MICROFINANCE CENTRE

SOCIAL FINANCE TRENDS 2025

THIS BRIEFING PAPER PRESENTS TRENDS DISCUSSED DURING "SOCIAL FINANCE VIBE 2025: THE GREAT REBALANCING"

CONTENTS

FORWARD PATHWAYS FOR SOCIAL FINANCE

Over the past decade, Europe has found itself navigating a rapidly shifting geopolitical landscape. The world around us has become more unpredictable, and the European Union (EU) has had to adapt accordingly. Defence, resilience, and strategic autonomy have risen sharply on the political agenda. Yet, despite these changes, the EU's social priorities remain remarkably resilient. They continue to form the backbone of the European project, reminding us that Europe's strength has always been rooted in its people.

1. FORWARD PATHWAYS FOR SOCIAL FINANCE

If there is one area that Europe must continue to nurture, it is the skills and capabilities of its citizens. Skills are the true currency of the future. They are what will determine Europe's competitiveness, its resilience, and its ability to thrive in a world defined by technological change, demographic shifts, and global uncertainty. Europe may not possess vast reserves of natural resources, but it does possess something far more valuable: human potential. Our people are our greatest raw material, and investing in them is the surest path to long-term prosperity.

This is why EU policies remain anchored in the European Pillar of Social Rights. The Pillar provides a clear framework for strengthening Europe's social foundations while supporting competitiveness and resilience. It sets out three ambitious targets for 2030: achieving a 78% employment rate among people aged 20 to 64; reducing the number of individuals at risk of poverty or social exclusion by 15 million; and ensuring that at least 60% of adults participate in training every year. These targets are not merely statistical aspirations—they represent a vision for a fairer, more inclusive, and more dynamic Europe.

Even if the employment target is reached, the remaining 22% of unemployed individuals will largely come from groups where microfinance can have a transformative impact. Many of these people—women, migrants, people with disabilities, and those facing structural barriers—are already typical microfinance clients. They are individuals with talent, ambition, and ideas, but who often lack access to traditional financial services. Microfinance offers them a pathway into the labour market, enabling them to build livelihoods, start businesses, and contribute to their communities.

Social finance and microfinance are, in many ways, the foundation of Europe's social economy. They create ecosystems in which people can flourish, particularly during periods of geopolitical instability. Microfinance plays a vital role in anti-poverty strategies, labour market integration, and the promotion of entrepreneurship. It also contributes to broader strategic priorities, such as the green transition, digital inclusion, and student mobility. In a world where economic shocks can quickly translate into social hardship, microfinance provides a stabilising force.

Importantly, microfinance is also a highly efficient use of public funds. Studies consistently show that every euro invested in microfinance generates around five euros in social value. This multiplier effect makes microfinance one of the most cost-effective tools available for promoting inclusion, supporting entrepreneurship, and strengthening local economies.

1. FORWARD PATHWAYS FOR SOCIAL FINANCE

Looking ahead to the next Multiannual Financial Framework (2028–2034), the European Commission has proposed a €2 trillion expenditure plan. This ambitious framework includes national and regional partnership strategies designed to promote equal opportunities, reinforce social safety nets, foster inclusion, support intergenerational fairness, and combat poverty. The European Social Fund and ESF+ will remain central instruments for coordinating employment and social policies across the Union. Their role in supporting microfinance, social innovation, and skills development will be more important than ever.

Public financial instruments are essential to the functioning of the microfinance sector, particularly for smaller institutions. They provide credibility, reduce risk, and help attract private investors who might otherwise be reluctant to engage. Without public guarantees, many microfinance institutions would be forced to revert to collateral-based lending, which would exclude precisely the vulnerable entrepreneurs the sector aims to support. Alongside public support, MFIs should also explore innovative models such as community-based finance, social bonds, and new forms of blended capital.

Microfinance is not a panacea for poverty, nor should it be viewed as a standalone solution. Instead, it should be understood as an essential utility—much like education, healthcare, or digital connectivity. Over the years, microfinance has evolved from simple microcredit into a comprehensive suite of financial services, including savings, payments, insurance, and digital tools. This evolution reflects the changing needs of clients and the growing complexity of the economic environment.

