutions can be wasted if they fail to understand customers' needs and behaviours, especially those of marginalised groups (e.g. women).

For example, Accion applied this customer-centric approach with BancoSol (Bolivia) during its digital transformation. Although it already had digital accounts and a digital channel, clients weren't using them. Based on its research, Accion helped it implement a gamified solution that tapped into existing cultural norms around of socializing through competition and betting—resulting in a successful product.

HARNESSING AI FOR DIVERSE AND INCLUSIVE MICROFINANCE

Did you miss the no-nonsense talk on AI at the Cracow conference? Here's a recap of useful insights from Andre Kravchenko (HES FinTech), Ivan Mortimer-Schutts (IFC), Surjit Chana (Harvard Fellow Beneficial State Bank), and Prateek Shrivastava (EMpact).

How important is AI for the future success of MFIs?

Surjit Chana: AI will allow MFIs to drive operational efficiency by automating internal processes, reduce human error and scale outreach without scaling costs. It will also help them deliver new products and improve the client experience, which builds loyalty. Finally, AI will help MFIs assess risk more accurately and reduce fraud.

Ivan Mortimer-Schutts: The big players will use AI, so if small banks and MFIs can't understand and apply it, they'll be left behind. Even if today's clients don't like using AI, probably the clients of tomorrow will. Finally, tech providers will start building towards using AI, so if you're not using it, you'll be underserved by tomorrow's global infrastructure.

Andre Kravchenko: Many small MFIs are unable to grow their portfolios and very risk-averse. Using AI to increase approvals without sacrificing NPL will drive sustainability. Small MFIs also have high churn rates and client acquisition is expensive. If AI can help them understand who is likely to leave after one loan, they're growing the portfolio and allowing margins to reappear. Ultimately, clients will benefit because lower costs mean lower prices for them.

Prateek Shrivastava: MFIs will be able to offer hyper-personalized services driven by AI rules engines or generative AI.

What challenges does AI pose to MFIs?

Prateek: Costs are a challenge, but they're not as high as they might appear compared to other investments. For example, a core banking system can typically cost around $500,000 for a five-year license, while an OpenAI cluster is available for just $20 a month.

Andre: Ethics are a challenge. We should pay attention to important industry initiatives helping us use AI responsibly. Regulators are also stepping in: the new European AI act has a two-year adoption timeline, and everyone will be affected by this.

Ivan: Data and capacity are challenges. The data available is messy, uncodified and fragmented even before we have access to it. There are tools to help us clean up the data, but we need a strategy at a national level within communities of MFIs with shared values to combine data and enable these data cleaning tools to learn.

How should we start implementing AI?

Ivan: The requirements to do product certification, to protect customers and data, to do careful risk analysis haven't changed. We're simply applying a new tool to do those things more efficiently. We need to start applying it in places where, even if we do get it wrong, we can manage the fallout.

Andre: We need thoughtful leadership and change management if staff feel their roles are under threat. It's important to communicate to staff that this technology will improve the business and have buy-in from all stakeholders.

Surjit: Start where AI can be used for to deliver business value—don't waste time on projects that won't have an impact just because you want to learn about AI. An internal capability assessment will help you see what you can deliver at scale and where you need partnerships to make it happen.

Pratik: At the C-suite level, having the CIO or IT manager drive this agenda is not sufficient, MFIs need a Chief Digital Officer (CDO).

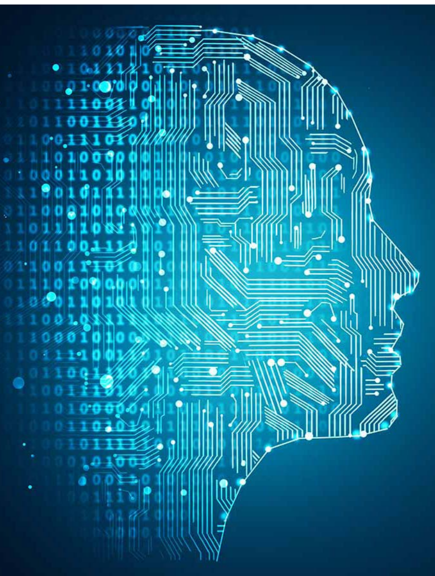
FIVE THINGS YOU CAN'T AFFORD TO IGNORE ABOUT AI

Mikołaj Tajchman
AI technology specialist

1. The new generative AI landscape

The generative AI revolution began with the release of ChatGPT in November 2022. Generative AI refers to AI systems capable of generating new content including text, images, audio, voice and (more recently) video, 3D renderings and more.

