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Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027

Final Report

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Final Report

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ABBREVIATIONS AND ACRONYMS

Member States

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czechia
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom([1])

EA	euro area
EA-19 MS	euro area, 19 Member States
EU	European Union
EUMS	European Union Member States

European Free Trade Association and candidate countries

AL	Albania
CH	Switzerland
IS	Iceland
ME	Montenegro
MK	North Macedonia
RS	Serbia
TR	Turkey

Other

Adie	Association pour le droit à l'initiative économique
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
B2B	business-to-business
BDS	business development services
CBIW	Capacity Building Investments Window

([1]) At the time of the analysis, the United Kingdom (UK) was still a member of the EU, and therefore UK results are included in the report. However, due to Brexit, recommendations for the new programming period 2021-2027 will exclude the UK.

CEB	Council of Europe Development Bank
CF	Cohesion Fund
CGAP	Consultative Group to Assist the Poor
CIP	Competitiveness and Innovation Framework Programme
the Code	European Code of Good Conduct for Microcredit Provision
CSFI	Centre for the Study of Financial Innovation
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFI	development finance institution
DFS	digital financial services
DG	Directorate-General
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG REGIO	Directorate-General for Regional and Urban Policy
DWM	Developing World Markets
e-MFP	European Microfinance Platform
EaSI	Employment and Social Innovation
EBA	European Banking Authority
EBF	European Banking Federation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EFSD	European Fund for Sustainable Development
EFSE	European Fund for Southeast Europe
EFSI	European Fund for Strategic Investments
EFTA	European Free Trade Association
EGDIP	European Green Deal Investment Plan
EIB	European Investment Bank
EIF	European Investment Fund
EIGE	European Institute for Gender Equality
EIP	External Investment Plan
EMN	European Microfinance Network
ERDF	European Regional Development Fund
ESF	European Social Fund
ESF+	European Social Fund Plus
ESIF	European Structural and Investment Funds
EUR, €	euro
EURES	European Employment Services
fintech	financial technology
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (Dutch Development Bank)
Frankfurt School	Frankfurt School of Finance and Management
FSB	Financial Stability Board
FSP	financial service provider
GAFMA	Guidelines for SME Access to Finance Market Assessments
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
IEEP	Institute for European Environmental Policy
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IOM	International Organization for Migration
IPA	Instrument for Pre-Accession Assistance
IT	information technology
Jasmine	Joint Action to Support Microfinance Institutions in Europe
Jeremie	Joint European Resources for Micro to Medium Enterprises

KfW	Kreditanstalt für Wiederaufbau (German government-owned promotional bank)
LIFE	L'Instrument Financier pour l'Environnement
MA	managing authorities
MCP	microcredit provider
MFC	Microfinance Centre
MFF	Multiannual Financial Framework
MFI	microfinance institution
MIS	management information system
MIV	microfinance investment vehicle
MSME	micro, small and medium-sized enterprise
n/a	not available
na	not applicable
NBFI	non-bank financial institution
NCFF	Natural Capital Financing Facility
NGO	non-governmental organisation
NUTS	nomenclature des unités territoriales statistiques
OECD	Organisation for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank
OP	operational programme
OSS	operational self-sufficiency
P2P	peer-to-peer
PAR30	portfolio at risk more than 30 days
PF4EE	Private Finance for Energy Efficiency
PFI	participating financial institution
pp	percentage point (i.e. the difference between two percentages)
Progress Microfinance	European Progress Microfinance Facility
PSD2	Payments Services Directive 2
ROA	return on assets
ROE	return on equity
SAFE	Survey on the access to finance of enterprises
SDG	Sustainable Development Goal
SDSN	Sustainable Development Solutions Network
SEIP	Sustainable Europe Investment Plan
SME	small and medium-sized enterprise
SPTF	Social Performance Task Force
TA	technical assistance
TO	thematic objective
UK	United Kingdom
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNSGSA	United Nations Secretary General's Special Advocate for Inclusive Finance for Development
USD	United States dollar

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ABSTRACT

This report assesses current microfinance provision in the European Union (EU) and presents recommendations on how to bridge the financing gap and to meet evolving market needs as a means of promoting growth, employment and inclusion across the EU. Most microfinance in the EU comes from larger providers, with support for smaller, non-bank lenders remaining limited. The EU has taken measures to improve provision, such as the European Progress Microfinance Facility, launched in 2010 and complemented since 2014 by the Microfinance and Social Entrepreneurship axis of the EU Programme for Employment and Social Innovation (EaSI).

In order to supply funding to meet demand, market imperfections have to be addressed. Further action at EU level is crucial to strengthen microfinance markets targeting vulnerable groups in particular. The report recognises microfinance as an important instrument to achieve EU policy objectives in terms of social inclusion, promotion of entrepreneurship and employment creation, as well as to contribute to the transition to a sustainable Europe. The report also makes proposals for new EU-level instruments and approaches that would allow a geographical balance in accordance with the magnitudes of the financing gap in the respective Member States.

At the time of completion of this report (May 2020), the microfinance sector faces significant challenges arising from the COVID-19 crisis, as small businesses and vulnerable groups are particularly hard hit. The main conclusion of this analysis, i.e. that the European microfinance model has proven its effectiveness for labour market integration and social inclusion, remains valid. The current situation further highlights the importance of support to the microfinance sector to foster labour market integration and to contribute to building a more inclusive Europe.

In the context of the new Multiannual Financial Framework 2021-2027 and the related InvestEU programme, market enabling measures will assist the EU in achieving some of its key policy objectives, as microfinance is a key tool for addressing unemployment, promoting entrepreneurship and fostering social inclusion and makes an important contribution to fulfilment of the United Nations Sustainable Development Goals.

Keywords: microfinance, micro-enterprises, vulnerable groups, Employment and Social Innovation programme, financing gap, InvestEU, promoting entrepreneurship, social inclusion, Sustainable Development Goals, unemployment.

Disclaimer:

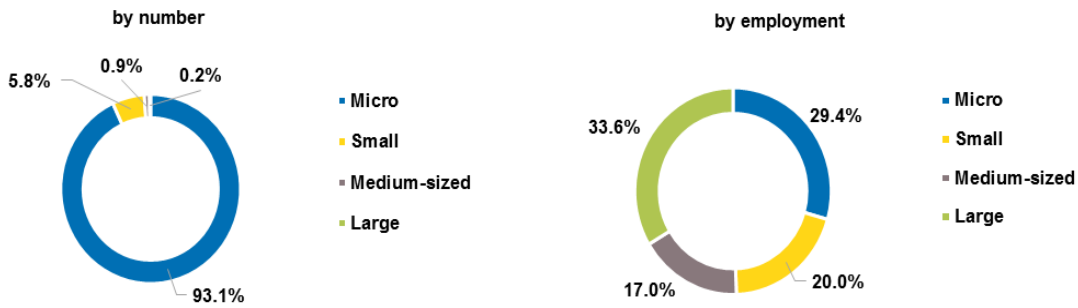
Please note that the figures in the present analysis are valid as at the cut-off date of 1 May 2020. These pre-date the Commission's new proposal of 27 May 2020 for a recovery plan and updated EU budget. The final figures for the EU budget, the multiannual financial framework (2021-2027), will depend on the outcome of the negotiations between the co-legislators, the Council and the European Parliament.

EXECUTIVE SUMMARY

Introduction

This summary provides an overview of the current state and potential development of the market for microfinance and European Union (EU) funding instruments. It also forecasts demand for and supply of microfinance, thus predicting the financing gap in the EU, a number of European Free Trade Association (EFTA) countries and candidate countries. Finally, the paper analyses the EU Programme for Employment and Social Innovation's (EaSI) ([2]) microfinance-related instruments against the broader market backdrop and proposes recommendations relating to EU financial instruments in the context of the new Multiannual Financial Framework (MFF) 2021-2027 and the related InvestEU programme.

Graph 1: Different types of enterprise in the European Union, by number and employment, 2017 (%)



Source: European Commission (2018a)

Microfinance, as a broad concept, describes financial services targeting micro-enterprises that lack access to finance from traditional institutions (such as banks) and individuals who wish to start a business but face difficulties in accessing finance due to a lack of collateral or credit history. Microfinance developed in the 1970s to support micro-enterprises and poor individuals in developing countries (e.g. Grameen Bank in Bangladesh). Since then, microfinance has developed in many countries, often with support from development banks, donors and credit unions. Microfinance services aim to be more inclusive and make financing more accessible than traditional financing for poor and socially marginalised customers, and therefore seek to help them start up or develop a business. Available services include provision of microcredit (small loans), support in managing savings and chequing accounts, and micro-insurance and payment systems. These are often accompanied by non-financial services that support micro-enterprises through different business development services (BDS), such as coaching, training and counselling.

Micro-enterprises (companies with fewer than 10 employees and with an annual turnover or annual balance sheet of EUR 2 million or less) contribute to boosting jobs, growth and investment as well as building a fairer and more inclusive Union, which are key policy priorities for the EU. Micro-enterprises include the self-employed, start-ups, small businesses and farms. They account for 93.1% of all 24.5 million European enterprises and 29.4% of all employment in Europe ([3]) ([4]) (Graph 1).

Microfinance also targets vulnerable members of society, including persons with disabilities, unemployed persons, young and elderly people, women, migrants, refugees and minorities. Usually, these groups are under-represented and disadvantaged in the labour market, and even more so when becoming entrepreneurs ([5]). In 2016, 138 million Europeans were financially excluded from society, with no access to formal bank accounts or methods of payment; the majority of these individuals were also vulnerable ([6]). Insufficient access to financial services and non-financial services in the form of supporting business development and vocational training can have severe consequences for individuals and businesses, restricting their ability to invest, regularise their income or find work.

The state of microfinance in the European Union

Microfinance is gaining importance as a tool to help address unemployment and to promote entrepreneurship and social inclusion. A range of institutions provide financial and support services

([2]) Through the Microfinance and Social Entrepreneurship axis of the EaSI programme and to meet the EU's main priorities of boosting jobs, growth and investment, the European Commission (the Directorate-General for Employment, Social Affairs and Inclusion – DG EMPL) is helping micro-enterprises and vulnerable populations to access finance by supporting microfinance providers.

([3]) European Commission (2018a): Annual report on European SMEs 2017-2018.

([4]) At the time of the analysis, the United Kingdom (UK) was still a member of the EU, and therefore UK results are included in the report. However, due to Brexit, recommendations for the new programming period 2021-2027 will exclude the UK.

([5]) Organisation for Economic Co-operation and Development (OECD), European Union (2017): The missing entrepreneurs 2017.

([6]) Mastercard (2016): Europe's financially excluded.

to micro-enterprises and vulnerable people who cannot access traditional sources of financing.

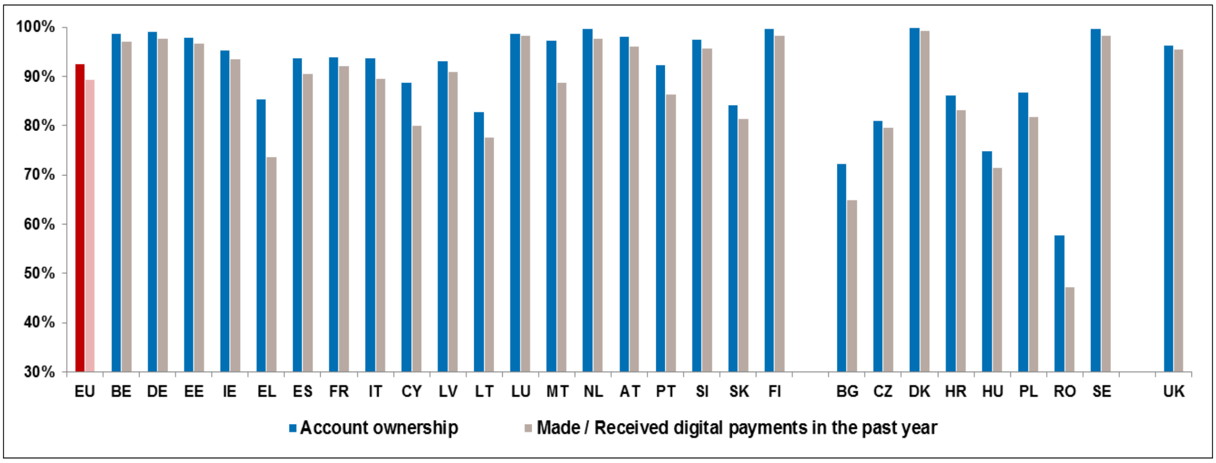
They do so to facilitate self-employment, create jobs and increase productivity, which in turn offers advantages for public budgets. At an individual level, loans for healthcare, education or the improvement of living conditions can also promote social integration ([7]).

mainly focus on granting credits and providing non-financial BDS, depending on the country and development stage of the microfinance market.

Access to finance for micro-enterprises and vulnerable groups

While surveys still regard **access to finance** as a main concern for **micro-enterprises** in the EU, it has steadily improved in the past five years ([9]). Compared to larger small and medium-sized enterprises (SMEs), micro-entrepreneurs still make more use of their own funds (e.g. equity, profits) and less use of credit. They apply for external finance less frequently. Within this context, 14% of micro-enterprises report insufficient availability of collateral or guarantees as their most significant limiting factor, while 16% mention high interest rates and other charges ([10]). When micro-enterprises do use external finance from financial institutions, debt finance is their preferred service over credit lines, overdrafts or bank guarantees.

Graph 2: Access to accounts and digital technology in the European Union, 2017 (%)



Source: World Bank (2018b) ([8])

However, the European microfinance market comprises a complex set of actors on both the demand and supply sides, as well as at the level of financial institutions. In Europe, microfinance markets generally function at national, regional and local levels due to legal requirements, the language factor and the small size of the enterprises. The institutions that provide microfinance services include specialised units of commercial banks, cooperative banks, non-bank financial institutions (NBFIs), credit unions or cooperatives, guarantee-granting institutions, public support and development banks or funds and non-governmental organisations (NGOs).

The non-bank providers targeting microfinance are also known as microfinance institutions (MFIs). The financial services available in the EU

Nowadays, an important condition for access to finance is the use of **accounts and digital technology.** This is especially challenging in Bulgaria, Greece, Hungary, Lithuania and Romania (see Graph 2).

Meanwhile, among members of the **vulnerable population**, young adults are most severely affected by financial exclusion, with only 76% of EU citizens aged 15-24 having a bank account. The largest shortfalls in financial inclusion of youth – when compared to the entire adult population – exist in Croatia, Czechia, Greece and Italy. When it comes to the unemployed, the shortfall is less striking but still considerable in Bulgaria, Czechia, Lithuania and Poland. Differences in usage for women and those in rural populations are less significant. In all cases,

([7]) Financial inclusion has experienced a global paradigm shift involving all types of financial services and providers, targeting firms and individuals without such access (World Bank, 2018c: Universal financial access; Center for Financial Inclusion at Accion International, 2012: Financial inclusion). Moreover, the European Investment Fund (EIF) recently referred to the importance of 'social inclusion lending' and the social impact of financial inclusion (EIF, 2019c: European Small Business Finance Outlook). The results of European microcredit providers in the last industry survey confirm this trend and show that almost half the value of the outstanding loans by the microfinance providers are so-called personal microloans or family microloans that focus on these needs (Diriker, D., Landoni, P., Benaglio, N., 2018: Microfinance in Europe).

([8]) The three groups presented in the graph and all following graphs, separated by spaces, are the euro-area Member States, non-euro-area Member States and the UK.

([9]) European Commission (2019k): Data and surveys. Also referred to as 'ECB SAFE survey data'.

([10]) European Commission (2018f): Survey on the access to finance of enterprises (SAFE). Also referred to as the 'ECB SAFE survey'.

digital technology is less widely used than bank accounts.

Less than half of existing **micro-enterprises** report using non-financial BDS in the form of training, mentoring and coaching to improve financial literacy, entrepreneurship skills or vocational (technical) know-how or to develop business plans ([11]). These services help to improve access to finance for vulnerable individuals – who, by establishing a business, escape social exclusion – and support better living conditions.

Microfinance provision in the European Union

At least 450 institutions offer or facilitate the disbursement of microloans in Europe ([12]). One third of them responded to a biannual industry-wide survey financed by the EU in 2017. The sureveyed institutions serve just under one million clients, with an outstanding gross microloan portfolio of EUR 3.2 billion. They also provide non-financial support services to 443 825 clients.

Primarily, these institutions **target micro-enterprises and vulnerable populations that are working as entrepreneurs while escaping unemployment and poverty**. In the EU, 21.0% of the citizens are still at risk of poverty and social exclusion, and vulnerable groups in particular face unemployment challenges ([13]). Due to the challenges of accessing traditional finance through banks, these groups often turn to non-bank microfinance providers. Over the past 10 years, with the support of the EU programmes, the sector has evolved but there are still challenges ahead to be addressed.

In Europe, there is **no common legislative framework** regulating the provision of microfinance, and in half the EU Member States national legislation does not reflect the specific nature of microfinance. Since 2011, however, the European Code of Good Conduct for Microcredit Provision (or 'the Code') has provided a harmonising 'soft regulation', setting institutional standards. The European Commission, together with industry actors, promotes and manages the implementation of the Code, which is a self-regulating framework. As of October 2019, 40 non-bank and 44 bank providers adhered to the Code. The adherence to the Code is a precondition for accessing EU support for microfinance, primarily provided through the EaSI programme ([14]).