The history of microfinance in Europe is diverse. In Eastern Europe, MFIs emerged in the 1990s to fill the void left by collapsing state financial systems. They became crucial actors in supporting small businesses and local economies. Commercialisation brought financial sustainability, but also the risk of drifting away from their social mission.
In Western Europe, MFIs traditionally operated with strong social mandates but weaker financial resilience. Instead of blending the strengths of both models, the sector has largely converged towards the Western “social enterprise” approach. This has left many Eastern MFIs uncertain about their identity and future direction.

Today, the sector faces a strategic crossroads. MFIs must decide whether to integrate more fully into the mainstream financial system, embrace fintech-driven transformation, or strengthen community-based social models.

Technology will undoubtedly play a central role, enabling institutions to reach more clients, reduce costs, and improve service quality. At the same time, community engagement will remain essential for maintaining trust, understanding local needs, and ensuring that microfinance remains rooted in its social mission.

Fortunately, the broader environment offers reasons for optimism. Technological innovation, a new generation of entrepreneurial young people, and investors with strong social values all provide positive momentum. Across Europe, MFIs are doing exceptional work, often under challenging circumstances. Their impact is visible not only in economic terms, but also in the lives they transform.

Microfinance also aligns closely with Professor Muhammad Yunus's "Three Zeros" vision: zero poverty, zero unemployment, and zero net carbon emissions. The sector already contributes significantly to poverty reduction and employment creation, and it is increasingly supporting Europe's green transition. By financing sustainable businesses, promoting energy efficiency, and enabling green entrepreneurship, microfinance can play a meaningful role in Europe's climate ambitions.

Looking ahead, the microfinance sector should continue to align itself with the EU's three social rights targets —employment, poverty reduction, and skills development. At the same time, it must strengthen its visibility, improve systematic outcome reporting, and demonstrate its impact clearly through measurable results linked to these EU objectives. Doing so will not only reinforce the sector's credibility but also ensure that microfinance remains a central pillar of Europe's social and economic future.

2 RESPONDING TO SHIFTING PRIORITIES

As outlined above, social finance continues to play a vital role in advancing the European Union's social priorities. It remains a key instrument for supporting vulnerable groups and ensuring that no one is left behind in Europe's social and economic transitions. To maintain this relevance, social finance providers must continually adapt, innovate, and strengthen their engagement with the communities they serve. One of the most pressing areas where this evolution is needed is youth engagement.

Youth Engagement

Across Europe, ethical and social finance institutions are increasingly recognising that young people must not only be invited into the conversation but empowered to shape it. Engagement alone is no longer sufficient. Young people need the tools, knowledge, and opportunities to become autonomous actors—individuals who can influence decisions, propose new ideas, and contribute meaningfully to the future of social finance.

This shift requires more than symbolic gestures. It demands training, information, and technical assistance that equip young people with the confidence and competence to participate fully. It also requires institutions to rethink how they design their products and services. Too often, initiatives aimed at youth are created without youth input, resulting in products that fail to resonate with their intended audience. True empowerment means involving young people directly in the design, testing, and communication of the services meant for them.

Many ethical and social finance institutions are now facing a generational renewal challenge. Organisations founded 20 or 30 years ago are seeing their original members and leaders age, while the influx of younger members remains limited. Without active youth participation, institutions risk stagnation and, ultimately, irrelevance.

Young people today face significant pressures—rising housing costs, precarious employment, and financial insecurity. Expecting them to engage purely out of goodwill is unrealistic. Unpaid internships, volunteer roles, or symbolic involvement are no longer adequate. Institutions must create meaningful incentives and pathways for young people to participate, contribute, and lead.

This means moving decisively from superficial involvement to genuine empowerment. Young people should have access to training, technical assistance, and real decision-making roles. Their voices must be integrated into product design, service development, and communication strategies. When youth perspectives are ignored, products aimed at them often fail; when they are included, institutions gain fresh ideas, new energy, and long-term sustainability.

FEBEA has recognised this challenge and taken concrete steps to address it. The organisation has launched a range of initiatives designed to bring young people into the heart of the European ethical finance movement.

These include workshops, exchanges between youth groups, and the development of policy positions informed by young voices. A dedicated Youth Working Group, composed of individuals aged 18 to 35, ensures that youth perspectives are integrated at the European level. This approach not only strengthens FEBEA's work but also builds a new generation of leaders committed to ethical and social finance.