Currently, most text-based AI systems are Large Language Models (LLMs): neural networks that can understand natural language and are trained on a vast amount of text from the internet and other knowledge bases. By learning patterns in language, LLMs learn to understand the relationships between concepts, even abstract ones. Unlike previous machine learning models, they are not merely pattern-matching systems; they can grasp context, nuance and meaning. This allows them to follow complex reasoning and generate responses that are quite human-like.



2. The need to develop an AI culture

As AI takes over an increasing number of work tasks, many organisations focus on training staff how to use it—without worrying whether they are willing to use it. Building an AI culture starts with tackling these unhelpful (but common) attitudes:

- **Quick discouragement:** Dismissing tools after unsuccessful first attempts rather than learning how to use them better.
- **Disbelief syndrome:** Raising the expectations bar for AI as soon as it reaches a certain milestone and questioning its achievements as being "not real intelligence".
- **Selective perfectionism:** Picking up on minor AI errors while turning a blind eye to our own.
- **Tunnel vision:** Using AI like previous tools without seeing the possibilities it offers.
- **Professional denial:** Believing that "AI will never impact my industry/job"
- **Fear of losing control:** Assuming that AI will completely take over processes; failing to understand that we should remain in control.

Here are some helpful attitudes to foster within our organisations:

- **AI as competence leader:** Understanding that AI unlocks capabilities previously unavailable to us, extending rather than replacing our efforts.
- **Competent delegation:** Delegating routine tasks to AI while maintaining control over processes and results.
- **Adaptive learning:** Continuously enhancing our skills to grasp the new possibilities that AI brings to our work.
- **Balanced optimism:** Avoiding both hype and excessive scepticism around AI.

3. Changes in the job market

Will AI replace us? No. It might take over some of our job roles, but we are not our jobs. We are more than that: we are family, friends, poets, chess players and more. However, it will change the work landscape. Not long ago, we imagined the AI

revolution would unfold by automating manual labour before white-collar jobs. Creative work would be last to be automated, and we would all become artists, poets and free spirits. What's actually happening is precisely the reverse. Writers, graphic designers, programmers, and translators are more threatened by AI than roles such as gardening, carpentry or nursing.

A recent Accenture study concludes that 40% of all working hours across US industries could be affected by LLMs as language tasks account for 62% of total work time. Of all language tasks, 65% have a high potential to be automated or augmented by LLMs. (See graph opposite.)

The World Economic Forum, in a 2023 report, estimates that 44% of all workers globally will experience some form of disruption within the next five years, primarily due to advancements in these technologies and automation.