In a number of EU countries, banks offer **loans to micro-enterprises**, but many cater solely to the **least risky** among them. In numerous cases, banks also secure collateral as a prerequisite for disbursing loans. This excludes vulnerable members of the population and many micro-enterprises (such as start-ups). Often, banks that do cater for vulnerable groups and start-ups depend on support from public money and programmes. Microfinance providers have an increasing share of microcredit provision, catering to more medium-risk enterprises ([15]). Overall, most financial institutions providing microcredit target the lower-risk segment of micro-entrepreneurs.

Despite the increasing amount of financial support to micro-enterprises, the **non-bank providers are not always economically sustainable**, especially when targeting vulnerable populations and very small micro-enterprises. They face similar challenges to banks when it comes to the **digital transformation** of the financial sector; non-bank providers also need non-financial support in the form of advisory support to further strengthen their institutional capacity and encourage funding of this sector.

Key developments and outlook for the European microfinance sector

There are a number of important trends to consider regarding the future of the EU's microfinance instruments ([16]).

The characteristics of the vulnerable groups targeted by EU microfinance instruments have been changing since 2010. Although average economic growth in the EU has been increasing since the end of the global financial crisis, youth unemployment remains high (over 20%) ([17]) in regions that are lagging behind the rest of the EU, including parts of Bulgaria, Greece, Hungary, Italy, Poland, Portugal, Romania and Spain, as well as EU candidate

([11]) Unterberg, M. (2017): Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs.

([12]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([13]) OECD, European Union (2017): The missing entrepreneurs 2017; Eurostat (2019): Database, 2018-2019.

([14]) More information about the EaSI programme for microfinance is provided under the section 'European Union-funded financial instruments' below.

([15]) Refer to the different industry reports delivered by the European Microfinance Network (EMN) and the Microfinance Centre (MFC) over the past five years, with an increasing volume of microloans reflecting the levels of portfolio at risk over 30 days and write-off ratios, whereas there are higher portfolio risk indicators for non-bank providers compared to bank providers.

([16]) The report was written before the outbreak of the coronavirus disease (COVID-19) pandemic and public health crisis. As the situation is still evolving with uncertain outlook on socio-economic developments in the EU, further analysis would be required on the impact and magnitude of the crisis on the microfinance sector in the medium and long term.

([17]) Eurostat (2019): Database, 2018-2019.

countries. Elderly population is increasing, especially in the northern and western EU Member States. Since the 2015 global refugee crisis peaked, the inflow of migrants and refugees has been highest in Germany, France and the UK (from Syria, among other places) in absolute terms, whereas in relative terms, Malta and Cyprus have been most impacted given their population size (4.7% and 2.5% respectively([18])). These trends increase pressure on the labour force (in the form of unemployment) and the motivation for self-employment, provided that economic growth exists. Financial instruments need to target youth populations, migrants and refugees in these countries.

The rise of financial technology (fintech) ([19])**, digital transformation and crowdfunding platforms** affects the regular banking and microfinance sectors alike. These trends present new challenges, especially in those countries and regions where there is less access to bank accounts and use of digital financial services (DFS) is rather low (e.g. Greece, Italy and south-eastern Europe), reflected in low digital financial literacy ([20]). Micro-enterprises in these countries will need more support to cope with the development of digital banking. Fintech firms operating as non-traditional credit suppliers for micro-enterprises pose new challenges relating to transactions and contracting financial instruments targeting microfinance ([21]).

Sustainability, **climate change**, **gender-smart investing and refugee funding** have moved up on the European, national and donor agendas, mirroring the priorities for the future of the EU in terms of carbon-neutral growth and gender equality. International financial institutions (IFIs) and investors put greater emphasis on sustainable finance and investments. Gender-smart investing refers to investment in companies, organisations and funds specifically aiming to have a positive impact on women. Policies and financiers will orient more towards sustainable enterprises and will provide more incentives for climate mitigation and adaptation, and gender equality. European financial institutions targeting microfinance may need financial and technical support to develop new products and services tailored to: the specific needs of micro-enterprises using more energy-efficient technologies; women-specific needs (e.g. more flexible loan conditions due to lack of guarantees or irregular income streams); and viable loan products for migrant and refugee entrepreneurs who do not have a long track record in EU Member States and therefore require special attention ([22]).

Non-bank providers' funding and needs will change. They will increase their demand beyond the currently provided guarantee instruments, in the form of funded instruments (debt finance), mezzanine capital (quasi-equity) and equity funding. Access to such instruments would give them the chance to grow and bridge market gaps. In addition, some Tier 1 providers ([23]) might need support to enable bond (debt securities) issuance as a mechanism for fundraising. Moreover, non-bank providers in general require more non-financial assistance in the form of advisory support. The main assistance needs include help for entering new markets and fields of activities, and consultancy for compliance with the Code. Other areas of possible support include investment readiness training and coaching, especially for Tier 2 providers, and supporting marketing and sales, and consultancy for the implementation of non-financial services. Tier 3 – very small providers – in particular require holistic support across all types of business function. Finally, there are some topics of increasing relevance for the future and that are valid for all types of providers in all regions, and they reflect the need to respond to the trends of digitalisation, vulnerable groups (gender-responsiveness, refugee finance and youth entrepreneurship), as well as the adaptation and mitigation of climate change.

The outlook for the availability and costs of market funding for non-bank providers is challenging. Although the current funding costs of financial intermediaries are low (due to low interest rates in the euro area (EA) in 2019), they are set to rise due to regulatory changes (stricter regulation of the financial sector, for example Basel III and its subsequent reforms) and potentially, increasing inflationary pressure. This

([18]) ibid.

([19]) In 2017, the Financial Stability Board (FSB) reported that 'Fintech is defined as technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services' (FSB, 2017: FinTech and market structure in financial services, p. 1).

([20]) Refer to Graph 2, World Bank (2018b): Global Findex Database for access to bank accounts, and Batsaikha, U., Demertzis, M. (2018): Financial literacy and inclusive growth in the European Union. In Europe, the Bank of Portugal is implementing an inclusive strategy for digital financial literacy improvement at the first fintech peer exchange programme for regulators, organised by the Czech National Bank and the Alliance for Financial Inclusion (AFI) in Prague on 26-27.9.2019 (Leitão, M. L., 2019: Global Fintech Dialogue).

([21]) For the challenges, please refer to the subsection on 'European Union-funded financial instruments' below.

([22]) OECD (2017): International migration outlook 2017.

([23]) The estimated number of Tier 1 bank and non-bank providers in Europe is between 10 and 15 institutions. Mostly smaller banks and larger non-bank providers would be in need of such a mechanism. As for the definition of 'Tier 1', see European Microfinance Platform (e-MFP) (2013): e-MFP Action Group of Investors in Tier 2/3 MFIs. MicroRate and other stakeholders discussed a categorisation of MFIs that is widely accepted among investors. Providers are grouped in three tiers according to size, sustainability and transparency; refer to the Glossary for definitions of Tiers 1 to 3.

means that debt funding will be less available, or costlier, and that banks targeting microfinance may exercise greater caution in serving the market ([24]). Non-bank providers will likely need increased non-market debt funding in the period 2021-2027.

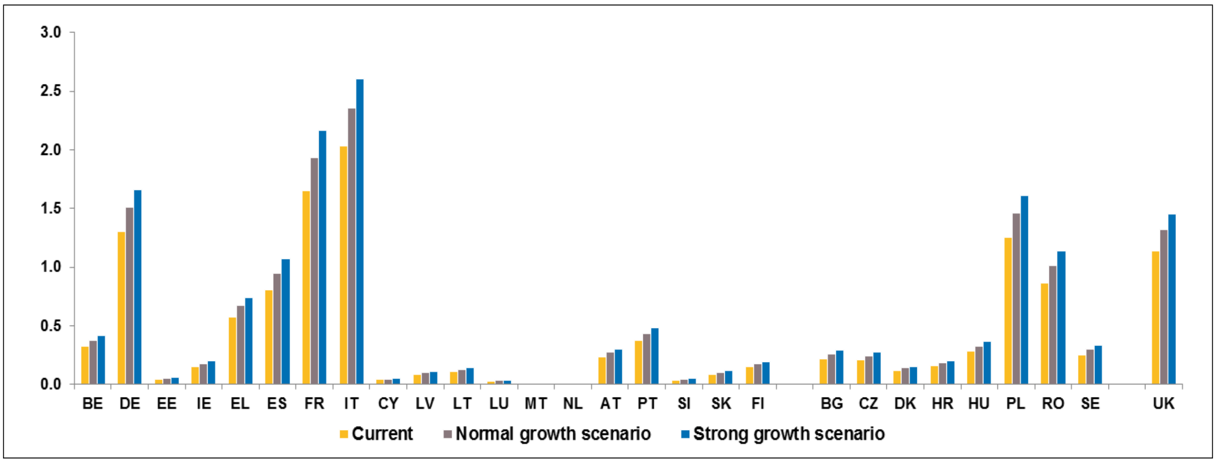
Market failures

Market failures can cause a mismatch between (potential) demand for microfinance and the supply of it coming from financial institutions. Within the EU, the nature and extent of market failures vary among the EU Member States because of, among other things, differences in economic development, level of development of the national financial sector, regulatory environment and business infrastructure.

The most remarkable market failures are in the immature markets of **central and eastern Europe**, where the lack of information (regarding financial record-keeping and credit data) and information asymmetry (between the financial institution and entrepreneur) are most notable. Moreover, these are the regions where the gap between financial literacy and digitalisation within enterprises is widest. Accordingly, in terms of financial instruments and supporting measures (e.g. information and capacity building), the results could lead to a stronger demand within InvestEU from these countries.

Another important observation at EU level corresponds to the **wide variety between national regulations regarding microfinance provision**. Although a large number of EU Member States allow for microcredit provision directly by non-bank providers in their legislative framework, in a number of EU countries this is not possible, such as Germany, Greece and Serbia. In some countries, such as Germany, banks are the only entities that can perform all lending activities, and non-bank providers must act as agents. Elsewhere, the so-called 'banking monopolies' – where only banks can issue loans – can force cooperation between non-bank providers and banks, as is the case in Greece (although a legislative initiative is underway) and Serbia (where microloan portfolios are always held on the banks' books). In the case of Portugal, which passed a restrictive regulation in 2010, there are no operating MFIs, and banks currently disburse microloans in partnership with social organisations. In the case of Ireland, although there is no general regulation on microcredit, the only non-bank provider operating in the country has received a specific mandate from the government to lend to micro-enterprises.

Graph 3: Financing gap and scenarios for 2027 in the European Union (billion EUR)



Sources: Eurostat, European Central Bank (ECB) Survey on the access to finance of enterprises (SAFE) reports, Global Entrepreneurship Monitor (GEM) 2019a, EMN-MFC overview survey, EIF, Consultative Group to Assist the Poor (CGAP) Funder Survey, European Commission Spring 2019 forecast, European Commission Global 2050 report and calculations made by the authors

The mismatch: Financing gap

The financing gap ([25]) describes the difference between supply of and unmet demand for microfinance for micro-entrepreneurs and vulnerable members of the population. The size of the existing and expected future market gap depends on growth in demand and supply, and the extent to which market failures arise over time.

([24]) Regulatory changes following the Basel III reforms will lead to decreased return on equity (ROE) in the EU banking sector by tightening up minimum capital and higher liquidity requirements in the aftermath of the 2008 global financial crisis. In response, banks might withdraw from low-profitability and high-risk clients, such as microcredit providers, or they may microfinance clients directly. Indeed, current bank loan rejection rates are much higher for micro-enterprises (11.1%) than for small (3.1%) or medium-sized (3.3%) companies, according to the latest results of the ECB SAFE survey published in 2019.

([25]) Refer to Chapters 1 (Methodological approach) and 5 (Market failure and financing gap analysis) for more details of the main report.

The current total estimated financing gap for EU Member States is EUR 12.9 billion per annum [26] (as of 2019), implying a need for increased supply of microfinance products for micro-enterprises and vulnerable members of the population. Based on prices and economic growth recorded in 2019, forecasts suggest that the gap will grow to between EUR 15.0 billion (normal gross domestic product (GDP) growth scenario by 2027) and EUR 16.7 billion (strong GDP growth scenario by 2027). This is because the demand for microfinance is growing faster than the supply available from financial institutions.

For the EFTA country Iceland and the EU candidate countries, the estimated financing gap is EUR 11.1 billion (2019). Forecasts suggest that, regardless of how optimistic the adopted scenario, this gap will increase faster than the overall EU financing gap, mainly because GDP growth in the EU candidate countries will likely be higher than the EU average.

Graph 3 above includes the current and projected market gaps for each EU Member State.

Current financial instruments in the European Union: 2014-2020

If the supply offered through currently available financial instruments in the EU is compared to the unmet demand for microfinance, only 8.7% of that demand is covered. The EU-funded financial instruments take the lion's share of the supply side but, for certain regions, financial instruments managed by other funding providers are relevant. This section outlines relevant financial instruments and their characteristics and gaps, identifying potential for improvement for the upcoming programming period 2021-2027.

European Union-funded financial instruments

Currently, the EU is the most important provider of financial instruments targeting micro-enterprises and vulnerable populations for its Member States. Principally, the support is provided through its main financial instrument for microfinance, the third axis of its EaSI programme, while support to micro-enterprises is also provided in a number of EU Member States through the European Structural and Investment Funds (ESIF) (and through the Instrument for Pre-Accession Assistance (IPA) in some candidate countries).

Employment and Social Innovation programme

The EU launched the **European Progress Microfinance Facility (Progress Microfinance)** in 2010 to increase the availability of microcredits (loans of less than EUR 25 000) for small businesses. The EaSI programme – managed by the European Commission (DG EMPL) – has complemented that support through its Microfinance and Social Entrepreneurship axis since 2014. The **EaSI programme provides the largest amount of funding, with broad coverage** that aims to support micro-enterprises and vulnerable groups in the EU. Furthermore, it targets financial intermediaries in Iceland (as an EFTA country) as well as five EU candidate countries (Albania, Montenegro, North Macedonia, Serbia and Turkey). This support includes funding (provided by the European Investment Bank (EIB) Group, through the EIF), in the form of guarantees, capacity building, debt finance and grants for BDS. The European Commission (DG EMPL) directly manages the non-financial advisory support for financial institutions targeting microfinance and the implementation of the Code.

The first EaSI financial instrument deployed was the EaSI Guarantee Instrument, which started in mid-2015 with EUR 96 million and has been very successful, subsequently receiving additional resources from the European Fund for Strategic Investments (EFSI) to keep pace with market demand, amounting to a total of EUR 409 million for microfinance and social enterprise finance as a capped guarantee. Other EaSI instruments include: the Capacity Building Investments Window, with available funding of up to EUR 26 million, indicatively; the grant of EUR 1 million targeting a pilot for BDS aimed at refugee entrepreneurs; and the EaSI Funded Instrument in the form of debt finance, with EUR 200 million launched in October 2019. The budget for the non-financial advisory support for financial institutions amounts to EUR 7.5 million.

State of affairs of Employment and Social Innovation financial instruments

In 2019, a total of 68 providers from 28 countries contracted the EaSI **Guarantee Instrument** [27] for more than EUR 176 million. The expected volumes resulting from the provision of the EaSI Guarantee Instrument will allow providers to build up a loan portfolio of EUR 2 billion, targeting 246 107 micro-enterprises and members of vulnerable populations. Thus, the projected leverage for the financial intermediaries that

[26] The calculation of the annual financing gap compares the unmet demand for microfinance, taking into account: (a) potential new business founders escaping from social exclusion (EUR 3.29 billion); (b) new business founders (EUR 2.80 billion); (c) the self-employed (EUR 2.95 billion); (d) micro-enterprises (EUR 3.56 billion); and (e) individual farms (EUR 1.51 billion) and extracts the estimated supply of funding (EUR 1.23 billion). The existing supply for microcredit reflects the lack of microfinance across Europe. The main difference with the previous ex ante study (Unterberg, Bendig, Sarpong, 2014: Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument) is that it only estimated the group under (a) above – potential new business founders escaping from social exclusion – on the unmet demand side.

[27] EIF (2020c): Supporting document - Report Semi-annual - EaSI GF -. 31.12.2019.

contracted the EaSI Guarantee Instrument will be 11.2 ([28]). About half of the guarantees target bank providers and guarantee-granting entities and, to a lesser extent, non-bank providers (34%). Only 13% of the outstanding guarantees are less than EUR 1 million (with 3% below EUR 0.5 million). Of the providers, 24% are Tier 2 providers, and only one Tier 3 provider – the Greenfield MFI Microlux from Luxembourg, where the EIF is a shareholder – benefits from a guarantee agreement.

In 2017, the European Commission conducted a mid-term evaluation of the EaSI programme for the period 2014-2016 ([29]). The evaluation study showed that a large part of the funding (coverage) provided by the guarantee instrument was allocated to countries with a more developed market. The report recommended to ensure a larger focus on underdeveloped markets and to put more emphasis on the capacity-building activities for strengthening financial intermediaries.

Recent data provided by the EIF show that the country coverage has changed significantly since then ([30]). However, comparison of the distribution of the financing gap (needs) over the countries, amounts and types of providers with the coverage of EaSI Guarantee Instrument show that the EaSI programme is still not optimally geared towards countries and providers with the greatest need. This is partly caused by the open-call mechanism used, which has resulted in a lack of applications from some countries. The streamlining of application requirements for banks and non-bank providers likewise makes it challenging for smaller Tier 2 and Tier 3 non-bank providers to apply. The fixed cap of the guarantee instrument is not well designed for differences in risk profiles for the covered portfolio (for different vulnerable groups of clients).