Example: Jóvenes por Fiare (Spain)
A compelling example of youth engagement in practice comes from Fiare Banca Etica in Spain. In 2018, the bank recognised that its average member age—around 50—posed a long-term sustainability challenge. To address this, it created a youth group, *Jóvenes por Fiare*, with the explicit aim of attracting younger generations.

The bank supported the group with resources, a dedicated budget, and opportunities to organise events. Youth engagement became a strategic priority rather than an afterthought. The group's activities include workshops on ethical finance, visits to bank-funded projects to observe real-world impact, and creative outreach efforts such as performances at festivals, guerrilla marketing, and "fun" communication strategies designed to counteract the fatigue caused by constant negative news cycles.

Over time, *Jóvenes por Fiare* has become a pipeline for workforce renewal, demonstrating how youth engagement can strengthen both the mission and the operational capacity of an institution.

Example: Alternative Bank Switzerland
Alternative Bank Switzerland (ABS), founded 35 years ago out of an anarchist and alter-globalisation movement, has long been committed to financing environmental and socially responsible projects. However, like many mission-driven institutions, it has faced the challenge of an ageing shareholder base. Younger generations often sold inherited shares, and the bank's cautious approach to digitalisation—prioritising ethics over speed—did not always align with the expectations of younger clients. Meanwhile, competition from neobanks intensified.

To address these challenges, ABS developed a comprehensive youth engagement strategy built on four pillars: employment, education and research, banking products, and financing for youth organisations.

Under the employment pillar, the bank offers apprenticeships, trial days for teenagers, and even campaigns aimed at children under 13. The education and research pillar includes university lectures, hosting student groups, and supporting academic research. ABS also offers dedicated products for children and youth, such as free savings accounts, youth accounts, and education accounts. Finally, the bank finances youth organisations, including schools, daycare centres, integration services, and youth social work initiatives.

This holistic approach demonstrates how a financial institution can integrate youth engagement into every aspect of its mission.

Example: Vitas Romania
Vitas Romania, a microfinance institution established 30 years ago, is experiencing generational shifts among both its employees and its clients. To address this, Vitas has positioned itself as an employer with a mission, actively reaching out to young people through partnerships with universities and career centres. It offers internships, mentorships, thesis support, and career coaching to attract young talent.

On the client side, Vitas began by identifying the preferences of young entrepreneurs: clarity, fast feedback, visible impact, and digital-first collaboration. In response, the institution invested heavily in digital transformation, developing new platforms, online lending products, and technical support roles.

Looking ahead, Vitas plans to further streamline its lending process through simplified onboarding, expanded mentoring, clearer documentation, micro-learning formats, and enhanced digital tools. This approach demonstrates how microfinance institutions can adapt to the expectations of younger generations while strengthening their long-term sustainability.

Impact Measurement
As policymakers increasingly seek evidence to guide support measures, the ability of social finance providers to demonstrate their impact has become essential. Strengthening social performance and impact measurement is no longer optional—it is a prerequisite for effective support, credibility, and long-term sustainability.

To secure public and private backing, the social finance sector must demonstrate not only its outreach to vulnerable groups but also the outcomes and long-term impact it achieves.

Strong impact measurement systems create a virtuous circle: they improve business strategies, strengthen institutions, and foster learning and knowledge-sharing across the sector. They also help establish common standards and best practices.

However, measuring social impact is inherently challenging. It requires clarity of purpose, reliable data, and methodologies that balance rigour with practicality. Yet it is crucial for accountability, resource allocation, and communication with investors, policymakers, and the public.

Different institutions have adopted diverse approaches to assessing outreach, outcomes, and impact. Two notable examples are Noviti Finance in Lithuania and FED invest in Albania.

Example: Noviti Finance (Lithuania)
Noviti Finance is developing a comprehensive system for monitoring social performance and impact using a bottom-up approach grounded in the theory of change. Its measurement framework includes several layers:

- Activity indicators: number of loans disbursed, entrepreneurs trained, services provided.
- Output indicators: share of women-owned businesses, youth, elderly clients, and start-ups financed.
- Outcome indicators: borrowers' capital expenditures, sales growth, profits, jobs created or maintained,
- taxes paid.
- Impact indicators: the overall effect of each euro of microfinance on SME revenue growth, job creation,
- and tax contributions.