4. Changes in our understanding of human creativity

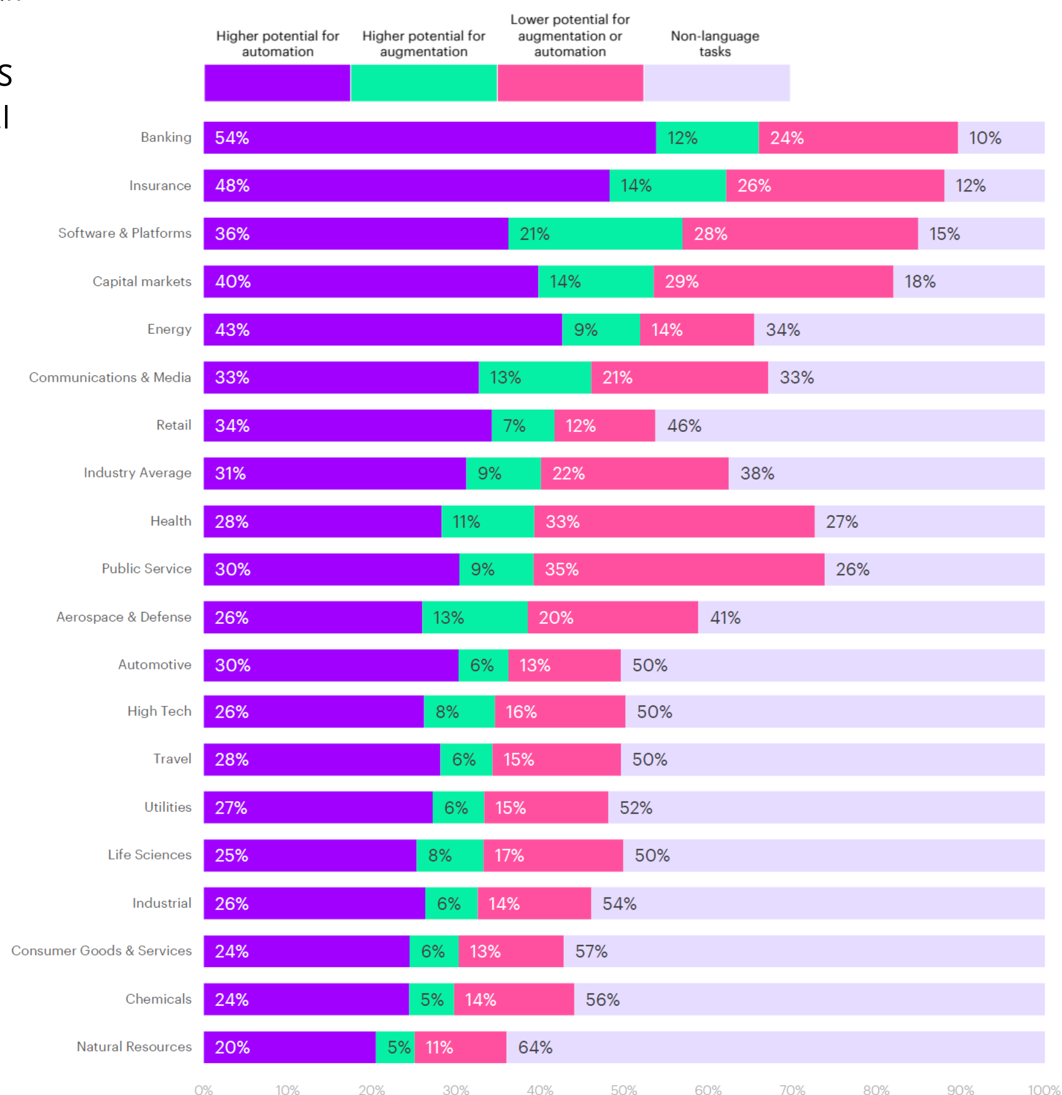
Since the dawn of time, humans have created art—yet still to this day we lack a universally accepted answer to the question "What is art?" In light of this, instead of worrying about whether AI can create art, we need to grapple with a more fundamental question: If AI can create beautiful images in mere seconds, what does it mean to be an artist?

Artists traditionally take pride in their technical mastery (developed after years of practice), their unique personal style and the physical work of creating their art. We're uncomfortable with the idea of AI creating art without the"earning of dues" that underpins how we value and perceive the significance of art.

We need to shift our understanding of creativity and our shifting role in it as we move from craftsperson to creative director—not holding the paintbrush *per se*, but holding the vision that guides the creative process. In doing so, our sources of pride will shift to how we envision, how we construct narratives, combine ideas and make meaning. Of the art of tomorrow, we'll not ask "Is it good?" but rather: Does it contribute? Does it connect? Does it challenge? Does it advance culture? These are dimensions of creativity that only humans can provide.