The current design of the EaSI Guarantee Instrument appears to make it difficult to enter into contracts with innovative providers (such as platforms) and fintech providers. Typical challenges include: (a) different types of fintech business models that need different legal treatment on the contractual side; (b) higher risk profiles of fintechs because of being relatively recently established and small-sized firms; and (c) 'flexibility' of loan portfolios: due to the evolving options of the market, microfinance providers may choose to transfer their portfolios to a third-party provider (e.g. external lending platform), which makes it difficult to track the portfolio and keep it within a guarantee agreement.

Table 1: The three pillars of the Employment and Social Innovation programme for microfinance: An overview

Financial instruments	Grants	Advisory support
• Guarantee • Capacity building • Debt	• Business development services	• Assessment • Training • Help desk • Workshops

The **EaSI Capacity Building Investments Window** helps to build up the institutional capacity of bank and non-bank providers, as well as funds or vehicles directly or indirectly targeting microfinance. At the end of 2019, there had been 22 applications and 11 contracts signed for EUR 21.5 million (of which, EUR 12.5 million target microfinance) ([31]). The support materialises principally through subordinated loans and, to a lesser extent, equity. This financial instrument is relatively innovative as it is not linked to the origination of loans, but rather targets investments for building the organisational capacity, which in turn strengthens the performance of the institutions ([32]). A barrier is that standardisation (in terms of subordinated loan or equity products for non-bank providers) is difficult to achieve for this instrument; making more use of grants for capacity building could simplify the transactions. Another challenge is that there is no accompanying advisory support available to ensure the success of rather large investments. Especially Tier 2 and Tier 3 non-bank providers that have not yet reached financial sustainability need guidance on how to allocate the funds with due care to have a long-term effect on the institution. According to the EIF, the overall amount is already committed and there is a need for EUR 100 million in the future ([33]).

The **EaSI Business Development Services Pilot for refugees and migrants**, for supporting refugee entrepreneurs, is just starting. It targets the support of already existing EIF financial

([28]) ibid.

([29]) European Commission (2019g): Mid-term evaluation of the EU programme for employment and social innovation - EaSI.

([30]) Data for the EaSI Guarantee Instrument are based on transactions until 31.12.2019 (EIF, 2020c: Supporting document - Report Semi-annual - EaSI GF -. 31.12.2019).

([31]) EIF (2020a): EaSI Capacity Building Investments Window (CBIW). Implementation status as at December 2019.

([32]) These refer to: (a) investing in organisational development and expansion, including branch expansion, the scaling-up or building-up of IT infrastructures, investment in human resources and staff training; (b) strengthening operational and institutional capabilities to help sustain a financial intermediary, including Greenfield financial intermediaries; (c) developing the institutional capacity to increase the indebtedness of financial intermediaries while helping them retain a balanced socio-commercial orientation.

([33]) This is in line with data provided from the detailed results of the latest EMN-MFC overview survey, which identifies a need for EUR 23 million of equity per annum (Diriker, D., Landoni, P., Benaglio, N., 2018: Microfinance in Europe).

intermediaries with a grant of EUR 400 for each provision of BDS to refugee entrepreneurs to cover a portion of their operational costs. This mechanism could in future provide an avenue for support of other sectors of the vulnerable population with non-financial services.

The **EaSI Funded Instrument** became operational in the fourth quarter of 2019. This was quite urgently required as most non-bank providers report that the greatest need is for liquid funds in the form of debt finance. According to the latest results provided by the EMN-MFC overview survey, 64% of the non-bank providers require funding of debt finance, with a need for EUR 237 million per annum ([34]). So far, there have been 10 applications, most of which were for senior loans, while the rest were for subordinated loans (one third of the value requested). The first financing agreements will be signed mid-2020.

The **EaSI Technical Assistance programme** (Advisory Support) is in its third phase (ongoing). Since its inception in 2015, it has provided a wide array of services (assessments, training, workshops and a help desk) effectively addressing the non-financial support needs of the microfinance providers in more than 20 countries.

So far, EaSI instruments do not foresee the use of direct leverage of private funds with debt (or equity) finance (bond issuance mechanisms, venture investors, crowdfunding, impact investors, etc.), which is almost absent, while most non-bank providers report that the greatest need is in debt finance.

Decentralised financial instruments

Over the 2014-2020 period, the EU Member States planned to commit EUR 21.5 billion from the **European Regional Development Fund** (ERDF) and **Cohesion Fund** (CF) to financial instruments. At the end of 2018, in terms of thematic objectives (TOs), the largest share of funding (56.2%) continues to be allocated for supporting SMEs under TO3. However, up to 2018, the countries implemented financial instruments targeting 51 343 micro-enterprises ([35]).

Under the **programmes funded by the European Social Fund** (ESF) (2014-2020), only a small number of dedicated financial instruments are available for vulnerable groups (such as people with disabilities, unemployed people, refugees and migrants) or micro-enterprises with difficulties in accessing finance, providing those groups with only limited access to microcredits or non-financial assistance. As funding is provided to a very limited number of micro-enterprises, and non-financial services are provided to 1 389 micro-enterprises, the support of ESF will remain important for providing non-financial services to micro-entrepreneurs and vulnerable groups ([36]).

The same applies to the **European Agricultural Fund for Rural Development**, where only 209 micro-enterprises received support ([37]).

For the existing EU support operated through (larger) financial intermediaries (e.g. the EIF of the EIB Group) or through managing authorities (ERDF, ESIF, ESF). The combination of the EIB Group requirements and the ESIF programming cycle implies larger transactions (EIF) or disbursements (ESIF) and lengthy funding procedures.

Other financial instruments in the European Union

Although there are a number of **international funding institutions** ([38]) active in providing financial instruments through bank and non-bank providers in Europe, only a couple of the 19 funding institutions have a focus on several regions of Europe. Most of them provide funding in south-east Europe ([39]) to more commercially oriented microfinance sectors operating commercial conditions for banks and mostly Tier 1 providers, albeit with uncollateralised lending

([34]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([35]) European Commission (2019s): Financial instruments under the European Structural and Investment Funds. The micro-enterprises received loans (9 469 micro-enterprises), guarantees (40 010), equity (962) and other support (902 – e.g. interest rate subsidies, guarantee fee subsidies). The report does not segregate values of financial instruments targeting micro-enterprises.

([36]) At the end of 2018, the ESF/Youth Employment Initiative provided financial support to 1 389 micro-enterprises in Bulgaria, Germany, Italy, Hungary, Latvia and Poland (European Commission, 2019s: Financial instruments under the European Structural and Investment Funds). A recent publication provides an insight into different ESF programmes in Belgium, Bulgaria, Italy, Poland and Spain and underlines the importance of the provision of non-financial services by ESF-funded programmes (EMN, 2019a: Five case studies between the relationship of microfinance and the European Social Fund (ESF)). Five case studies look at the relationship between microfinance and the ESF. However, more recent reports claim that there are 3.3 million SMEs for non-financial services, out of which 3.1 million are in France (European Commission, 2019f: Final ESF Synthesis Report of Annual Implementation Reports 2017).

([37]) European Commission (2019s): Financial instruments under the European Structural and Investment Funds. In 2018, financial instruments under the European Agricultural Fund for Rural Development targeted 105 micro-enterprises and small farms (with less than five hectares) in Estonia, 84 micro-enterprises in France, 18 micro-enterprises in Croatia and 2 micro-enterprises in Romania.

([38]) These are multilaterals, bilateral development finance institutions, impact investors/microfinance investment vehicles (MIVs), ethical banks and international banks with microfinance investment portfolios. See Chapter 6 for more information.

([39]) This is for the EU Member States Bulgaria and Romania and the candidate countries Albania, Montenegro, North Macedonia and Serbia.

and sometimes longer loan terms. According to the latest available figures, these funding institutions provided EUR 529 million – mostly debt finance – to six countries ([40]). The focus of international lenders on commercial banks means that finance for micro-enterprises with profiles that are riskier is not well catered for in most of the EU Member States.

Conclusions and recommendations

The analysis reveals that, over the programming period 2014-2020, EU action has supported the growth of microfinance as an effective tool for supporting social inclusion. Microfinance represents a growing market. For the upcoming budget and programming period (2021-2027) there will be a widening financing gap coexisting with a strong potential to enhance the role of microfinance and of microfinance providers in the EU Member States, as a means of promoting growth, employment and inclusion. The lack of market funding and the need to support the growth and strengthening of the financial institutions targeting microfinance highlights the need to further increase funding and other support measures for the MFF 2021-2027.

The report also shows that there is a strong case for EU public intervention. Failures in the markets for microfinance are persistent across the EU, and the need for microfinance and non-financial support are especially large for non-bank providers and micro-enterprises in southern and eastern European countries. Further, there is a wide variety in legal frameworks for microfinance between Member States, especially in relation to the functioning of non-bank providers.

For the new programming period 2021-2027, EU financial instruments will be managed under the InvestEU programme, replacing EFSI. InvestEU will bring under one umbrella EFSI, EaSI and 12 other EU financial instruments currently supporting investment in the EU. The related EU budgetary guarantee will have the volume of EUR 38 billion, of which EUR 4 billion will target the policy area ‘Social investment and Skills’, including microfinance. Other InvestEU priorities include support for a carbon-neutral Europe under the Climate Action Plan, as well as gender equality.

The next subsection outlines the specific recommended courses of action for the new programming period, segregated in five large clusters as follows (please refer also below).

Harmonisation of legislative frameworks for microfinance in Europe

The case for EU public intervention is important regarding **harmonisation of legislative frameworks in EU Member States for microfinance provision**. The EU could more extensively analyse the differences in national legal frameworks and discuss the potential for standardising regulations regarding non-bank providers with the EU Member States. Notably, the Code provides a harmonising ‘soft regulation’ where national regulation still prevails.

Therefore, there is scope to explore establishing a policy dialogue with the relevant actors and regulatory bodies in countries where only banks can provide loans (such as Germany, Greece and Serbia) or in those where, despite regulatory efforts, non-bank providers still struggle to provide loans or set up MFIs (such as Cyprus and Portugal) to provide a level playing field and harmonising, as appropriate, the legislative framework across Europe in line with the EU single market rules.

Continuation of the existing financial instruments by aligning them better with the changing needs of the market ([41])

In order to counterbalance the increasing financing gap, **centralised financial instruments for microfinance should continue, but with increased resources compared to 2014-2020.**

The analysis has revealed that there is currently no difference in conditions for financial instruments according to whether a provider targets micro-enterprises or vulnerable groups. In addition, the same procedures and conditions for accessing financial instruments apply for smaller Tier 2 and Tier 3 providers and for innovative fintechs ([42]). These conditions thus exclude those providers that opt for small transactions with higher risk profiles, more recently established providers (with a short track record) and innovative lending platforms.

The first suggestion is to provide existing financial instruments with different conditions depending on the target market and maturity, and size of provider as below (recommendations 1 and 2).

1. Increase the volume of guarantee and funded (debt) instruments targeting existing final beneficiaries (micro-enterprises) at market conditions

The needed funding for the total guarantee and funded (debt) instruments should reach up to EUR 0.84 billion (EUR 0.24 billion for the guarantee instrument; EUR 0.60 billion for the funded instrument). The financial intermediaries would comprise bank and non-bank providers,

([40]) Tomilova, O., Dokle, E. (2019): CGAP Funder Survey 2017. Extracted from the database.

([41]) Refer to Table 4 for the volumes of financial instruments and grants mentioned in brackets.

([42]) There are some examples of EIB Group support to lending platforms, such as Lendix in France (EIB, 2017: Crowdlending) and, indirectly, in Jordan with liwwa through the Badia Impact Fund (EIB, 2019: Arab women chart a new business path).

mostly Tier 1 and Tier 2 providers, funded at market conditions and with lower caps (for the guarantee instrument). The focus should be on target recipients of already established and operational micro-enterprises and self-employed people that pose less risk but increasingly lack funding. Moreover, firmer attention could be given to the EU Member States with most need and the highest expected growth in demand for microfinance (southern and eastern Europe). Given the reported needs in relation to non-bank providers' debt funding, it seems necessary to speed up the implementation of the funding instruments.

2. Provide guarantee instruments and funded (debt) instruments with softer conditions targeting vulnerable customers

From the analysis, it becomes clear that, at the financial intermediary level, not all types of institutions get access to funding or guarantees. This has an impact, with insufficient targeting at the final-beneficiary level – vulnerable groups and farmers, which are riskier – and thus some groups are often entirely excluded from access to finance. Currently:

a) funders find it difficult to enter into transactions with innovative providers (fintech);
b) smaller Tier 2 and Tier 3 providers are overburdened due to uniform appraisal and due diligence procedures in the EIB Group (EIF) and when entering and exiting transactions takes considerable time, regardless of the (very small) values of these transactions;
c) all types of providers (including small and innovative providers) need to support final beneficiaries from vulnerable groups to promote inclusive entrepreneurship.

The added value of targeting the current financial instruments carrying softer conditions responds to the needs of certain providers and client groups, and enables risk coverage conditions, encouraging financial intermediaries to enter into these markets. These changes could help encourage new financial initiatives – such as crowdfunding platforms, impact investors, etc. – to 'leave no one behind' and to have a stronger social impact. Instruments should offer 'softer' conditions when targeting vulnerable groups and smaller or innovative providers that are considered riskier, for example via a higher guarantee cap, a longer loan term or partially priced debt products (below market rates).

Furthermore, in terms of managing these instruments, one possibility would be for the EIB Group or other IFIs to manage delivery options centrally; another route might involve national governments managing these instruments through national promotional banks ([43]). The financial instruments with softer conditions **could have a volume of** EUR 0.60 billion for the funded (debt) instrument and EUR 0.09 billion for loan guarantees.

3. Tailor the financial products for capacity building (e.g. subordinated debt) better to the characteristics of financial intermediaries

Financial instruments (e.g. subordinated debt) that target capacity building for non-bank providers should continue and grow (EUR 0.09 billion), including fintech companies and innovative lending platforms. In certain situations, the current Capacity Building Investment Window provided through the EaSI programme, which offers support through subordinated debt or equity, is very complex or does not respond to the intervention logic (e.g. it does support operational expenditures through repayable subordinated debt). On one hand, there is a need for more tailored subordinated debt that targets (repayable) investments. On the other hand, it is essential for non-bank providers, small commercial banks, fintech companies and lending platforms that are growing, to obtain support through equity and governance strengthening and not to link it directly to capacity-building activities. This support could function through the detachment of the equity investments from the Capacity Building Investment Window into a separate equity instrument (EUR 0.09 billion).

Development and implementation of new European Union-level financial instruments *([44])*

4. Create an inclusive guarantee instrument that supports the issuance of social bonds

The EU could also support underserved groups through guarantee instruments (e.g. taking exposure of 50%) that back the issuance of 'social bonds' ([45]) targeting microfinance by larger (Tier 1) non-bank providers and banks. This would provide those providers, which have

([43]) This recommendation follows the framework of the InvestEU programme. However, because of the challenge of lengthy transactions involving small amounts, there is a need for leaner procedures, especially when it comes to smaller amounts requested by the non-bank providers (less than EUR 500 000). Similar to the outline of the European Green Deal (European Commission 2020a: The European Green Deal), European policymakers should evaluate how to enable the implementation of the inclusive instruments via digital transformation and tools. One scenario could be the establishment of a digital platform attached to InvestEU that provides access to guarantee and debt instruments for up to EUR 500 000.

([44]) Ibid.

([45]) 'Social bonds' are any type of bond instrument exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects, including microfinance (International Capital Market Association, 2018: Social Bond Principles).

exhausted other funding sources targeting microfinance, the possibility to set up an alternative vehicle for attracting funds from private and institutional investors specifically interested in supporting microfinance. The development of an EU 'social' taxonomy for the Capital Markets Union would be an important development in that regard. Support would considerably scale up the funding available to vulnerable groups and provide larger non-bank providers and banks with a new funding mechanism.

According to projections and market needs for the period 2021-2027, **new financial instruments in the form of social bond guarantees** would rise to EUR 0.24 billion.

5. Allocate EU resources more proactively in line with the needs of countries

Several countries have a large market gap in terms of financing: Italy (EUR 2.0 billion), France (EUR 1.7 billion), Poland (EUR 1.3 billion), Romania (EUR 0.9 billion) and Spain (EUR 0.8 billion). Some of these countries have a dysfunctional financial sector (Poland and Romania) or face challenges related to unemployment (France, Italy and Spain). For these reasons, it would be important to monitor whether resources are assigned to those countries with a greater need for microfinance and non-financial services for vulnerable groups. There are several options for aligning EU resources more closely with the needs for finance and non-financial support in those countries.

a) One option is to set minimum thresholds for the financial instruments targeting microfinance and require the funding institutions to be more proactive in countries where the stated interest is weaker than expected, but where needs are high and more interest can be anticipated from non-bank providers.
b) A second option is to promote the use of microfinance actively in the ESIF operational programmes (OPs) in the countries with greatest need.
c) A third option is to set up dedicated funds per country for microfinance support, using structural funds.

It would be worth exploring these options further, or considering a combination of options.

Due to the rise of innovative platforms, new financial instruments should function in a way that involves minimal bureaucracy and enables rapid responses, while ensuring full compliance with relevant EU governance and budget management provisions.