A key innovation is the automation of data collection. As more data becomes available from social registries, tax offices, and other sources, social finance providers can reduce reliance on customer questionnaires. APIs and integrated data pipelines allow institutions to collect around 80% of necessary data automatically, leaving only the remaining 20%—the "softer" factors—to be gathered through simple questionnaires during routine interactions.

ED invest (Albania)
FED invest, Albania's largest financial cooperative with around 100,000 members, measures social performance across human, geographic, and gender dimensions.

- Human dimension: access to finance for underserved groups, financial education, support for start-ups and returning migrants.
- Geographic dimension: outreach to rural and remote areas, adaptation of services to local needs.

- Gender dimension: women's participation as members, clients, and decision-makers, as well as dedicated products for women.

Because FED invest offers a wide range of services—including current accounts, payment services, and financial education through the ABA Centre—it measures outreach through indicators such as uptake of financial services, participation in farm demonstrations, and use of expert advice.

Social Impact Measurement Toolkit

For more than two decades, the Council of Europe Development Bank (CEB) has supported microfinance across Europe, working with around 26 institutions in 17 countries. A major component of this support has been helping institutions improve their social impact reporting.

To advance this work, the CEB commissioned the development of the Social Impact Measurement Toolkit, funded through the InvestEU Advisory Hub. The toolkit was designed to make impact measurement accessible, practical, and actionable for European microfinance institutions.

It is structured as a modular resource, allowing institutions to explore different components according to their needs. The first modules introduce the concept of impact in the European context and provide practical tools for beginning the measurement journey. Subsequent modules guide institutions through developing a theory of change, translating it into measurable structures such as logframes, and establishing the foundations of a robust measurement system.

The toolkit also supports institutions in mapping information sources, selecting methodologies, and building narratives. It offers guidance on qualitative methods such as focus groups, interviews, and surveys, as well as approaches for analysing and presenting data through infographics, reports, and digital platforms. This ensures that data is not only collected but also communicated in a meaningful and accessible way.

The toolkit is publicly available at: https://coebank.org/en/project-financing/sectors/microfinance/social-impact-measurement-toolkit/

3 FUNDING OPPORTUNITIES

The EU funding instruments for social finance and microfinance providers remain accessible via the European Investment Fund (EIF), European Investment Bank (EIB) and Council of Europe Development Bank (CEB). While the EIF and CEB concentrate on supporting finance providers that serve microenterprises and social enterprises, the EIB focuses on mid-cap companies, thereby ensuring coverage across all business sizes.

The EIB offers loans, structured credit, guarantees and equity. In 2025, it increased its appetite for risk, brought on board new intermediaries and bolstered social finance initiatives. The EIF provides greater flexibility with maturities, repayment arrangements and double-intermediation models, broadening access to smaller institutions.

Through InvestEU, the EIF delivers financial instruments such as portfolio guarantees (capped at 25–30% losses and covering loans up to €50,000 for microfinance and €2 million for social enterprises) as well as subordinated loans to strengthen institutional capacity and long-term sustainability. EIF investments demonstrate strong social outreach: the majority of final beneficiaries are start-ups and first-time borrowers, with 32% being female entrepreneurs and 50% migrants from outside the EU. At present, demand outstrips the resources available, so the EIF must be selective when choosing intermediaries.

The CEB offers loans alongside advisory and capacity-building support for microfinance providers. In 2025, the CEB introduced a blended initiative that combines loans and grants, selecting nine microfinance institutions to deliver business development services and interest rate subsidies to vulnerable groups. The CEB typically collaborates with smaller, specialised microfinance institutions that serve agricultural producers, women-led businesses, Roma and other ethnic minorities, as well as youth-led enterprises.

At the national level, EU funding for MSMEs is available through the InvestEU member state compartment. For example, Poland is able to allocate a portion of its Recovery and Resilience Facility (RRF) funds to develop financial products tailored specifically for Polish entrepreneurs. Some of Poland's RRF funds are already being directed into the InvestEU member state compartments. This model is employed in only a handful of EU countries. The InvestEU approach can also be adopted when structuring financial cooperation with institutions such as the EIF, facilitating improved market models with EIF guarantees or other financial instruments, according to each country's requirements.

Social finance providers are increasingly turning to capital market mechanisms to raise private funds at the local level. In Bosnia and Herzegovina, Partner Microcredit Foundation issued the first green bond on the Sarajevo Stock Exchange, securing 1.5 million BAM to support energy efficiency and renewable energy initiatives. The bond is aimed at ordinary citizens and employees, who enjoy tax exemptions on income from the bonds.