Work time distribution by industry and potential AI impact

Based on their employment levels in the US in 2021



Above:
Findings from Accentures "A New Era of Generative AI for Everyone" report, which you can read here: **https://bit.ly/3DvMIrm**

5. We can decide whether AI benefits us or harms us

Consider these two trajectories: an economy where the majority of businesses opt to use AI to cut employment costs by replacing human labour—versus an economy in which AI is used to enhance worker productivity by empowering employees with these tools.

To find our place in the AI revolution, we must confront these fundamental questions: Do we want AI to replace us, or to empower us? Do we prioritise short-term profits and cost-cutting over long-term prosperity? Do we share the benefits of this technology, or concentrate them in the hands of those who already hold power? Do we enhance or diminish human potential?

FUTURE TRENDS FOR FINTECHS

Don Ginsel*
FinTech Holland
Digital Finance Assoc.

In terms of future trends in fintech as they relate to micro-finance, I see three important things: customer experience, partnerships and security.

On customer experience: we talk about technology making our jobs more efficient. But the question we should be asking is: how does this impact my customer? As a rule, if you can't see how it gives your customer cheaper, faster, more convenient services—you shouldn't be doing it.

Some MFIs struggle with how fintechs enter the market with cheap digital services and compete fiercely for low-hanging fruit. Yet fintechs connect customers they understand, who are comfortable with digital services and might be happier with lower prices and better service. At some point, we need to look at fintechs as real competition, because they are setting the bar on how financial services should be delivered.

In terms of partnerships: yes, new technologies are available, but you don't have to do it alone or reinvent the wheel. At first, tech providers helped MFIs with small, discrete parts of their value chain such as credit analysis, building a front end, or a chatbot. Today, we see complete solutions on offer that would appeal to smaller MFIs—complete technology stacks that help run the organisation, support the licensing compliance process and reporting regulation compliance.

Security is a significant challenge, which led the European Commission to introduce the Digital Operational Resilience Act (DORA), which dives into financial value chains, how financial institutions operate on a day-to-day basis, and are keeping them secure—because all kinds of service providers are deeply connected worldwide. At the same time, the internet environment has become increasingly hostile. Staff need to be digitally savvy to counter all the different attacks that are coming at them on a daily basis, including trolls, fraud, phishing and hacks.

*Based on session at the 2024 MFC Annual Conference in Cracow.

FUNDING

INVESTEU

InvestEU (2021–27) is more than half way through implementation. An interim results report reveals high demand for InvestEU products that support both microfinance and social enterprises, and also impact investing.

By the end of 2023, the investment committee approved €2.8 billion in financing under the Social Investment and Skills window, and demand is increasing as this financing is instrumental—especially for the non-bank financial institutions that are reaching out to excluded segments in the market.

The study also revealed that for every €1 put through the InvestEU guarantee, it leverages up to €15 of investments.

InvestEU works not only with mature institutions but also with new entrants on the microfinance and social entrepreneurship finance. It works with any type of finance provider (non-bank financial institutions, banks, credit unions, etc.). and adapts its products to the market conditions in terms of currency type and language.

The implementing partners of InvestEU fund include EIB, EIF, CEB among others. Apply here: **https://bit.ly/40oqlTO**

EUROPEAN SOCIAL FUND PLUS (ESF+)

ESF+, a shared management fund, promotes employment and social inclusion in the EU through grants and financial instruments; €684 million is planned in nine Member States for the programming period 2021–27, much of which also supports microfinance and the social economy. Unlike InvestEU, which is managed by implementing partners, ESF+ funds are implemented by managing authorities in the Member States.

In addition, a new DG EMPL call for proposals was launched to support networks or projects developing social finance in specific countries or promoting cooperation between countries on this topic. This EaSI strand, unlike the overall ESF+ instrument, is open to non-EU European countries. More info here: **https://bit.ly/49KDGTA**

SIFTA

The Social, Inclusive Finance Technical Assistance (SIFTA) initiative, launched by the European Investment Bank (EIB) under InvestEU, provides technical assistance and evaluation services to microfinance institutions and social enterprise finance providers in the EU27. So far, 57 institutions benefited from SIFTA services, with 18 more in the pipeline. Microfinance and social enterprise finance providers can apply for SIFTA services by sending an email to **sifta@eib.org.**

COUNCIL OF EUROPE DEVELOPMENT BANK

CEB is one of the implementing partners of InvestEU (see above) granting loans of €3 million+ focusing on new institutions in countries that have been particularly underserved in terms of microfinance and Eastern European countries.