Inclusion of microfinance as part of the impact-driven portfolio of other European Union financial instruments

A number of recommendations emerge for adapting current EU instruments (ESIF) to the expected needs of the microfinance market and non-bank providers and to reflect the importance of having an impact on the inclusive growth guided by the United Nations (UN) Sustainable Development Goals (SDGs), as referred to in the final section of this executive summary.

6. Increase the visibility of Cohesion Policy ESIF instruments for support to microfinance institutions and micro-enterprises in lagging regions of southern and eastern Europe

In line with the previous recommendation, there could be greater promotion of the use of Cohesion Policy ESIF instruments for support to non-bank providers and micro-enterprises in lagging regions of southern and eastern Europe. Moreover, there is a need for more advisory support projects for entrepreneurs under ESIF in areas such as financial education and digitalisation. In light of the high levels of youth unemployment and challenges relating to gender equality in southern and central Europe and the Balkans, these projects could target young and female entrepreneurs in particular.

7. Expand funding to meet low-carbon and energy-efficiency aims through reductions in the greenhouse emissions of micro-enterprises

Instruments such as the Private Finance for Energy Efficiency (PF4EE, part of InvestEU, under the LIFE – L'Instrument Financier pour l'Environnement – programme, which is the EU's funding instrument for the environment and climate action) could expand to include microfinance providers serving micro-enterprises. This could go hand in hand with a renewed focus on lagging regions (Bulgaria, Greece, Hungary, southern Italy, Poland, Portugal and Romania). In this context, it is important to coordinate with other instruments and institutions active in the field of energy efficiency (e.g. the EIB, PF4EE, Directorate-General for Regional and Urban Policy (DG REGIO), ESIF and the European Bank for Reconstruction and Development (EBRD) as the initiator of energy efficiency credit lines in transition countries).

Other related policy measures

Finally, a number of recommendations in this report aim to enhance financial intermediaries targeting microfinance in the EU and step up capacity-building efforts (especially in the EU Member States in southern and eastern Europe).

8. The legal ceiling (maximum amount) for microcredit – currently EUR 25 000, in force since 2003 – is outdated and does not match the EU/Eurostat definition of a micro-enterprise. Thus, the recommendations are: (a) to raise the ceiling for microcredit to between EUR 40 000 and EUR 50 000,

reflecting changes in inflation and economic development thus far, but also in anticipation of the economic impact of the upcoming programming period 2021-2027; (b) to adopt the definitions of micro-enterprise and microfinance from the European Social Fund Plus (ESF+) of InvestEU ([46]), namely: *11) 'microfinance' includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities; (12) 'micro-enterprise' means an enterprise with fewer than 10 employees and an annual turnover or balance sheet below EUR 2 000 000.*

9. As a policy instrument to assist vulnerable groups, 'social inclusion loans' ([47]) that aim to finance the basic needs of education, health, housing and aid job creation could potentially be considered subject to a thorough assessment. However, any recognition of loans for certain personal use needs to come with appropriate safeguards to mitigate the risks – as those are not financing income-generating activities – and prevent over-indebtedness of customers.

10. In acknowledgement of digitalisation and the guidance provided by the UN SDGs, all related programme and project documentation should include the eligibility of fintechs in a broader sense and a chapter explaining the link to the SDGs.

Harmonisation of legislative frameworks for microfinance in Europe

Policy dialogue referring to regulations enabling non-bank providers to provide loans (Cyprus, Germany, Greece, Ireland, Portugal, Serbia)

Continuation of existing financial instruments by aligning them better with the changing needs of the market	Development and implementation of new EU-level financial instruments	Inclusion of microfinance as part of the impact-driven portfolio of other EU financial instruments	Implementation of other related policy measures
1. **Increase guarantee and funded debt instruments** to counterbalance the increasing financing gap (targeting existing micro-enterprises) at market conditions, with a firmer focus on the EU Member States with most need (southern and eastern Europe) and the highest expected growth in demand for microfinance.	4. Create a **guarantee instrument that supports the issuance of 'social bonds'** for inclusive entrepreneurship by Tier 1 non-bank providers and banks. This would considerably scale up the funding available to vulnerable groups and provide larger non-bank providers and banks with a new funding mechanism.	6. Anticipate **Cohesion Policy ESIF instruments** that provide support to non-bank providers and micro-enterprises in lagging regions (southern and eastern Europe), targeting young and female entrepreneurs.	8. Adjust the **legal ceiling (maximum amount) for microcredit** to between EUR 40 000 and EUR 50 000 for the future. Likewise, adopt the definitions of micro-enterprise and microfinance used by the ESF+ and InvestEU.
2. **Continue** with financial instruments (guarantee and funded debt instruments) with softer conditions as an incentive to target vulnerable groups and smaller or innovative non-bank providers; create a stronger social impact; and explore new initiatives and technologies in order to 'leave no one behind'.	5. **Allocate EU resources more proactively**, in line with the needs of countries (France, Italy, Poland, Romania and Spain). Proposed options are thresholds, ESIF or dedicated microfinance funds.	7. Expand **funding to meet low-carbon and energy-efficiency aims** through reductions in the greenhouse emissions of micro-enterprises (ESIF – via PF4EE – and the EBRD).	9. Evaluate **the acknowledgement of 'social inclusion loans'**, which seek to finance the basic needs of education, health, housing and job creation under the EaSI programme for microfinance.
3. **Expand capacity building for non-bank providers** and detach equity investments by setting up a separate investment window for equity.			10. Include in all related programme and project documentation the eligibility of fintechs in a broader sense and a chapter explaining the link to the SDGs.

([46]) European Parliament (2018): Impact Assessment: Accompanying the document proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus (ESF+), p. 26.

([47]) Footnote 7 elaborates on the global paradigm shift towards social inclusion within microfinancing.

Sustainable Development Goals

The market analysis and subsequent recommendations for delivery options within the new MFF 2021-2027 will respond to the implementation of the UN Sustainable Development Agenda by 2030 ([48]).

As a frontrunner, the EU committed to the achievement of the Sustainable Development Agenda and its 17 SDGs (see Figure 1), together with its Member States. Taking responsibility at the EU level is important, as the SDGs establish priorities and targets. EU policies agreed at the EU level need to be implemented by all EU Member States addressing the achievement of the SDGs. This means that, particularly for the centrally managed EU support targeting microfinance, the financial instruments and policies need to relate to the fulfilment of the SDGs.

Recognising the significance of implementing the SDG framework as a whole (i.e. the environmental, social and economic dimensions of sustainable development), the financial instruments for microfinance in Europe will most likely address over half of the SDGs.

Therefore, the SDGs identified in Table 2 for the financial instruments targeting microfinance need to be further analysed in view of the UN's 2030 Agenda for Sustainable Development, for their positive contribution to sustainable development along the impact chain.

The implementation of the SDGs and their associated indicators should serve as a 'compass' for investment decisions (for guarantee, funded, capacity-building, subordinated debt and equity instruments) and any monitoring/reporting during any investment period. Furthermore, they should reflect the contribution to the SDGs that should be included in an impact report. Table 2 contains a summary of the nine SDGs ([50]) assigned to the proposed financial instruments targeting microfinance.

Figure 1: Overview of the Sustainable Development Goals

Source: Reproduced from United Nations (2019b)

The recommended course of action encompasses financial instruments targeting microfinance.

The 17 UN SDGs leave some room for interpretation. In addition, the 232 indicators for the global monitoring of SDG progress as defined by the UN primarily provide a framework for the country-level SDG plans. These are also monitored at EU level ([49]).

([48]) Four years ago, the UN General Assembly formally adopted the universal, integrated and transformative 2030 Agenda for Sustainable Development, together with a set of 17 SDGs and 169 associated targets.

([49]) Sustainable Development Solutions Network (SDSN), Institute for European Environmental Policy (IEEP) (2019): The 2019 Europe Sustainable Development Report.

([50]) These refer to SDG 1 – No poverty, SDG 2 – Zero hunger, SDG 4 – Quality education, SDG 5 – Gender equality, SDG 7 – Affordable and clean energy, SDG 8 – Decent work and economic growth, SDG 10 – Reduced inequalities, SDG 13 – Climate action and SDG 17 – Partnerships for the goals. Refer to the main report for the suggested indicators for measuring the implementation.

Table 2: Sustainable Development Goals connected to the recommended delivery options targeting microfinance in 2021-2027

Topics	**Final beneficiaries**	1 NO POVERTY	2 ZERO HUNGER	4 QUALITY EDUCATION	5 GENDER EQUALITY	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS
Description of goal	–	End poverty in all its forms everywhere	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Achieve gender equality and empower all women and girls	Ensure access to affordable, reliable, sustainable and clean energy	Promote sustained, inclusive and sustainable growth, full and productive employment and decent work for all	Reduce inequalities	Take urgent action to combat climate change and its impacts	Strengthen the means of implementation and revitalise the global partnership for sustainable development
Financial instruments targeting microfinance	Micro-enterprises and vulnerable groups	✓	✓	✓	✓	✓	✓	✓	✓	✓
EU policy highlight ([51])	na	European Pillar of Social Rights	Common Agricultural Policy	European Pillar of Social Rights	European Commission strategic engagement for gender equality 2016-2019	European Energy Union	Juncker Plan/EFSI	European Pillar of Social Rights/EU Cohesion Policy	EU Covenant of Mayors for Climate and Energy	EU External Investment Plan (EIP) and European Fund for Sustainable Development (EFSD)

Note: na = not applicable.

([51]) European Commission (2019h): Reflection Paper.

Outlook

For the upcoming MFF 2021-2027, the proposed budget for the financial instruments for microfinance is EUR 1.95 billion, targeting 0.7 million micro-enterprises and members of vulnerable populations that generate or sustain 1.3 million jobs ([52]), with overall funding available of EUR 7.39 billion . Table 3 includes the recommended delivery options presented by those to be offered at market conditions and those with softer conditions focusing on more vulnerable groups, smaller and innovative microfinance providers.

Financial instruments for microfinance (EUR 1.02 billion) at market conditions. Provision of financial instruments to private sector banks and larger non-bank providers targeting established micro-enterprises is needed because of the large financial gap. This would create an impact due to the large funding volumes of these financial intermediaries. The recommendation is that the EIF, as an experienced fund manager, continues managing the financial instruments, including the more complex funding operations of capacity building and the new equity fund. However, a review towards the finalisation of the funding (2023) periods will highlight whether the measures should continue on the same basis or be organised under a different mode.

Financial instruments (EUR 0.93 billion) targeting vulnerable populations and smaller as well as innovative providers with softer conditions([53]).These instruments address poverty and the financial inclusion of vulnerable members of society, including people with disabilities, unemployed people, young and elderly people, women, immigrants, refugees and minorities. On the other hand, smaller providers that typically cater for the most vulnerable groups and new innovative providers, such as fintechs and lending platforms, face challenges in accessing any kind of financial instruments (from both the EU and IFIs). The proposed delivery options refer to guarantees and funded instruments, which will allow providers to create a loan portfolio with more advantageous/flexible conditions, as an incentive to cater for these providers and clients. It will also include a guarantee for social bonds that can be issued by banks and Tier 1 MFIs to fund these target groups in line with the trend of impact investing and to grow their portfolios quickly.

The recommended delivery options targeting microfinance are important for achieving the EU's policy objectives of social inclusion and promotion of entrepreneurship and employment creation, as well as contributing to the transition to a sustainable Europe.

Table 3: Overview of delivery options for the Multiannual Financial Framework 2021-2027 targeting microfinance

Programme	Total delivery options	Guarantee instrument	Funded instrument	Sub- debt	Equity	Loan portfolio	No of micro-enterprises	SDGs
	Delivery options					Impact		
Financial instruments for microfinance (market conditions)	**1.02**	0.24	0.60	0.09	0.09	3.23	276 495	1, 2, 4, 5, 7, 8, 10, 13, 17
Financial instruments for microfinance (softer conditions)	**0.93**	0.33*	0.60	0.00	0.00	4.16	439 448	
Total	**1.95**	**0.57**	**1.20**	**0.09**	**0.09**	**7.39**	**715 943**	**–**
Share	*100%*	*29%*	*61%*	*5%*	*5%*	na	na	–

*Notes: Amounts are in billion EUR. * For the guarantee, the portion covering 'social bonds' is EUR 0.24 billion. Totals are rounded. na = not applicable.*

([52]) According to EIF (2016): Evaluating the impact of European microfinance, some research results from Spain and France indicate between 1.81 and 2.6 jobs per microloan. For the purpose of the report, we adopt 1.81 jobs per microloan.

([53]) The estimations are based on the envisaged leverage of the EIF guarantee portfolio, the EaSI Technical Assistance programme for microfinance results, the funding needs expressed by the microfinance providers of the latest EMN-MFC overview survey and the average amounts required by the different target groups. For further details, see the main report.

INTRODUCTION

The European Union (EU)'s Employment and Social Innovation (EaSI) programme is a financing instrument that aims to promote high-quality and sustainable employment, to guarantee adequate and decent social protection, to combat social exclusion and poverty, and to improve overall working conditions. The European Commission (the Directorate-General for Employment, Social Affairs and Inclusion – DG EMPL) manages the EaSI programme. Support to the microfinance sector is part of the third axis of the EaSI programme ([54]), with the objective of increasing access to, and the availability of, microfinance for vulnerable groups who want to set up or develop their businesses and micro-enterprises, together with building up the institutional capacity of microfinance providers. In addition to the EU Member States, the European Free Trade Association (EFTA) country Iceland and five EU candidate countries (Albania, Montenegro, North Macedonia, Serbia and Turkey, which are eligible for the Instrument for Pre-Accession Assistance – IPA) are currently eligible to participate in the programme.

Under the new Multiannual Financial Framework (MFF) 2021-2027, InvestEU will accommodate a multitude of EU financial instruments under a single umbrella. InvestEU replaces the European Fund for Strategic Investments (EFSI) that was set up after the 2008 financial crisis. InvestEU will bring together EFSI and 13 other EU financial instruments currently supporting investment in the EU, including the EaSI programme. InvestEU will target four policy areas through investments, promoting: (i) sustainable infrastructure; (ii) research and innovation, and digital transformation; (iii) access to finance for small and medium-sized enterprises (SMEs); and (iv) social investment and skills. Other InvestEU priorities include support for a carbon-neutral Europe under the Climate Action Plan, as well as gender equality. The European Commission proposes to reserve EUR 15.2 billion of its budget for the InvestEU Fund, which will enable an EU budgetary guarantee of EUR 38 billion, of which EUR 4 billion will target 'social investment and skills', including microfinance. Combined with the resources of financial partners, the total estimated guarantee available under InvestEU will be EUR 47.5 billion, which is expected to attract additional private and public investments to achieve total investments of EUR 650 billion.

The report presents the market options for financial instruments with a view on the InvestEU Fund for the period 2021-2027. The overall objective of the report is to identify market failures and financing gaps for microfinance in Europe. This will include the main determinants of the gaps between demand and supply, as well as an assessment of the types of financing needed. Furthermore, the report will recommend delivery options ([55]) for future EU-level financial instruments (and potentially grants) to address the identified market failures, financing gaps and suboptimal investment situations. Although a number of studies exist related to the estimation of market gaps and opportunities for microfinance in Europe, there is no updated information that relates the identified market failures to the European microfinance sector. The report presents customised recommendations on the most efficient delivery options for EU-level financial instruments (and potentially grants) under the next MFF 2021-2027. Such measures will assist the EU in achieving some of its key policy areas, as microfinance is a key tool for addressing unemployment, promoting entrepreneurship and fostering social inclusion.

This report reflects the methodological approach described below in Chapter 1. The analysis of the market environment follows in Chapter 2. Chapter 3 considers the microfinance market assessment, covering demand for finance by micro-enterprises. Chapter 4 looks at the supply of microfinance from the perspective of microfinance providers, considering their needs in relation to funding instruments. Chapter 5 presents the market failure and funding gap analysis. Based upon the identified gaps and market failures, Chapter 6 assesses gaps in the coverage of current EU funding instruments. The report concludes with Chapter 7, which provides recommendations on EU financial instruments.

([54]) The three axes of EaSI support are: (i) modernisation of employment and social policies under the PROGRESS axis (61% of the total budget) (European Commission, 2019r: Progress axis of EaSI); (ii) job mobility under the EURES (European Employment Services) axis (18% of the total budget) (European Commission, 2019o: EURES axis of EaSI); and (iii) access to microfinance and social entrepreneurship under the Microfinance and Social Entrepreneurship axis (21% of the total budget) (European Commission, 2019q: Microfinance and Social Entrepreneurship axis of EaSI). This third axis includes two thematic sections: (i) microcredit and microloans for vulnerable groups and micro-enterprises; and (ii) social entrepreneurship.

