

CAPACITY BUILDING NEEDS AND SOLUTIONS FOR MICROFINANCE AND SOCIAL FINANCE PROVIDERS IN EU27

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

FEEDBACK FROM MFC MEMBERS AND PARTNERS

MFC aims at building capacity of members and partners for mission driven, sustainable microfinance, concerned with climate protection issues, fostering social and digital inclusion. Over the year 2025, MFC used its interactions with members and partners to map the needs of social finance providers and to identify viable solutions.

It has been achieved through the following activities:

- Meetings, interviews, and emails exchange within the MFC Capacity Building Action Group, which gathered microfinance providers (MFPs), Social Enterprise Finance Providers (SEFPs), support organizations, associations and consultants providing services to MFPs and SEFPs.
- Climate and Microfinance coalition working group meetings confirming the need for raising future awareness and understanding of the climate related agenda at the level of both social finance providers as well as clients. Access to financing blended with the components of technical assistance, guarantees, concessional interest rates, and/or capital rebates is inevitable to scale up the offer to the clients.
- Technology Action Group continuing to discuss how digitalization of processes can ease and improve serving the clients' needs and demands, through addressed pros and cons for off-shelf or tailor-made solutions.

- Trends, Good Practice and Clients Needs Action Group mapping out current trends and good practices in the social finance sector.
- Partnership Action Group discussing financial instruments and access to funding.
- The SIFTA (Social Inclusive Finance Technical Assistance) program has been a source of feedback during evaluation of the events and other interventions the participants have benefited from.

Based on the above, MFC identified a wide range of capacity building services to be delivered to the sector within the next year. The needs can be grouped into the following categories.

1. FINANCIAL INSTRUMENTS AND EU-LEVEL SUPPORT

The diversification of funding sources is critical for institutional resilience and innovation. Microfinance providers (MFPs) and social enterprise finance providers (SEFPs) continue to seek funding, de-risking instruments and skills enhancing program that would contribute to strengthening of their internal capacities, operational efficiency, expanding product and service offerings enabling them to respond market demand.



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MICROFINANCE CENTRE

There is still a substantial pool of aspiring entrepreneurs—those without established credit records or assets, encompassing new ventures, disadvantaged communities, refugees, and migrants (an expanding demographic due to global conflicts) with limited opportunities to access funding. Financial instruments and supporting mechanisms are essential to properly address the needs of this client group.

Capacity Building Topics:

- Application procedures for EIF guarantees and EU grants
- Financial modeling for equity participation and blended finance
- Strategic use of bonds and capital fund instruments
- Structuring guarantee funds for NGOs and social enterprises
- Compliance with funding agreements and reporting standards
- Equity participation in start-ups with EIF guarantee
- Specialized credit products for social enterprises and start-ups
- Financial instruments and eligibility criteria for non-banking financial institutions
- Financial products for migrants&refugees (3rd country nationals)
- Advisory and mentoring on funding programs
- Access to funding and serving the clients via alternative funding models (crowdfunding, P2P lending, micro/leasing, bonds)

2.ESG INTEGRATION AND STRATEGIC ALIGNMENT

Environmental, Social, and Governance (ESG) frameworks have transitioned from voluntary standards to institutional imperatives. Social finance providers are increasingly required to operationalize ESG principles to meet regulatory expectations, investor demands, and societal accountability.

Capacity Building Topics:

- Embedding ESG into regular operations with focus on future benefits
- Development of ESG metrics and reporting protocols
- Integration of ESG into operational and risk management strategies
- Effective communication on ESG outcomes
- Empowering the Teams and Governance bodies with ESG integration into daily activities
- Mitigating reputational risk through transparent communication
- Alignment with EU and national ESG legislation

3.GREEN FINANCE AND ENERGY TRANSITION

Green finance has emerged as a key vector for environmental sustainability and portfolio diversification. MFPs and SEFPs show increasing interest in green finance and energy transition support, driven by client needs for sustainable products and compliance with EU policy directions. However, scaling of the product offer can be achieved only through continued efforts to improve final beneficiary awareness on environmentally friendly and energy efficiency choices and benefits, loan product incentives as well as partnerships with suppliers providing technical support and back-up. Social finance providers are keen to develop products that support renewable energy, energy efficiency, and circular economy initiatives.

Capacity Building Topics:

- Design and deployment of green loans and green financial products focused on energy efficiency and renewable energy
- Environmental risk assessment in credit portfolios and business continuity
- Energy audits
- CO₂ emissions tracking and reduction strategies

- Engagement with public programs supporting climate-smart finance
- Efficient communication with low-income households about energy efficiency and renewable energy benefits (sustainable housing)
- Products for climate smart and regenerative agriculture
- Circular economy

4.DIGITALIZATION AND ARTIFICIAL INTELLIGENCE

Digitalization stands out as a top priority for MFPs and SEFPs. It aligns closely with the digital evolution of their clients. Leveraging AI tools drives innovative business models and offer opportunities to significantly shrink client onboarding time and expenses, automate processes, handle vast datasets, speed up decision making, detect risks and fraud, apply behavioral patterns, and deploy predictive analytics—ultimately delivering customized financial and non-financial solutions. Investments into data protection and cybersecurity became crucial to avoid the incidents that could undermine business sustainability, including client attrition and legal claims.