4

PROGRESSING WITH GREEN TRANSITION

Climate adaptation in agriculture

Climate change has become one of the defining challenges of our time, and its impact on Europe's economy—particularly on agriculture—is already profound. Outdated technologies, volatile input costs, and increasingly unpredictable weather patterns have made the climate transition not only necessary but urgent. Farmers, lenders, and policymakers alike are confronted with a rapidly changing landscape that demands new approaches, new tools, and new forms of collaboration.

Across Europe, climate risks are intensifying. Rising average temperatures, shifting rainfall patterns, and the growing frequency of extreme weather events—such as severe droughts and devastating floods—are reshaping the agricultural sector. A recent study, *Insurance and Risk Management Tools for Agriculture in the EU*, estimates that annual losses in European agriculture already reach around €30 billion, including €17 billion in crop losses and €10 billion in livestock losses. These figures are projected to rise dramatically, with total losses expected to increase by 50% by mid-century, reaching approximately €90 billion per year.

Droughts alone account for half of all agricultural losses, yet they remain the least insured risk. Only 20–30% of drought-related losses are covered by insurance, leaving farmers highly exposed and threatening the stability of rural economies. This gap underscores the need for a comprehensive approach to climate resilience.

Experts highlight three essential pillars for strengthening climate resilience in agriculture:

1. Education – Farmers need access to knowledge, training, and advisory services to understand climate risks and adopt adaptive practices.

2. Capital market involvement – Blended finance instruments, parametric insurance, and innovative risk-sharing mechanisms can help spread climate risks more effectively.

3. Investment in adaptation – Preventive measures, such as irrigation systems, soil regeneration, and climate-smart technologies, are far more effective and cost-efficient than compensating for losses after they occur.

The European Fund for Southeast Europe (EFSE) has been at the forefront of promoting sustainable farming practices. Recognising that climate adaptation begins on the ground, EFSE developed a Green List of sustainable agricultural practices, including crop rotation, drip irrigation, and internationally recognised environmental certifications.

To support the uptake of these practices, EFSE organises academies and demonstration farms in Moldova, Romania, and Bosnia and Herzegovina. These initiatives allow farmers to see sustainable methods in action, learn from experts, and exchange experiences with peers. EFSE also provides targeted financing to partner institutions, enabling them to offer tailored loans to farmers who adopt sustainable technologies and practices.

Agricover, a leading agricultural finance provider in Romania, offers a compelling example of how financial institutions can support both climate adaptation and generational renewal. The institution provides financing for irrigation systems, modern equipment, and other technologies that enhance sustainability. At the same time, Agricover invests heavily in education, preparing the next generation of farmers to manage their businesses with resilience, efficiency, and environmental awareness.

Climate Mitigation and Regenerative Agriculture

Agriculture is responsible for roughly one-third of global greenhouse gas emissions, with around 11% coming directly from farming activities. Farmers face mounting challenges: irregular rainfall, extreme heat, new pests, and emerging plant diseases. In this context, regenerative agriculture has emerged as a powerful tool for both mitigation and adaptation.

Three regenerative practices stand out:

- Reduced or no-tillage – Direct seeding into crop stubble preserves soil carbon, reduces fuel and labour costs, and improves water retention.
- Cover crops – Planting green cover between harvests protects the soil, retains moisture, and naturally enriches the soil, reducing the need for synthetic fertilisers.
- Agroforestry – Integrating trees into farmland prevents erosion, restores biodiversity, and creates microclimates that protect crops.

Farmers who adopt these practices can participate in carbon programmes, earning credits that companies purchase either to offset emissions or to reduce their own carbon footprint. For farmers, the benefits are substantial: a cleaner environment, greater resilience, improved profitability, reduced loan risk, and access to impact-oriented investment funds.

Microfinance institutions have a critical role to play in supporting the climate transition. They can act as a safety net by financing the upfront costs of sustainable technologies—costs that many farmers cannot afford on their own. By supporting climate-resilient practices, lenders also reduce their own risk of default, creating a mutually reinforcing cycle of resilience.