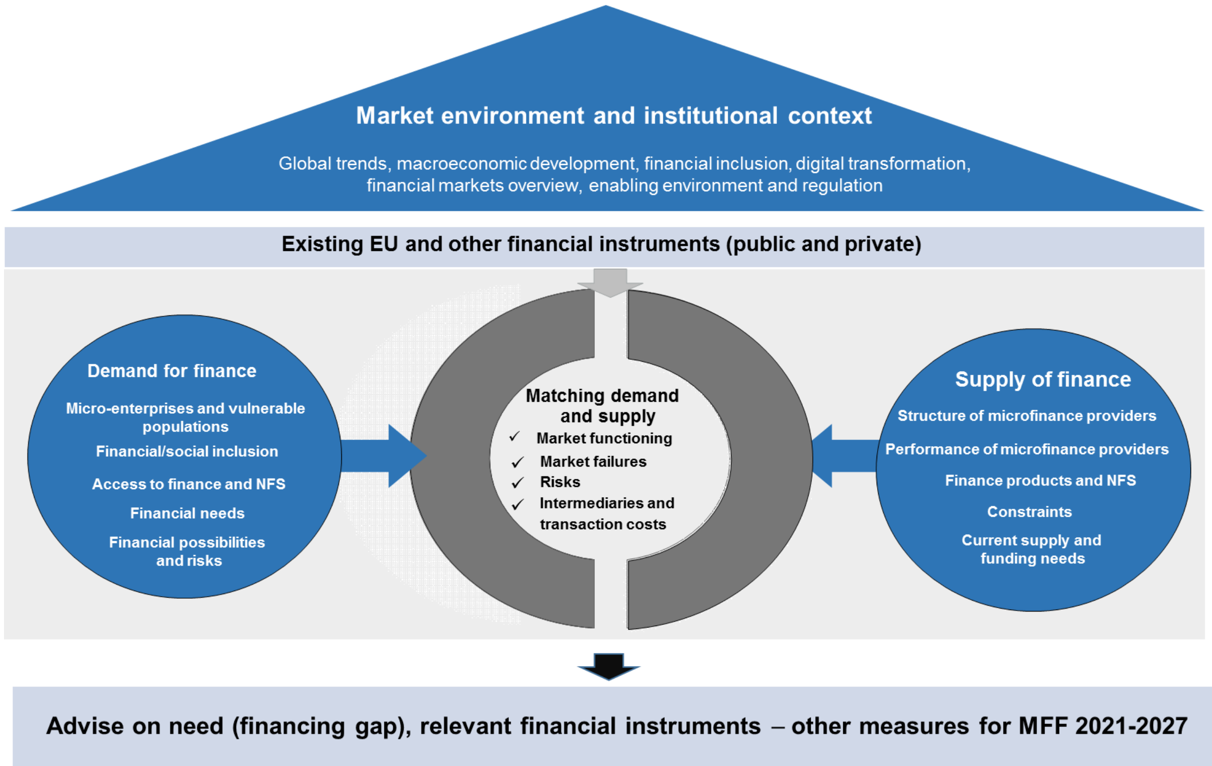
([55]) This also includes reviewing, determining the continuous use of and expanding the existing EaSI Financial Instruments (EaSI Guarantee Instrument, EaSI Capacity Building), as well as the EaSI grants for BDS and for transaction cost support (only for microfinance), which the European Investment Fund (EIF) manages centrally.

1. METHODOLOGICAL APPROACH

1.1. Conceptual framework

The conceptual framework underpinning the analysis in this report consists of several analytical elements, which serve as the building blocks and steps in the overall approach for the work performed (see Figure 2 below).

Figure 2: Conceptual framework markets for microfinance



Note: NFS = non-financial services.

The conceptual framework has several central analytical elements (building blocks):

1. **Market environment and institutional context.** Micro-enterprises' demand for finance and supply-side provision (microfinance providers) are strongly influenced by demographic conditions, macroeconomic factors and the institutional context. Economic and demographic developments influence the rate of creation of new micro-enterprises and the growth rate of existing ones, which in turn influences investments (and drives the demand for finance). Macroeconomic developments, such as interest rates, influence sector-relevant finance conditions. The policy environment and regulatory factors (e.g. ease of establishing a business), which vary by country, also have an impact on the number and growth of micro, small and medium-sized enterprises (MSMEs).
2. **The demand for finance by micro-enterprises.** In addition to macroeconomic developments, micro-enterprises' demand for finance is also related to market structure (subsectors, company size, competition) and revenue performance (cash flow, yield, profit). Socioeconomic developments, such as unemployment, poverty, migration, income distribution, etc., are also important for the development in the size and characteristics of vulnerable groups and individual motivations for working on a self-employed basis.
3. **Supply of finance by microfinance providers.** Supply of finance is influenced by general developments in the financial sector and overall financial market conditions (interest rates, overall performance in the financial sector), together with risks for financial providers in relation to market failures. Understanding the nature of market failures and specific perceived and real risks is essential for designing new financial instruments or other solutions.
4. **Market failures and credit constraints.** The interaction of demand and supply in any financial market depends on its functioning. Market failures can hamper the operability of the financial market, such as imperfect or asymmetric information between suppliers and demanders or a lack of legally defined rights. Credit market imperfections are central to the analysis of the financing gap, especially when recognising that credit constraints can impinge on the performance and growth of

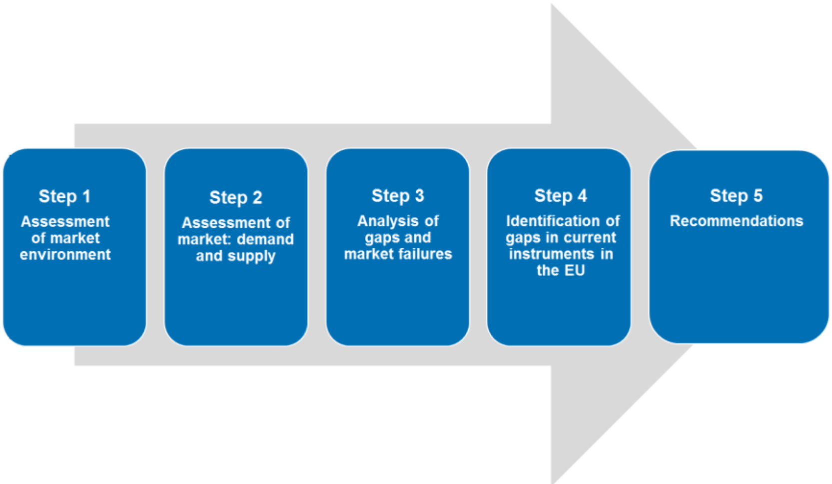
the size of enterprises. A thorough analysis of market failures and credit constraints is important to quantify the financing gap and derive appropriate solutions, such as new financial instruments.

5. **EU and non-EU funding instruments to address the financing gaps.** There are several available funding instruments that aim to address finance constraints arising from market gaps and imperfections: for example, the EaSI financial instruments and the financial instruments funded by the European Structural and Investment Funds (ESIF). An assessment of currently available funding instruments and the identification of gaps in the current instruments is necessary to identify where there are missing instruments to address particular market failures.

Building blocks for this assignment

Based on the conceptual framework described above, Figure 3 shows the building blocks (or steps) undertaken to assess failures and the investment needs in the area of microfinance.

Figure 3: Key steps in the methodological approach



Step 1. Assessment of the market environment, including global trends. This step identifies and summarises factors relevant to the demand, supply and (dis)equilibrium of the market for microfinance within the EaSI programme countries.

Step 2. Market assessment consists of an analysis of demand, supply and market functioning, gaps and market failures. The assessment is based on both quantitative data drawn from existing surveys and qualitative data derived from desk research and on one expert interview with the EIF. The assessment addressed: (i) demand for finance by the vulnerable population and micro-enterprises in Europe and (ii) the supply of finance by microfinance providers.

Step 3. Market failure and gap analysis. This step identifies market failures and financing gaps in the market for microcredits for the vulnerable population and micro-enterprises. It focuses on identifying the needs of EU Member States and other EFTA countries and candidate countries, as well as clusters of countries with significant problems in availability and access to finance for micro-entrepreneurs.

Step 4. Assessment of gaps in currently available EU funding instruments relevant for EaSI programme countries. Based on the presentation of an inventory of currently available EU funding instruments, gaps in the funding instruments are highlighted. Assessment of the gaps provides the basis for the formulation of recommendations. Furthermore, the report reviews in more detail the EU central financing instrument for microfinance and social entrepreneurship – the third axis of its EaSI programme – for microfinance in this step.

Step 5. Recommendations. Following from the previous steps, recommendations concerning present instruments and options for future financial and non-financial instruments are made, particularly in relation to addressing gaps identified for (groups of) EaSI programme countries.

1.1.1. Assessment of market environment and institutional context, including global trends

The purpose of the market environment assessment is to identify influencing factors and trends in microfinance in Europe, and globally. The assessment recognises that access to finance does not only depend on adequate funding mechanisms but also on the 'ecosystem' in which the different actors (i.e. funders, microfinance providers and final beneficiaries) operate. Accordingly, the contextual analysis of the ecosystem provides relevant background information about the current market landscape in Europe, referencing macroeconomic trends, financial sector environment and trends related to employment. The regional examination is complemented by analysis of relevant global trends in efforts to address financial inclusion, which could be applicable to the European context. This also covers the topic of **digital transformation** of the financial sector, as it impacts on microlending activity. Finally, the challenge of protecting the environment and its effects on the microfinance industry are addressed.

1.1.2. Market assessment

The market assessment documents funding gaps and identifies market failures and suboptimal investment situations. It presents aggregated data and, where available, country information. The market assessment comprises the following two analytical parts:

1. Demand for financing by micro-enterprises and the vulnerable population (final beneficiaries)

To build a picture of the demand for financing from final beneficiaries, the analysis starts by describing the two main target markets (micro-enterprises and the vulnerable population). This is followed by a review of the current situation of access to finance, which is able to draw on relatively exhaustive data available from the World Bank's 2017 Global Findex database and the accompanying report, and from the Survey on the access to finance of enterprises (SAFE), implemented by the European Commission, together with the European Central Bank (ECB) ([56]). Furthermore, given the demand for non-financial services and their potential benefits to microfinance clients, the report will provide a description of these services and how they are delivered throughout Europe. There is no information available on access to non-financial services, but some findings on the demand by type of customer are described; typically, demand for non-financial services is inversely related to the level of sophistication/development of the final beneficiary.

2. Supply of finance by microfinance providers

This part of the market assessment addresses the funding needs of microfinance providers in the emerging and fragmented European market. It begins with a general overview of the legal and institutional frameworks in different countries and describes the European Code of Good Conduct for Microcredit Provision (or 'the Code'). This is followed by a description of the state of the microfinance industry in Europe, including its structure and different types of providers. It provides a presentation of currently available funding that can be used to support microfinance clients, which offers a baseline against which to define future funding needs (in a growing market).

The assessment of future funding needs of microfinance providers draws on information collected through desk research (secondary data) combined with information from previous surveys conducted by the EaSI Technical Assistance Consortium partners (European Microfinance Network (EMN) and Microfinance Centre (MFC)), which includes information on types of financial instruments required by microfinance providers. To evaluate the supply that microfinance providers are able to provide to their target customers, it is assumed that microfinance providers' demand for financial instruments corresponds to their available supply, after covering the renewal of their current funding.

1.1.3. Market failure and gap analysis

1. Market failure analysis

Part of the gap is caused by market failure. To accommodate dynamics, we propose relying on a context analysis of sector-wise trends in total loan volumes. A discussion of these elements will shed light on factors driving the lack of credit applications and, therefore, potential variance around the gap estimate. Furthermore, discussion of financing gap estimations must consider their macroeconomic and sectorial growth contexts, as they determine both credit demand and supply.

In addition, it will include the documentation of market imperfections (in the form of market failures that refer to non-functioning aspects of the market, which result in an inefficient allocation of resources and entail a supply gap or an oversupply of funding). Suboptimal investment situations that concern the underperformance of investment activities will complement the analysis.

2. Gap analysis

The supply–demand analysis for the two levels (microfinance providers and beneficiaries) will form the basis for identifying and estimating financing gaps for microfinance.

The calculation of the financing gap mainly follows the formula applied by the study on *Assessing the*

([56]) European Commission (2018f): Survey on the access to finance of enterprises (SAFE). Also referred to as the 'ECB SAFE survey'.

European market potential of business microcredit and the associated funding needs of non-bank MFIs ([57]) carried out in 2017. Using the study's definitions, the methodology for assessing the market potential of the study refers to the unmet demand (meaning demand that is not (yet) served by any microfinance provider due to several circumstances), followed by the market gap calculation, taking into account the funding channelled to the microfinance providers. The approach relies on the calculations made in the aforementioned EMN-MFC overview survey and follows three steps.

Step 1. Assessment of the total size of target groups

We followed the approach of EIF's Research & Market Analysis in their *Guidelines for SME Access to Finance Market Assessments (GAFMA)* ([58]) with a general distinction between two main target groups of clients for business microcredit (see Figure 4).

Figure 4: Target groups for business microcredit

Target group 1: (Potential) new business founders	**Target group 2:** Existing micro-enterprises
• Potential new business founders out of social exclusion • New business founders, in the process of setting up a business	• Self-employed, older than one year • Micro-enterprises with one to nine employees, older than one year • Individual farms without legal form in eastern European countries

The size of these target groups can be approximated using publicly available data from Eurostat, national data and the results of the Global Entrepreneurship Monitor (GEM), which surveys the level of entrepreneurial activity in many countries ([59]).

For the calculation of the financing gap, we only cover the formal sector, excluding informal businesses (as quantified by the most recent European Social Survey data on number of informally self-employed persons) ([60]).

Table 4: Data used for calculating total size of target groups

	Target group	Data used for calculating total size
#1	Potential new business founders escaping from social exclusion ([61])	Most recent Eurostat data on working-age population at risk of poverty Most recent GEM data on the share of population with entrepreneurial intention
	New business founders	Most recent Eurostat data on the working-age population Most recent GEM data on the share of nascent entrepreneurs
#2	Existing self-employed persons	Most recent Eurostat data on the population of active enterprises (zero employees, older than one year)
	Existing micro-enterprises	Most recent Eurostat data on the population of active enterprises (one to nine employees, older than one year)
	Existing individual farms	Most recent Eurostat data on number of very small farms above subsistence level ([62])

Step 2. Assessment of the unmet credit demand within target groups (number of loan applications)

The overall gap at national level is obtained by aggregating across target segments and firm sizes (Figure 5).

([57]) Unterberg, M. (2017): Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs.

([58]) Kraemer-Eis, H., Lang, F. (2014): Guidelines for SME Access to Finance Market Assessments (GAFMA).

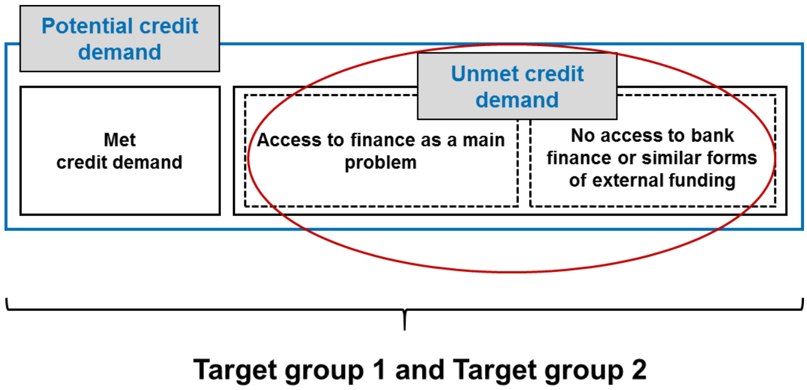
([59]) For countries not covered by GEM, average GEM results for the relevant country group within the European cluster (efficiency-driven and innovation-driven) are used.

([60]) Based on calculations done by Hazans, M. (2011): Informal workers across Europe, employers with more than five employees, as well as self-employed professionals without employed workers are considered 'formally self-employed'. Other self-employed persons (i.e. all non-professional self-employed operating solely, as well as employers with five or fewer workers) are considered 'informally self-employed'. The analysis provides additional information on the informal sector as it is relevant to some of the policy measures addressed.

([61]) The number of potential and new business founders is based on survey results that assess entrepreneurial intention and nascent entrepreneurs. Thus, the annual number of new businesses is calculated under the assumption that the GEM numbers correspond to a three-year aggregate, dividing it by three to arrive at an annual estimate.

([62]) Family farms (owned by an individual person) with a standard output of less than EUR 2 000 and whose household consumes less than 50% of final production.

Figure 5: Overview of unmet demand calculation



The market potential for business microcredit products is represented by the share of individuals (self-employed persons) and enterprises in these target groups for whom access to finance is the main problem or who do not have access to bank loans or similar formalised forms of external funding ([63]).

For target group 1 (new businesses), the calculation takes the latest available national results of the GEM Report on Entrepreneurial Finance from 2015 and published in 2018 ([64]). In this report, the GEM consortium covers different issues that concern the use of finance by early-stage entrepreneurs in GEM countries.

- Potential new business founders faced with social exclusion who could be looking for a business microcredit: the GEM survey results of non-excluded early-stage entrepreneurs using bank finance as a proxy. As access to bank finance is very limited for the group of aspiring entrepreneurs faced with exclusion (relative to non-excluded groups), this proxy measure can be seen as providing a minimum estimate of the market potential for business microcredit to this target group.
- New business founders: GEM survey results of early-stage entrepreneurs with friends as a source of business financing are used as proxy for the market potential of business microcredit to new business founders.

For target group 2 (existing enterprises), data from the ECB SAFE survey is used as follows:

- The share of businesses that see access to finance as their most pressing problem. As the available data only covers businesses with at least one employee, a proxy was developed for existing self-employed persons. Based on available (although mostly anecdotal) evidence on the financial needs of self-employed persons ([65]), the proxy measure used is twice the share indicated by the ECB SAFE survey for micro-enterprises. Self-employed people not only face a smaller supply of accessible financial products than micro-enterprises and SMEs, but they also encounter severe fluctuations in income and liquidity crises more often.
- A proxy measure for the annual frequency of financial requests by self-employed persons and micro-enterprises was established, on the assumption that every business that sees access to finance as its most pressing problem will look for some kind of external finance during a (next) three-year period.
- For individual farms, as there are no comparable survey data, a proxy measure has been developed based on the experience of practitioners in microfinance institutions (MFIs) serving this target group. The proxy is based on the assumption that at least 60% of individual farms look for external finance on an annual basis and, of these, 80% are financially excluded (i.e. have no access to formal bank finance).