CEB is also an implementing partner of the InvestEU Advisory Hub, where it leverages technical assistance to help capacity building of microfinance and social economy actors. So far, CEB used the Advisory Hub funds for social impact studies in Eastern Europe and to develop ESG monitoring frameworks for social economy actors in the EU.

Additionally, CEB has other donor accounts with which they can support different institutions in all Member States.

CEB has used its close relationship with the EC to design solutions for vulnerable populations by blending InvestEU and ESF+ products that will be open to the CEB's borrowers under InvestEU. It is in the final stages of negotiation to set up a lending facility that will allow investor beneficiaries (who previously lacked resources or capacity) to use ESF+ funds to develop BDS for vulnerable clients.

Altogether, CEB extends funding in EU Member States (except Austria); six Western Balkan countries; and in Georgia, Moldova, Ukraine and Türkiye.

EU INSTRUMENTS FOR NON-EU COUNTRIES

COUNCIL OF EUROPE DEVELOPMENT BANK

CEB is partnering with DG EMPL to launch a restricted call for proposals to blend ESF+ financing with its InvestEU-backed loans to fund business development support services. This will be open to non-EU applicants.

CEB is also working with MFC to mobilise additional EU funding for MFIs through the Western Balkans Investment Framework (**www.wbif.eu**).

In Moldova, Georgia and Ukraine, CEB has facilities managed by DG NEAR, and is planning a programme blending its lending with technical assistance for capacity building to MFIs and non-repayable support to partially cover BDS and other non-financial services. The facilities available for these initiatives are the EU Neighbourhood Investment Facility and the Ukraine Investment Framework.

BANCA POPOLARE ETICA'S WORK IN THE WESTERN BALKANS

Banca Etica works with microfinance networks in Africa, Palestine, Latin America, Eastern Europe, mainly in the Balkans area, it offers guarantees and direct lending with a portfolio of €200 million (approximately 5% of its overall portfolio).

Starting in 2025, Banca Etica's SAFE programme in the Western Balkans will facilitate access to finance for local microenterprises, especially social enterprises. This five-year programme includes a loan portfolio of €30 million and a guarantee fund of €6 million, along with capacity building for MFIs. Interested MFIs should contact Banca Etica directly or through the MFC.

EU SUPPORT FOR FINANCING DIGITAL INNOVATIONS

In recent years, the European Commission launched a new industrial strategy to facilitate the digital and green transitions of companies in the EU (including the social economy). This transition pathway has led to new funding initiatives to promote digital social entrepreneurship, social tech, and movements focused on using technology for social good, the digital commons and more:

- **The Single Market Programme** has a range of social economy-related calls for proposals. Learn more here: **https://bit.ly/4gCH19q**
- **The European Social Fund (ESF)** supports social innovation competence centres on topics including digital social innovation. Learn more here: **https://bit.ly/4frWyYP**

The **European Innovation Council (EIC)** is a programme of Horizon Europe with numerous opportunities for digital innovation that can be relevant to social innovation for SMEs and start-ups. The EIC features a social innovation competition where, for instance, digital social innovation projects are often seen. If you have an innovative idea, even in the initial stages, you can apply for this program and potentially benefit from the support of the European Innovation Council. Learn more here: **https://eic.ec.europa.eu/index_en**

Co-funded by the European Union

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NEED SOCIAL INNOVATION FUNDING?

The Funding Toolkit for Social Enterprises report, published by the Euclid Network, outlines funding opportunities for digital social innovation. Learn more here: **https://bit.ly/4ghGV7B**

The Social Innovation Match tool (SIM) is a platform where you can explore inspirational examples of successful social innovation initiatives and connect with future partners. Learn more here: **https://bit.ly/4fFEVVD**