MFIs can stimulate the development of climate-smart projects, ensure that farmers adopt sustainable methods, and ultimately help unlock carbon market opportunities for smallholders. Their proximity to local communities and their mission-driven approach make them uniquely positioned to drive change at the grassroots level.

Beyond Agriculture: Financing the Energy Transition
Outside the agricultural sector, social finance providers are increasingly supporting energy efficiency and the transition to clean energy sources. One of the most innovative examples comes from Poland.

FRW, a Polish microfinance provider, has developed a portfolio that supports renewable energy generation, clean heating systems, and energy-efficiency upgrades. Its work has been recognised as a best-practice example of how mission-driven non-bank financial institutions can accelerate a just transition while keeping financing accessible and sustainable for local actors.

FRW's Renewable Energy and Heating Loan Programme offers long-term, affordable financing for municipalities, public institutions, and social enterprises across Poland. With loan sizes of up to 8 million PLN (around €2 million), fixed interest rates as low as 1%, and repayment periods of up to 180 months, the programme bridges the gap between community-level needs and national energy transition goals. It demonstrates how social finance can mobilise capital for large-scale climate infrastructure while maintaining a strong social mission.

Habitat for Humanity has also played a significant role in supporting the transition to energy-efficient housing, particularly for low-income households. Through its MicroBuild Initiative, operating in 33 countries—including several in Europe and the Caucasus—Habitat has supported housing improvements for a decade. These improvements often include upgraded heating systems, insulation for walls, roofs, and floors, and other measures that make homes warmer, safer, and more energy-efficient.

The next MicroBuild fund will allocate 20–25% of its capital specifically to green and climate-related investments, reflecting the growing importance of sustainable housing.

Habitat for Humanity works closely with microfinance institutions and their associations because of shared missions: both focus on low-income households and underserved communities. Partnering with associations allows Habitat to deliver capacity-building support to many institutions simultaneously, amplifying its impact.

One notable initiative is "For Green and Clean Homeland", implemented in partnership with AMFI, the microfinance association in Bosnia and Herzegovina. The programme focuses on consumer education and raising awareness about energy savings. It will soon be replicated in other Balkan countries, beginning with Albania and later expanding to the Caucasus.

5

ADVANCING WITH TECHNOLOGY

Recent developments in technology are profoundly transforming the landscape for microfinance institutions, with artificial intelligence and fintech innovations at the forefront of this change.

Artificial intelligence

A central theme emerging from the discussions is the growing importance of explainable AI in microfinance. As MFIs increasingly adopt AI-driven systems for credit scoring and lending decisions, the need for transparency and fairness has become paramount. The so-called "black box" problem—where the logic behind AI decisions is opaque—poses significant risks, particularly for clients who are already vulnerable to exclusion. Regulations such as the EU AI Act, which will come into force in August 2026, and the General Data Protection Regulation (GDPR), now require that automated decision-making processes be transparent, interpretable, and explainable. Credit scoring is now classified as a high-risk activity, which means that MFIs must provide clear explanations to clients, maintain robust risk management practices, and keep detailed documentation to demonstrate responsible conduct.

In practice, there are two main approaches to achieving explainability in AI systems. The first involves using interpretable models, such as decision trees, which are transparent by design and allow clients to understand the reasons behind lending decisions. The second approach relies on more complex "black-box" models, such as deep neural networks, which are more powerful but require additional tools like LIME and SHAP to interpret their outputs.

Explainability is not just a technical requirement; it is a trust-building tool that enables clients to understand and, if necessary, contest decisions. It also allows MFIs to detect and correct biases that may be embedded in historical data.

Addressing bias and ensuring fairness are critical challenges. Historical data often contains biases against certain groups, such as women or rural clients. MFIs must actively test for and mitigate these biases, using tools developed by organizations like Microsoft and IBM. Human oversight remains essential, as practitioners bring domain knowledge and context that AI specialists may lack. Collaboration between these groups ensures that decisions are both fair and contextually appropriate.

Another key lesson is the importance of building internal AI capacity within MFIs. Rather than relying solely on external vendors, institutions are encouraged to develop their own expertise in AI and data management. Responsible AI means combining explainability, fairness, and institutional ownership of both models and data.

Example: Vitas Romania

Vitas Romania provides a compelling example of how a microfinance institution can responsibly implement artificial

intelligence (AI) for credit risk assessment, while prioritizing explainability and fairness.