([63]) For a more robust approximation, the share of individuals/enterprises within the target groups with financial needs under a certain threshold (e.g. EUR 25 000) should also be considered. Unfortunately, no comparable survey data on the financial needs of new business founders and existing micro-enterprises is available for EU Member States. Instead, this issue is addressed in the step for calculating total market value at national level.

([64]) GEM (2019b): Entrepreneurial behaviour and attitudes.

([65]) For example, evidence from a regional crisis intervention hotline for self-employed persons (Unterberg, Bendig, Sarpong, 2014: Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument).

Table 5: Methodologies for approximating unmet demand for business microcredit

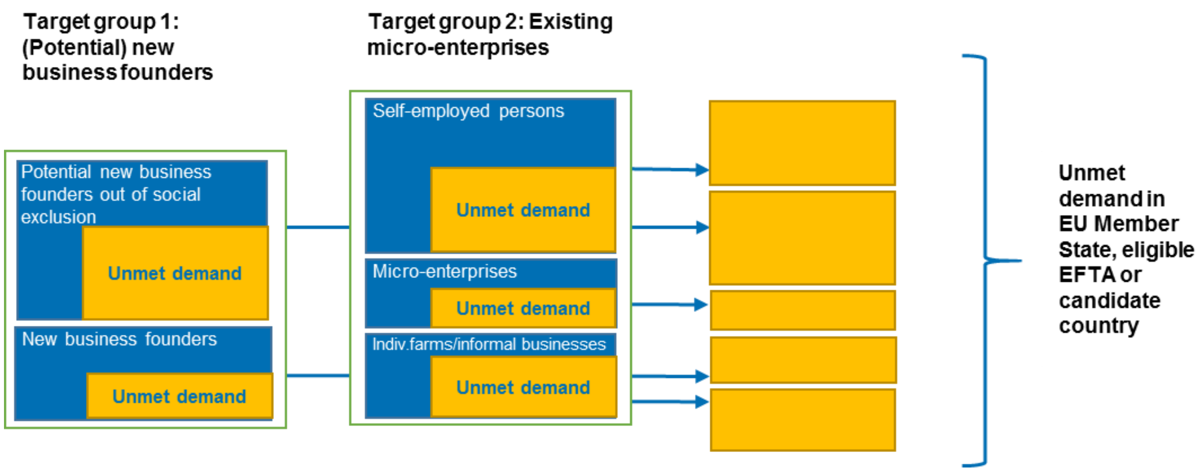
	Target group	Approximation methodology
#1	Potential new business founders escaping from social exclusion	National results in GEM Report on Entrepreneurial Finance (share of non-excluded early-stage entrepreneurs using bank finance as source of funding)
	New business founders	National results in GEM Report on Entrepreneurial Finance (share of business founders using friends as source of funding)
#2	Existing self-employed persons	Proxy based on results of ECB SAFE survey for existing micro-enterprises (access to finance as their most pressing problem, multiplied by two and averaged over a three-year period)
	Existing micro-enterprises	Most recent ECB SAFE survey data on micro-enterprises indicating access to finance as their most pressing problem and averaged over a three-year period
	Existing individual farms	Proxies based on experiences of MFI practitioners with this target group assume that at least 60% of individual farms are looking for external finance on an annual basis, of which 80% are financially excluded

No comparable survey data exist to make an estimation of unmet credit demand of informal businesses. A proxy has been developed based on the assumption that 10% of all informal businesses actively look for external finance each year. Of these, 80% are assumed to be financially excluded.

Step 3. Assessment of the value of the unmet business microcredit demand

In this step, the calculated annual amount of unmet business microcredit demand is multiplied by target-group-specific average loan amounts, which are approximated using the results of the latest EMN-MFC overview survey ([66]).

Figure 6: Quantification of the unmet demand per country and target group



Different loan averages for eastern and for western Europe are used in Table 6, except for the target group of individual farms, which are only included for eastern Europe.

Table 6: Average business microcredit size, by target group and region

	Target group	Western Europe (EUR)	Eastern Europe (EUR)
#1	Potential new business founders escaping from social exclusion	5 000	3 000
	New business founders	10 000	8 000
#2	Existing self-employed persons	5 000	3 000
	Existing micro-enterprises	15 000	10 000
	Existing individual farms	–	5 000
	Informal businesses	*5 000*	*3 000*

1.1.4. Funding instruments available to microfinance providers (existing European Union and other financial instruments)

The analysis in this report provides a description of the available supply of instruments, together with

([66]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe. The data collected via the EMN-MFC overview survey do not allow for breaking down average business loan volumes into distinct target groups. The average volume of reported business loans in EU Member States over all target groups was EUR 5 325 in 2015. Accounting for the different levels of market outreach for the different target groups, the average loan volume only for the annual non-bank MFI market amounts to EUR 5 201.

those planned for future deployment by public and private initiatives. It covers funding for the microfinance service providers, as several instruments are already available in the market to address market failures. An analysis of the supply side is made for each country covered by the EaSI programme, together with EU-wide financial instruments and grants: that is, EU-wide financial instruments linked to the previous and present programming periods, such as the EaSI programme and the Progress Microfinance programme, including lessons learnt. Especially for the central and south-east European countries, funding from non-EU initiatives is relevant and covered by the assessment. The analysis will include a quantification of the existing supply, together with a projection that can be compared with the calculated gap. This analysis will establish the current gap and the long-term trend for 2027.

1.1.5. Recommendations

Based on the analysis of the market failures and gaps, and taking account of relevant trends for European microfinance, the report presents several recommendations designed to enhance the provision of microfinance in Europe. The recommendations refer, for example, to the particular situation and financial needs of the refugee and migrant population, and the impact of financial technology (fintech) and digital transformation of the financial sector. The recommendations section also considers whether market needs could be tackled through interventions other than funding by EU-level financial instruments, such as structural funds or other policy actions.

Finally, the report describes different options or modes of delivery for EU-level financial instruments, and makes recommendations concerning the most efficient ones. In addition, the report proposes options for appropriate delivery structures alongside analysis of the appropriate mix of products that should be offered under different financial instruments.

1.2. Limitations

This internal analytical document relies on secondary research data and desk research and does not include primary qualitative or quantitative research to address specific information requirements. All data used for this report reflect the most recent available statistics. Generally, the report refers to 2018 and 2019 as the most recent closing dates. However, there are certain limitations on the availability of information, due to a lack of data with 2018 as the cut-off date, as follows:

- The latest available national results of the GEM Report on Entrepreneurial Finance are published three years later. The respective data used for calculating the unmet demand of new entrepreneurs published in 2018 refer to 2015 ([67]).
- Since 2011, the World Bank's Global Findex database ([68]), the most comprehensive data from 2015 and the largest available database on financial inclusion, has been releasing its data in a three-year rhythm: in 2011, 2014 and 2017. Therefore, the data used for this report refer to the year 2017 published in 2018.
- The most recent European Commission annual report on SMEs refers to the year 2017/2018 ([69]).
- The EMN-MFC overview survey takes place biannually. The present report includes the information from the latest report that dates back to 2016-2017, published in December 2018 ([70]).
- There are several Eurostat data not available for certain countries for 2018; this is mentioned under the respective graphs.
- This limitation also applies to the latest available data from other databases; the report highlights instances where they do not exist for a specific country.

The report date of January 2020 leads to two important limitations, as follows:

1. At the time of the analysis, the United Kingdom (UK) was still a member of the EU, and therefore UK results are included in the report. However, due to Brexit, recommendations for the new programming period 2021-2027 will exclude the UK.
2. The report was written before the outbreak of the coronavirus disease (COVID-19) pandemic and public health crisis. As the situation is still evolving, with uncertain outlook on socio-economic developments in the EU, further analysis would be required on the impact and magnitude of the crisis on the microfinance sector in the medium and long term.

([67]) GEM (2019b): Entrepreneurial behaviour and attitudes.

([68]) World Bank (2018b): The Global Findex Database 2017.

([69]) European Commission (2018a): Annual report on European SMEs 2017-2018.

([70]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

2. THE MARKET ENVIRONMENT AND TRENDS

This chapter focuses on developments in the market environment over the past five years and refers to long-term indicators when they are appropriate. The trends are categorised following the main blocks of the methodological framework: impact on the demand for microfinance, impact on the supply of microfinance to micro-enterprises and impact on funding to microfinance providers from public and private institutions.

2.1. Factors affecting the demand side

Factors affecting micro-enterprises' demand for microfinance include:

- The overall economic situation and developments. Gross domestic product (GDP) and income distribution and growth affect the demand for financial products and services from existing micro-enterprises and influence the rates of entry (start-ups) and exit (bankruptcies) of enterprises, which links to the business cycle.
- Demographic developments. Population growth and migration flows affect the labour force (and therefore unemployment) if economic growth and job creation cannot hold pace with the number of young people entering the labour force. Higher unemployment rates can affect the number of (vulnerable) people who rely on self-employment. Furthermore, migration can result in an influx of people who rely on micro-business activities.
- Changes in policies and regulations relating to the establishment of companies or affecting the ease of doing business can affect the number of new micro-enterprises and growth of existing firms.

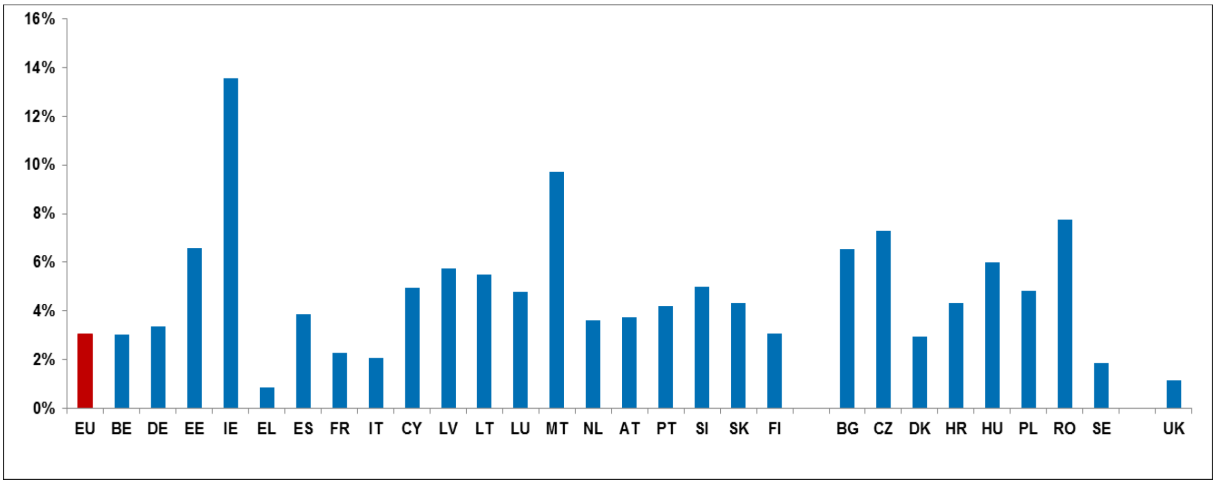
In the next sections, we will present overviews of these factors for the countries covered by the EaSI instruments.

2.1.1. Overall economic development

Gross domestic product

Over the past five years, the average GDP growth in the EU was 3.04%. This shows a clear recovery from the global financial and economic crisis, also reflected in the long-term growth rate in the past decade, with an average annual EU growth rate of 2.0% ([71]).

Graph 4: Average annual growth of gross domestic product, current prices, 2014-2018 (%)



Source: Eurostat
Note: The high average annual growth rates for Ireland reflect extraordinary growth in 2015. Local authorities needed to reclassify the balance sheets of multinational companies for tax inversion as they relocated to Ireland because of the beneficial tax regime and aircraft imports and leasing (European Commission 2017a and 2017d).

There are notable differences in growth figures across EU Member States and eligible EFTA countries, with high growth rates in countries such as Ireland, Malta, Romania and Czechia, and much lower growth rates in Greece, the UK, Sweden, Italy and France (see Graph 4 above) ([72]). In general, strong

([71]) Eurostat (2019): Database, 2014-2018. The three groups presented in the graph and all following graphs, separated by spaces, are the euro-area Member States, non-euro-area Member States and the UK.

([72]) Ibid.

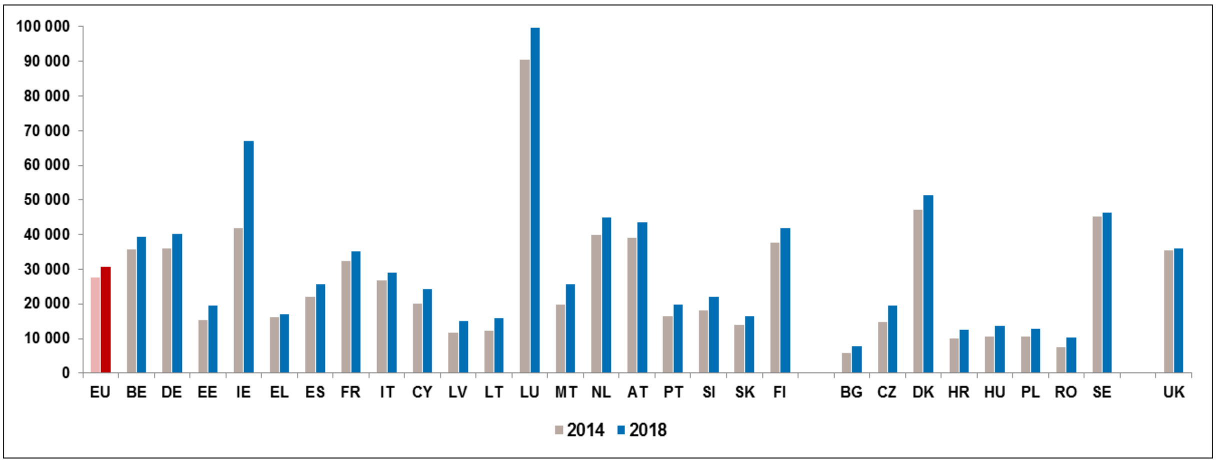
economic growth can be expected to drive demand for the products and services provided by micro-enterprises while, conversely, low growth can be expected to constrain demand. The relationship between economic growth and the number of micro-enterprises is, arguably, more ambiguous. Low GDP growth can be expected to increase the rate of failure (bankruptcy) of enterprises, and hence reduce their overall number. Equally, high economic growth may encourage the creation of new start-up businesses, although it may also imply greater employment opportunities in existing enterprises, which may discourage potential entrepreneurs from starting up their own business, instead opting to take employment in an ongoing business. Conversely, low economic growth implies fewer employment opportunities, which may push individuals to start their own enterprise if they are unable to obtain employment in an existing business.

GDP per capita

GDP per capita averaged at EUR 30 931 across the EU Member States in 2018. The development of the GDP per capita over the last 10 years suggests a convergence of the living standards in all countries eligible to access the EaSI programme with an average GDP per capita of EUR 27 962 ([73]). For example, most states that joined the EU between 2004 and 2010 experienced increases in GDP per capita that took them closer to the EU average (e.g. Poland, Slovakia, Lithuania, Estonia, Czechia, Bulgaria and Hungary).

By contrast, several states, including Luxembourg, Finland, Sweden and the UK, with above-EU-average GDP per capita, suffered declines that brought them closer to (but still above) the EU average ([74]). Over the past five years, average GDP per capita increased by EUR 3 212 for EU Member States and by EUR 4 301 in all countries eligible to access the EaSI programme.

Graph 5: Gross domestic product per capita, 2014 and 2018 (EUR)



Source: Eurostat

Risk of poverty

Recent data reflect that, in 2018, 145 million people in all EaSI programme countries and 109 million in EU Member States lived in households at risk of poverty or social exclusion ([75]), equivalent to 23.9% and 21.0% of the population, respectively. These figures represent a decrease – -2.5 percentage points (pps) overall and -3.0 pps in the EU Member States – from 2014, when the rates were 26.4% in the EaSI programme countries and 24.0% in EU Member States ([76]).

As shown in Graph 6, although slowly decreasing, rates for the proportion of the population living in households at risk of poverty or social exclusion are particularly high in some countries, especially in Greece and eastern and south-eastern Europe. High levels of poverty or social exclusion could be associated with high levels of self-employment if persons in this vulnerable situation face significant barriers to obtaining salaried employment. Thus, we may expect to find greater levels of self-

([73]) The GDP per capita analysis could be expanded as well to take into account GDP at purchasing power parity.