Capacity Building Topics:

- Development of digital platforms and client-facing applications easing demands for information from clients
- Using and implementation of AI in credit scoring, customer service and fraud detection
- Cybersecurity protocols and data protection frameworks building business resilience
- Automation of marketing and client communication workflows
- Training in digital literacy and AI ethics
- Leaks, attacks and defense techniques
- Prompt engineering
- AI tools, agents to improve personal work efficiency
- Compliance with AI related legislation

5. NEW PRODUCT DEVELOPMENT AND LIFECYCLE MANAGEMENT

Effective product management is essential for delivering relevant and compliant financial services. Institutions are adopting agile methodologies and user-centered design to improve product-market fit and operational efficiency.

Capacity Building Topics:

- Development of new (digital) products and product lifecycle planning
- Product storytelling, promotion and launch
- Drafting product requirement documents and risk documentation
- Usability testing and customer journey mapping
- Go-to-market strategy and competitive analysis
- Legal and compliance awareness in product governance
- Product analytics, metrics and data driven decisions
- Using artificial Intelligence and Machine learning in product development

6. SOCIAL ECONOMY

The social economy includes diverse organizations and business structures united by their focus on prioritizing people, fostering positive effects in communities, and advancing social or environmental goals. Microentrepreneurs, micro-enterprises and social ventures alike face barriers in securing impact-oriented funding and capital. Public support with financial instruments containing grant components (e.g. training, rebates, advisory) remains essential to attract purpose-driven investors to support riskier projects from inclusive entrepreneurs.

Capacity Building Topics:

- Experience sharing on microfinance and social enterprises dedicated legislation(s) in EU countries

- Public support for the social economy (EU level, national managing authorities, promotional banks and agencies, regional authorities)
- Social enterprises creditworthiness analysis
- Monitoring of impact of credit/grant components with social enterprises

7. INCLUSIVE FINANCE ECOSYSTEM AND CLIENT-CENTRIC SERVICES

Inclusive finance is central to addressing socio-economic disparities. MFPs and SEFPs offer tailored services to meet the needs of vulnerable groups (e.g. migrants, women entrepreneurs, rural entrepreneurs, start-ups) through targeted financial and non-financial interventions. Partnerships with ecosystem stakeholders are crucial in the Inclusive Finance Ecosystem, enabling MFPs and SEFPs to deliver truly client-centric services through shared resources, risk mitigation, and tailored innovations.

Capacity Building Topics:

- Developing financial products for migrants, women and rural entrepreneurs
- Support tools and mechanisms for vulnerable groups and underserved communities
- Mentoring programs and financial education initiatives
- Cultural and legal integration strategies
- Client compliance and protection policies
- Stakeholder partnership management

8. SOCIAL IMPACT MEASUREMENT

Measuring social impact is essential for evaluating the true performance of inclusive finance providers to verify their mission alignment, client outcomes, and long-term sustainability. And impact data also helps to demonstrate value to donors, investors, and regulators.

Capacity Building Topics:

- Social impact measurement tools and metrics
- Evidence based reporting proving the MFPs/SEFPs contribution to social and economic priorities
- Interactive dashboards presenting the impact data
- Marrying client feedback, case studies with modern technologies to measure and prove the impact

9. RISK MANAGEMENT AND INSTITUTIONAL GOVERNANCE

Risk management frameworks are essential to protect financial stability while strengthening their ability to sustainably and ethically support at-risk communities. Social finance providers are enhancing their capacity to manage credit, operational, and compliance risks while reinforcing governance structures. Boards equipped with training on risk management, digital transformation, and ethical governance can guide MFPs/SEFPs through tech disruptions (e.g., AI lending) and compliance demands, balancing financial sustainability with social impact for vulnerable clients.

Capacity Building Topics:

- Credit and operational risk analysis
- Creditworthiness analysis and early warning systems
- Risk team building
- Loan collateral assessment
- Debt collection strategies
- Business continuity planning and disaster recovery
- Governance trainings for boards and leadership teams
- Agile Governance

10. STRATEGIC COMMUNICATION, MARKETING AND SALES

The communication strategies align mission-driven narratives that are typical for MFPs and SEFPs, enabling targeted marketing plans and effective sales execution for sustainable client acquisition and retention. Personal outreach fosters client loyalty while digital channels assist optimizing the onboarding and engagement.

Capacity Building Topics:

- CRM systems and client segmentation strategies
- Transformation to digital marketing
- Digital marketing tools and automation platforms
- Social media campaigns and Google Ads utilization
- Development of skills in customer service, negotiation, and sales techniques to improve client interactions
- Training in persuasive communication and client handling (focused on loan recovery)
- Promotion of digital financial services

11. OTHER CAPACITY BUILDING TOPICS

Legal, compliance, advocacy

- AML regulation
- Regulations related to digitalization and AI
- Legal & compliance awareness (e.g. GDPR, data privacy)
- Implementation of the European Code of Good Conduct and the certification process

Organizational development

- HR policy optimization and multi-generational team management
- Organizational culture and leadership development
- Cross-functional team collaboration
- Running effective stand-up meetings
- Product Management Tools
- Leadership skills for Project Managers

Sector and domain knowledge

- Market emerging trends in serving the clients
- Competitor benchmarking

ADDRESSING CAPACITY BUILDING NEEDS

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

MFC identifies the following solutions to address the identified needs:

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

KEY CAPACITY BUILDING TOPICS

Financial Instruments and EU-Level Support

ESG Integration and Strategic Alignment

Green Finance and Energy Transition

Digitalization and Artificial Intelligence

Product Development and Lifecycle Management

Social Economy

Inclusive Finance and Client-Centric Services

Social Impact Measurement

Risk Management and Institutional Governance

Sales, Marketing, and Strategic Communication

Legal, compliance, advocacy

Organizational Development

Sector and domain knowledge