Recognizing the growing importance of AI in financial services, Vitas Romania sought to leverage machine learning to improve credit risk decisions for small and medium-sized enterprises (SMEs). However, the team was acutely aware of the "black box" problem in AI—where decision-making processes are opaque—and the risks this poses for fairness and regulatory compliance. Their goal was to move toward a "white box" approach, ensuring that both clients and regulators could understand and trust the outcomes.

Rather than relying solely on external vendors, Vitas Romania invested in developing internal AI expertise. The institution recognized that, just as organizations need HR managers or accountants, they would increasingly need staff with AI literacy to manage and interpret these new technologies effectively.

Vitas Romania collaborated with a university partner to co-author a research paper on bankruptcy risk prediction for Romanian SMEs. They built a comprehensive dataset of four million company-year financial statements, covering the period from 2009 to 2023. All data was sourced from public Romanian institutions via APIs, ensuring transparency and breadth. The team tested eight different models, ranging from classical statistical approaches to advanced deep learning techniques. They found that while classical models were easier to explain, they produced weaker results. This trade-off led Vitas Romania to favour tree-based models for practical deployment. To further enhance transparency, Vitas Romania used SHAP, a tool that helps explain the contribution of each variable to a model's decision. This allowed both internal staff and external stakeholders to understand why a particular credit decision was made.

Based on their experience, Vitas Romania recommends that MFIs interested in adopting AI for credit risk start with interpretable models and use explainability tools. They also stress the importance of building AI literacy within the institution and maintaining human oversight, especially in the early stages of adoption. Responsible AI, in their view, combines explainability, fairness, and institutional ownership of the technology.

Example: SIS Credit

SIS Credit, a microfinance institution in Bulgaria, recognized the growing need to support its clients' digital skills and facilitate easier access to funding. To address this, SIS Credit

developed a user-friendly digital platform with embedded AI features, designed to combine a consultation portal with a simplified loan application process. The platform consists of two main components: Consultancy Portal and Loan Application Process. The Consultancy Portal covers topics such as starting an enterprise, green practices and EU programmes. The portal offers AI tools for developing business plans, pricing strategy. Loan Application Process involves a chatbot named Polly, which helps clients navigate the portal and answers practical questions. This interactive support enables entrepreneurs to develop business plans independently, reducing reliance on expensive consultancy services. Clients can immediately see details such as loan amount, repayment total, and fees before submitting any documents, ensuring transparency and clarity. One key lesson was that clients' digital skills were higher than expected. Contrary to the belief that microfinance clients are not ready for digital loan applications, SIS Credit found that many clients preferred remote contact and were comfortable completing the entire process online.

Fintech innovations

Fintech innovations are also reshaping the sector. New business models have emerged, including peer-to-peer lending platforms, mobile-based lending, buy-now-pay-later schemes, and embedded finance solutions. Peer-to-peer platforms enable direct funding between investors and borrowers, while mobile-based lending uses customer data to provide non-collateralized loans, expanding access for underserved populations. Embedded finance integrates lending offers directly into platforms where businesses operate, such as e-commerce or accounting software, using existing data to improve approval rates and inclusivity.

Regional trends and regulatory shifts are influencing how these models develop. In Europe, fintechs are helping MFIs digitize their products and delivery channels, with a focus on operational efficiency, client satisfaction, and market expansion. Regulatory changes, such as the introduction of EU-wide crowdfunding laws, have prompted platforms to pivot toward institutional investors and direct lending, often in partnership with banks. Partnerships between banks and fintechs are becoming more common, allowing banks to reach micro and small businesses more efficiently through their fintech partners.

Data-driven lending and financial inclusion are also advancing rapidly. The use of alternative data, such as cash flow underwriting, and machine learning enables MFIs to serve clients with thin or no credit files. Platforms like

NovaCredit analyse account activity to extend credit to those excluded by traditional scoring methods. However, the quality and readiness of data—its preparation, labelling, and integrity—remain critical bottlenecks for the successful deployment of AI in microfinance.

In summary, the intersection of AI and fintech is rapidly reshaping microfinance. Explainable AI, innovative lending models, and embedded finance are expanding access and efficiency, but they also introduce new challenges around fairness, transparency, and regulatory compliance. MFIs that invest in internal capacity, prioritize data quality, and embrace responsible innovation will be best positioned to serve their clients and communities in this evolving landscape.

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