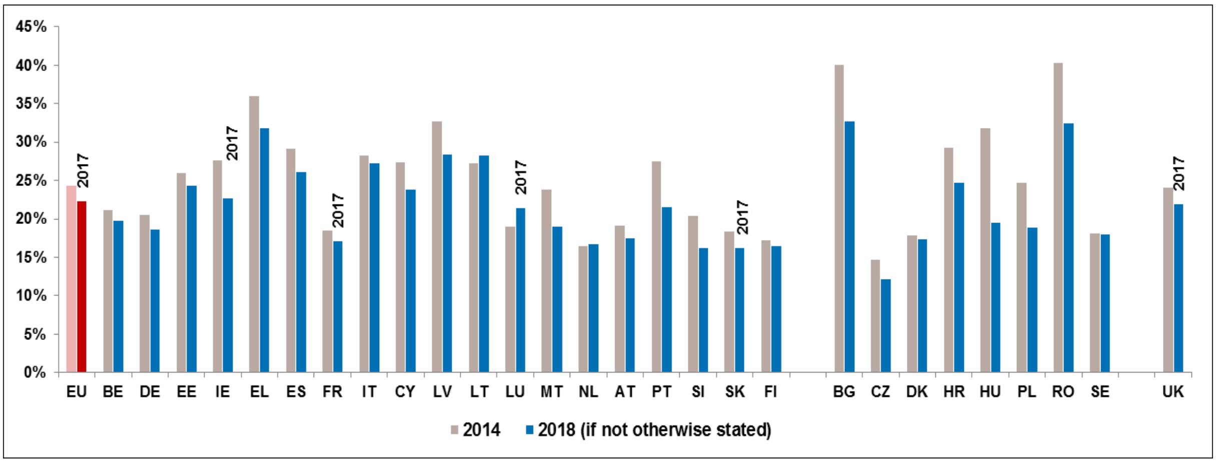
([74]) Eurostat (2019): Database, 2014-2018.

([75]) Being at risk of poverty or social exclusion encompasses the following situations: having an equivalised disposable income (after social transfers) below the ‘at risk of poverty’ threshold (60% of national median equivalised disposable income after social transfers), and being severely materially deprived (enforced inability to pay unexpected expenses, afford a one-week annual holiday away from home, etc.) or living in a household with very low work intensity (where working-age members worked less than 20% of their total potential during the previous 12 months).

([76]) Eurostat (2019): Database, 2014-2018.

employment in eastern and south-eastern Europe than in north and west Europe.

Graph 6: Risk of poverty, 2014 and 2018 (%)

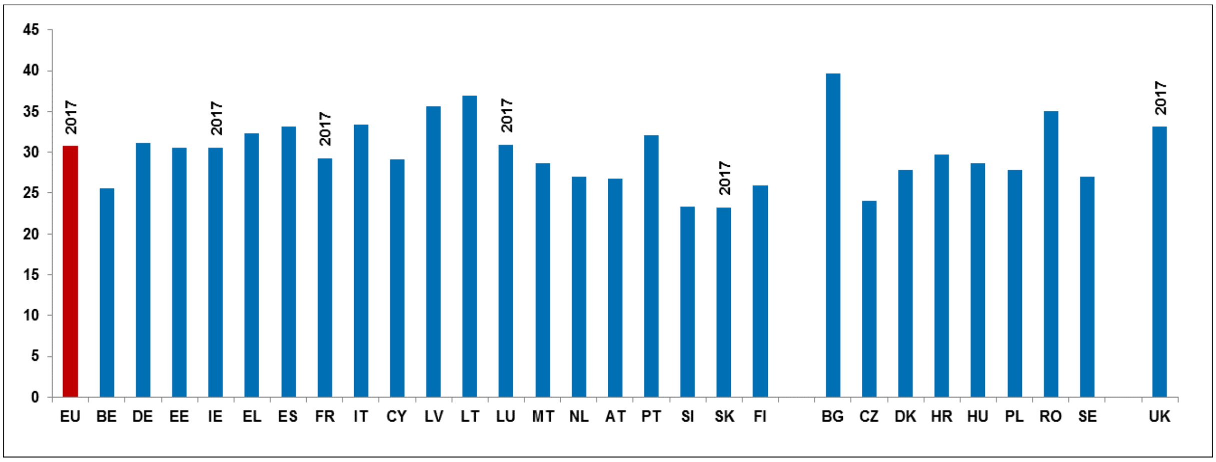


Source: Eurostat
Note: Not all data were available for 2018, as marked on the graph.

Gini coefficient

Concerning the distribution of income across individuals, as measured by the Gini coefficient equivalised disposable income for 2018, EU Member States with the least equilibrated income distribution are Bulgaria (39.6), Lithuania (36.9), Latvia (35.6), Romania (35.1), Italy (33.4) and Spain (33.2), as compared with an average for all EU Member States of 30.7 (only available for 2017).

Graph 7: Gini coefficient equivalised disposable income, 2018



Source: Eurostat
Note: Not all data were available for 2018, as marked on the graph.

2.1.2. Demographic developments

Population growth

In 2018, the total population of all EU Member States stood at 512.4 million inhabitants. The population of EU Member States grew by 0.25% (total) between 2014 and 2018, while for all EaSI programme countries the growth was 0.38%. This population growth is, however, relatively modest in a global context, with the global population having increased by 13.6% over the same period. In addition, the median age in EaSI programme countries is high (42.6 years), compared to the global average (30.4 years), which can be explained by consistently relatively low birth rates and relatively high and increasing life expectancy ([77]).

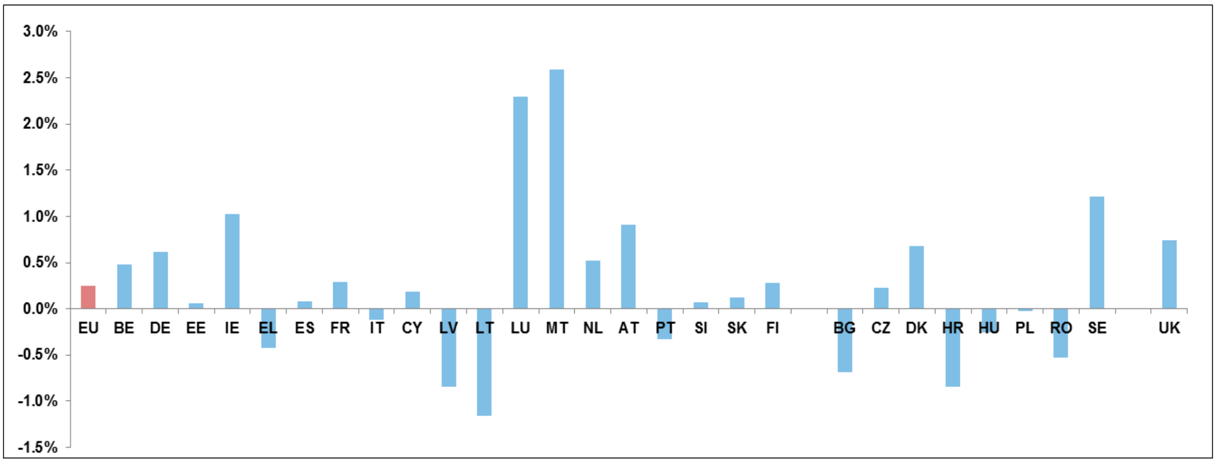
Due to the underlying trends, the proportion of working-age persons in the population is shrinking in Europe, while the proportion and number of retired persons is expanding. These demographic trends can affect the number of micro-enterprises in several ways. A reduced labour force could result in

([77]) Ibid.

fewer people starting as self-employed. However, (given a higher probability of unemployment for youth and those older than 50 years) at the same time the ageing of the workforce might also result in more people shifting to self-employment in certain age cohorts (such as for people aged 50-65): for unemployed people older than 50, it is often difficult to find a permanent job and self-employment is the only feasible alternative.

Between 2014 and 2018, the population in several EU Member States, particularly in central and eastern Europe (Bulgaria, Romania and Hungary) and the Baltics, has declined, whereas Malta, Luxembourg, Sweden, the UK and Ireland have witnessed substantial population growth. There are several reasons for this, but it is worth mentioning the effect that the mobility of the EU labour market and the influx of migrants in the past four years have had on the statistics.

Graph 8: Average annual population growth, 2014-2018 (%)

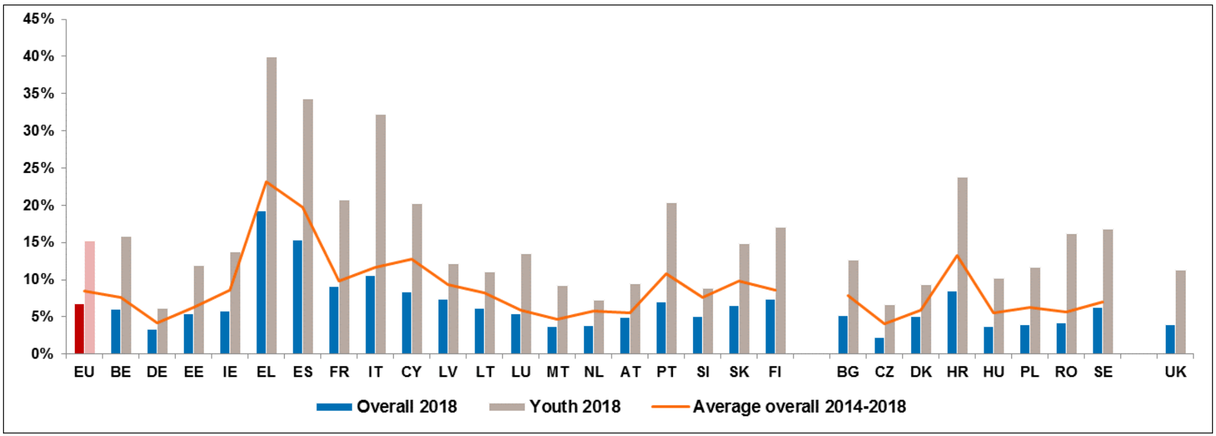


Source: Eurostat

Unemployment

Improvements in the macroeconomic environment have been accompanied by more favourable labour market conditions and increased productivity growth, which have seen the overall unemployment rate across Europe fall steadily to its lowest level (6.8%) since 2014 for the EU Member States. However, the rate in several individual countries was still above 9%, namely France, Greece, Italy and Spain. Unemployment rates in some countries, notably Poland and Romania, may under-represent the situation in domestic labour markets because of the large size of the diaspora of workers from these countries that take advantage of the free mobility of labour and move abroad to find employment ([78]).

Graph 9: Overall and youth unemployment rates, 2018, and overall average rate for 2014-2018 (%)



Source: Eurostat

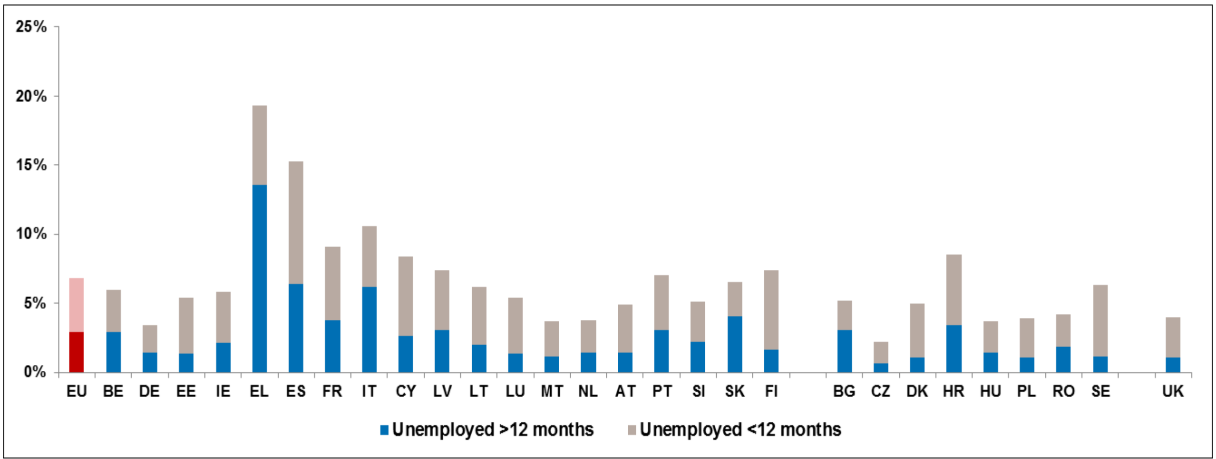
In 2018, youth unemployment (15-24 years old) in the EU was 15.2%, which is considerably higher than the general unemployment rate. Youth unemployment is at a double-digit level in most countries, except for Austria, Czechia, Denmark, Germany, Iceland, Malta, Netherlands and Slovenia. Youth

([78]) European Commission (2019b, p. 13): Annual report on intra-EU labour mobility: 'The stocks of the EU-28 movers are heavily concentrated in a handful of Member States. Germany, UK, Italy, France and Spain host 74% of all movers. Romanian, Polish, Portuguese, Italian and Bulgarian nationals made up over 50% of the EU-28 movers.'

employment is particularly high (over 20%) in Croatia, Cyprus, France, Italy, Portugal and Spain. Self-employment might be regarded as a serious option to escape unemployment for young people in these countries.

There is a possibility that more favourable labour market conditions and associated reductions in unemployment rates could reduce the motivation to engage in self-employment. In turn, this could have the impact of slowing down the demand for microloans originating from unemployed persons within the vulnerable population. This situation may be most relevant for those countries with the most pronounced decrease in unemployment rates (e.g. north-western Europe).

Graph 10: Short-term vs. long-term unemployment rate, 2018 (%)



Source: Eurostat

As the motivation to pursue self-employment (and hence demand for microloans) may increase when rates of long-term unemployment are high where the long-term unemployed find it increasingly difficult to obtain salaried employment, it is relevant to consider long-term unemployment rates. Among all eligible countries for the EaSI programme, long-term unemployment rates are highest in Greece, Italy, Slovakia and Bulgaria as well as in the Balkans (Montenegro, North Macedonia and Serbia).

Migration and refugees

Migration is influenced by a complex combination of economic, environmental, political and social factors, which can act as push factors that motivate migrants to move away from their country of origin or pull factors that incite them to move to their country of destination. Frequently, they reflect a combination of the two.

Historically, the relative economic prosperity and political stability of the EU has exerted a considerable pull effect on immigrants. In the last decade, combined with massive push factors that drove people away from their countries, Europe has increasingly become the destination of significant immigration flows.

Before describing the migration situation, it is useful to classify migrants, refugees and asylum seekers, as defined by the European Commission (Directorate-General for Migration and Home Affairs – DG HOME).

Table 7: Definitions of migrants, refugees and asylum seekers

Migrants	In the EU/EFTA context, a migrant is a person who either: (i) establishes their usual residence in the territory of an EU/EFTA Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another EU/EFTA Member State or a **third country**; or (ii) having previously been usually resident in the territory of the EU/EFTA Member State, ceases to have their usual residence in the EU/EFTA Member State for a period that is, or is expected to be, of at least 12 months ([79]).
Refugees	In the EU context, a refugee is a person, either a **third-country national** who, owing to a **well-founded fear of persecution** for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside their **country of nationality** and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country, or a **stateless person** who, being outside of the country of former

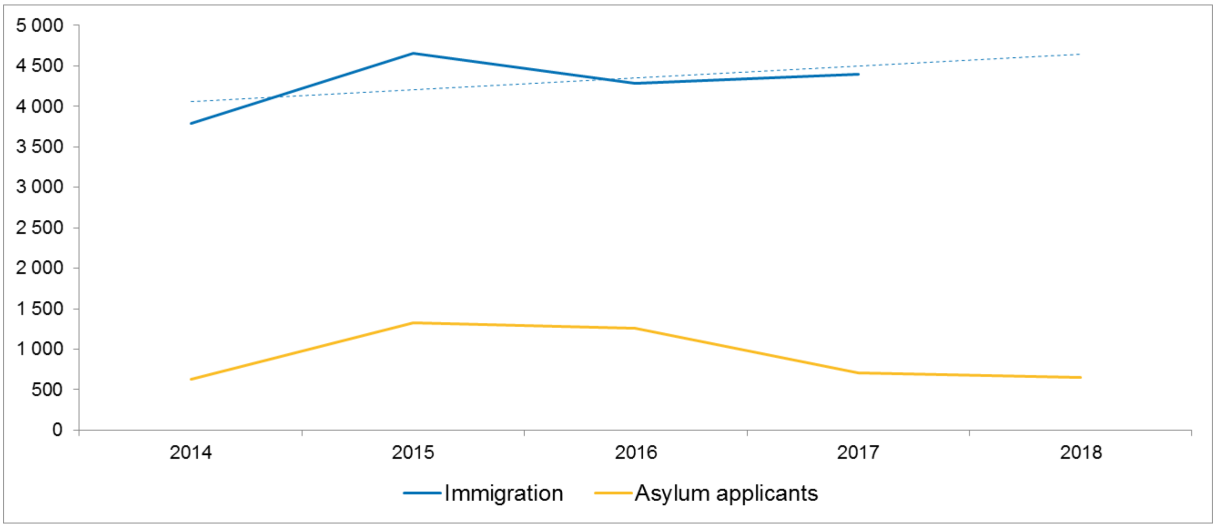
([79]) European Commission (2019m): European Migration Network glossary. Migrant.

	habitual residence for the same reasons as mentioned above, is unable or, owing to such fear, unwilling to return to it, and to whom Article 12 (Exclusion) of **Directive 2011/95/EU (Recast Qualification Directive)** does not apply ([80]).
Asylum seekers	In the EU context, an asylum seeker is a **third-country national** or **stateless person** who has made an application for protection under the **Geneva Refugee Convention and Protocol** in respect of which a **final decision** has not yet been taken ([81]).

Migration flows

In the past decade, migration ([82]) to Europe experienced several fluctuations. After a peak in 2007, when the number of newly arrived persons to the EU Member States stood at 3.9 million, the number dropped in 2008 and 2009 due to the global financial crisis and then almost stagnated until 2012 at around 3.3 million migrants per year.

Graph 11: Immigration and asylum applicants in European Union Member States (thousands)



Source: Eurostat
Note: Updated 2018 figures for immigration were not available, so 2018 is not included in the linear trend line.

As shown in Graph 11 above, in the past five years, with the increasing flow of asylum applicants due to the global refugee crisis, the number of migrants picked up again and reached its peak in 2015 when more than 4.7 million migrants were recorded. Among them, 1.2 million people applied for asylum. Since 2016, that number has dropped again slightly. In 2017, 4.4 million persons immigrated to one of the EU Member States, comprising: 2.0 million citizens of non-EU countries, 1.3 million people with citizenship of a different EU Member State from the one to which they immigrated, and 1.1 million persons who migrated to an EU Member State of which they had citizenship (i.e. returning nationals); it is likely that this trend will increase slightly, thanks in part to a new phenomenon in this context – migration because of climate change.

In 2017, Germany reported the highest number of inward migrants (917 100), or 1.1% of its population (see Graph 12), followed by the UK (644 200, 1.0%), Spain (532 000, 1.1%), France (370 000, 0.5%) and Italy (343 400, 0.6%). However, the EU Member States most affected by migration compared to their total population are Malta (4.7%) and Cyprus (2.5%), as a result of the refugee crisis, and Luxembourg (4.1%), due to labour migration from other EU Member States.

Between 2014 and 2018, a total of 4.6 million people made applications for asylum ([83]) in the EU, reaching a peak in both 2015 and 2016 of around 1.3 million (see Graph 14). In terms of net migration ([84]), 22 of the EU Member States reported more immigration than emigration in 2017. However, in Bulgaria, Croatia, Latvia, Lithuania, Poland and Romania the number of emigrants outnumbered the number of immigrants.

([80]) European Commission (2019n): European Migration Network glossary. Refugee.

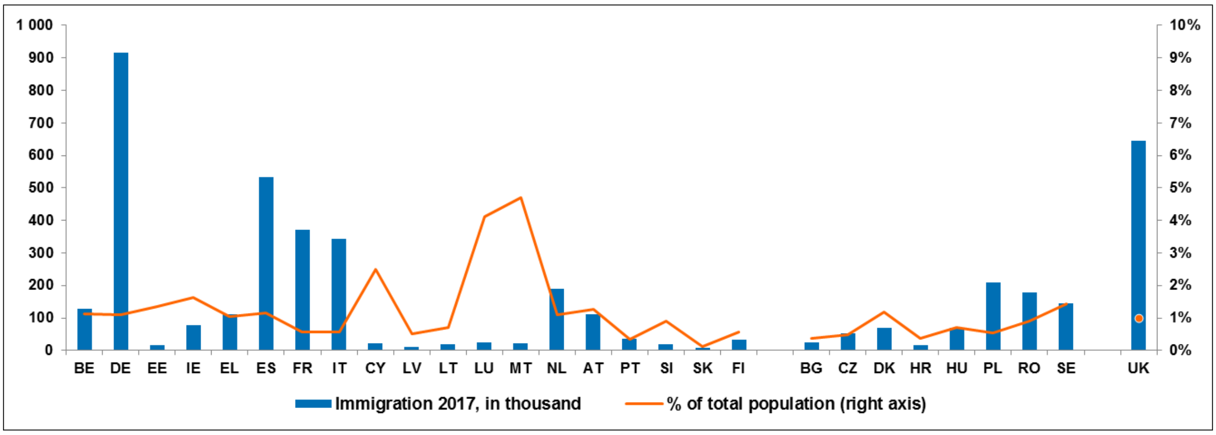
([81]) European Commission (2019l): European Migration Network glossary. Asylum seeker.

([82]) Here, migration refers to citizens of other EU member countries, citizens of non-EU member countries and nationals who migrated to an EU Member State of which they were already citizens (i.e. returning nationals). Only gross migration is taken into account.

([83]) Number of asylum applicants refers to persons having submitted an application for international protection or having been included in such an application as a family member during the reference period (Eurostat, 2019: Database, 2014-2018)

([84]) Difference between number of immigrants and the number of emigrants (people leaving an area).

Graph 12: Immigration in European Union Member States, 2017

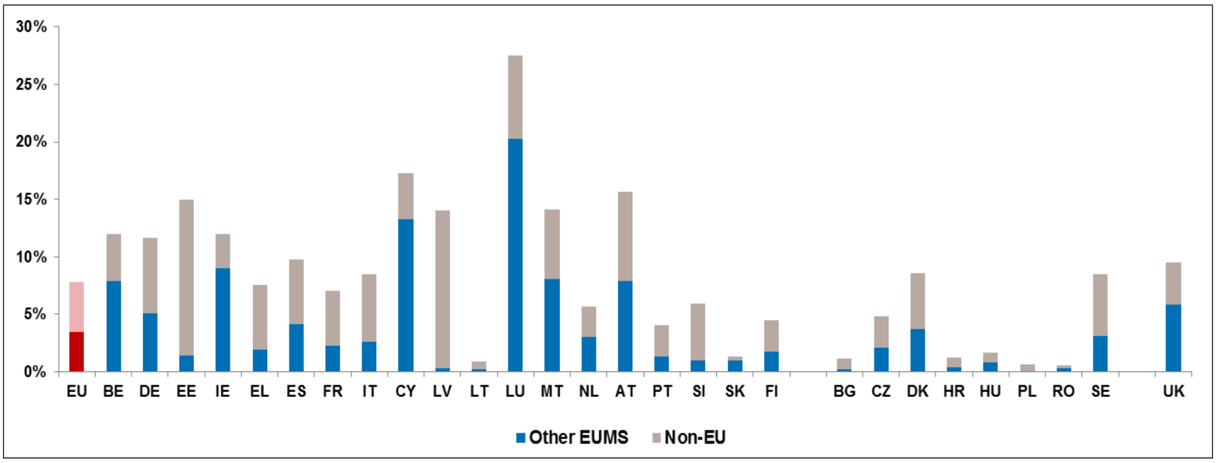


Source: Eurostat

In terms of the composition of the migrant population in EU Member States, in 2018 there were 22.3 million persons with citizenship of a non-member country, representing 4.4% of the total population. In addition, there were 17.6 million persons living in one of the EU Member States with citizenship of another EU Member State, reflecting the free mobility of labour in the internal EU market and the improved economic conditions throughout the EU ([85]).

In relative terms, as Graph 13 illustrates, the EU Member State with the highest share of non-nationals ([86]) was Luxembourg (27.5% of the total population). Furthermore, a high proportion of foreign citizens (above 10%) was also observed in Cyprus, Austria, Estonia, Malta, Latvia, Belgium, Ireland and Germany. At the other end of the scale, non-nationals represented less than 1% of the population in Poland and Romania (0.6% in both countries) and in Lithuania (0.9%). Poland and Romania are the two countries from which most EU movers departed to other Member States ([87]).

Graph 13: Share of non-nationals in European Union Member States, 2018 (% of population)



Source: Eurostat

Note: EUMS refers to European Union Member States.

In absolute terms, on 1 January 2018, most non-nationals living in the EU Member States were in Germany (9.7 million persons), the UK (6.3 million), Italy (5.1 million), France (4.7 million) and Spain (4.6 million).

Refugees and asylum seekers

Between 2014 and 2018, a total of 4.6 million people made applications for asylum ([88]) in the EU, reaching a peak in both 2015 and 2016 of around 1.3 million (see Graph 14). In 2018, 646 000 asylum

([85]) European Commission (2019b): Annual report on intra-EU labour mobility.

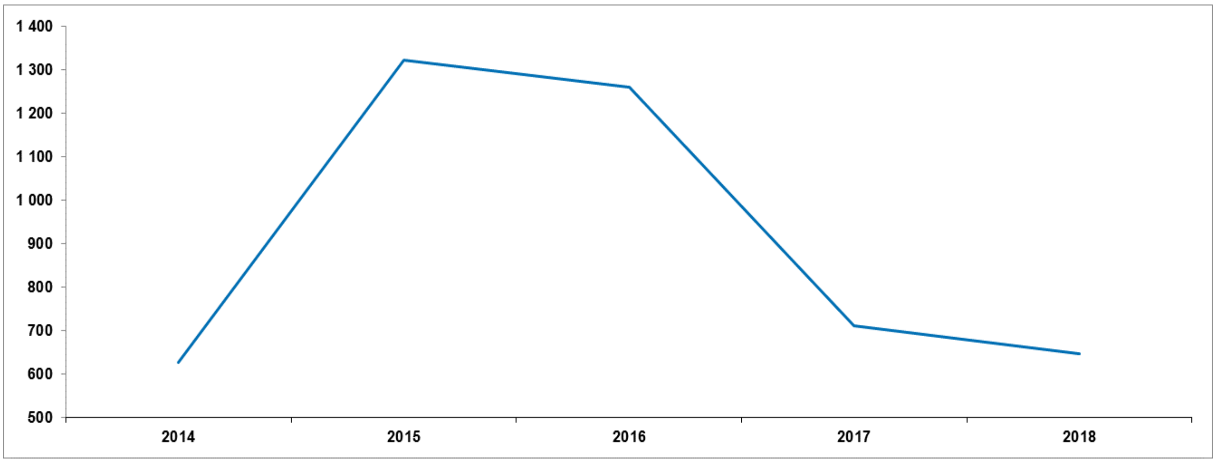
([86]) Referring to citizens of other EU Member States and citizens of non-EU countries.

([87]) European Commission (2019b): Annual report on intra-EU labour mobility, p. 13: 'The stocks of the EU-28 movers are heavily concentrated in a handful of Member States. Germany, UK, Italy, France and Spain host 74% of all movers. Romanian, Polish, Portuguese, Italian and Bulgarian nationals made up over 50% of the EU-28 movers.'

([88]) Number of asylum applicants refers to persons having submitted an application for international protection or having been included in such an application as a family member during the reference period (Eurostat, 2019: Database, 2019).

seekers applied for international protection in the EU Member States, corresponding to 0.12% of the EU population, a 10% decrease compared to 2017.

Graph 14: Asylum applications in European Union Member States (thousands)



Source: Eurostat

In 2018, the largest number of asylum applications were registered in Germany (184 000; 28.5% of all asylum seekers), followed by France (120 000; 18.6%) and Greece (66 900; 10.3%) ([89]). However, the share of registered asylum applications is higher than the countries´ population compared to the overall EU population.

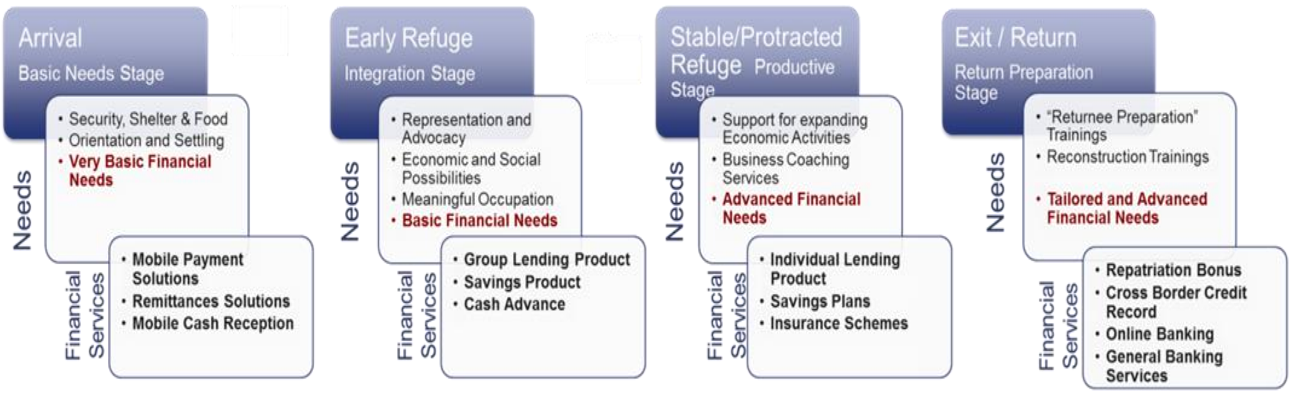
Financial needs of refugees and asylum seekers

The global refugee crisis will continue to put massive pressure on European policymakers and financial institutions. While the number of asylum applicants dropped after 2016, political and environmental crises will continue to push people to take refuge in Europe.

For asylum seekers and refugees to have a better and more dignified future for themselves and their families, they need access to work and employment, identity documents, etc. Access to adequate financial services represents a further crucial component for building a future for themselves and their families.

Figure 7 illustrates the development of financial needs during the different stages of the settlement and integration of refugees and asylum seekers.

Figure 7: Financial needs of refugees and asylum seekers



Note: Reproduced and adapted from Hansen, L. M. P. (2017). ([90])

Several demand- and supply-side barriers may prevent refugees and asylum seekers from accessing formal financial services, including ([91]):

([89]) Eurostat (2019): Database, 2014-2018.

([90]) Reproduced and adapted from Hansen, L. M. P. (2017): Serving refugee populations. The source does not include 'exit/return', but focuses on protracted displacement, which affects a larger subsegment of the target market.

([91]) Dhawan, S. M. (2018): Financial inclusion of Germany's refugees.

- people often have **little understanding of and trust in the financial system**, leading to preference for cash-based channels;
- they are **uncertain about their future** (i.e. residence status, integration in labour market), resulting in economic decisions often made from urgency and necessity;
- they might **lack valid and recognised proof of identity**, which is core to accessing (financial) services and formally participating in the economy;
- there is **little support for entrepreneurship finance** and self-employment, and requirements are often too complex.

European microfinance providers can play a significant role in facilitating financial inclusion for refugees. We have summarised the core recommendations in our conclusion (Section 2.4.), as well as in Annex 4.

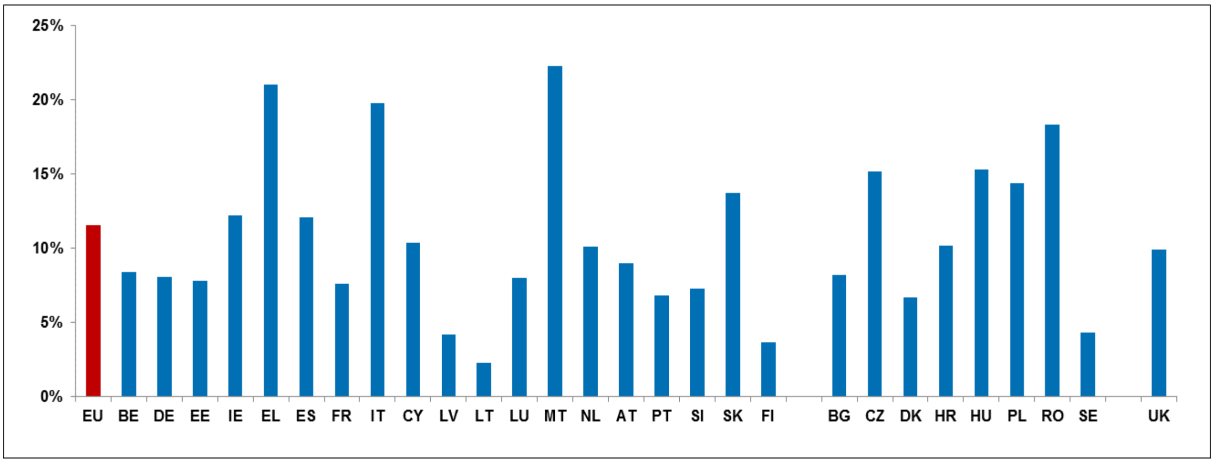
Gender equality in the European Union

Compared to many other parts of the world, Europe has a high level of gender equality. According to the 2018 Sustainable Development Goals Index and Dashboards Report ([92]), 11 EU Member States have a score of more than 80 out of 100 for Sustainable Development Goal (SDG) 5 on gender equality, with Sweden, Finland and France ranking second, third and fifth worldwide, respectively. However, even in Europe, elements of gender inequality persist, especially in areas such as labour market participation, decision-making and earning potential, where only slow progress is being made.

Female labour market participation

While the overall employment rate in the 20- to 64-year-old cohort is growing, standing at 73.1% in 2018 across the EU Member States, the employment rate for women was only 67.4% compared to 78.9% for men, representing a gender employment gap of 11.3 pps, which has remained unchanged for three years. Among the EU Member States, the gender employment gap was highest in Malta (22.3 pps), Greece (21 pps) and Italy (19.8 pps) and lowest in Lithuania (2.3 pps), Latvia (4.2 pps) and Sweden (4.3 pps) ([93]). The challenge of juggling professional as well as domestic and care responsibilities is a major reason for women to be less active than men in the labour market. Women are often recognised as the main caregiver and are expected to take over the main domestic responsibilities. Furthermore, often limited availability of formal childcare hinders women in returning to the labour market. Graph 15 depicts the 2018 gender employment gap in the EU.

Graph 15: Gender employment gap, European Union Member States, ages 20-64, 2018 (%)



Source: Eurostat

The European Commission adopted an initiative on work–life balance for working partners and caregivers in April 2017 that aims to help tackle some of the challenges faced by women. Part of this initiative targets the modernisation of family leave and the introduction of flexible working arrangements so that, in general, work is better adapted to individuals' needs in different phases of life and, in particular, to encourage fathers to make use of family leave ([94]).

([92]) Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2019): Sustainable Development Report 2019.

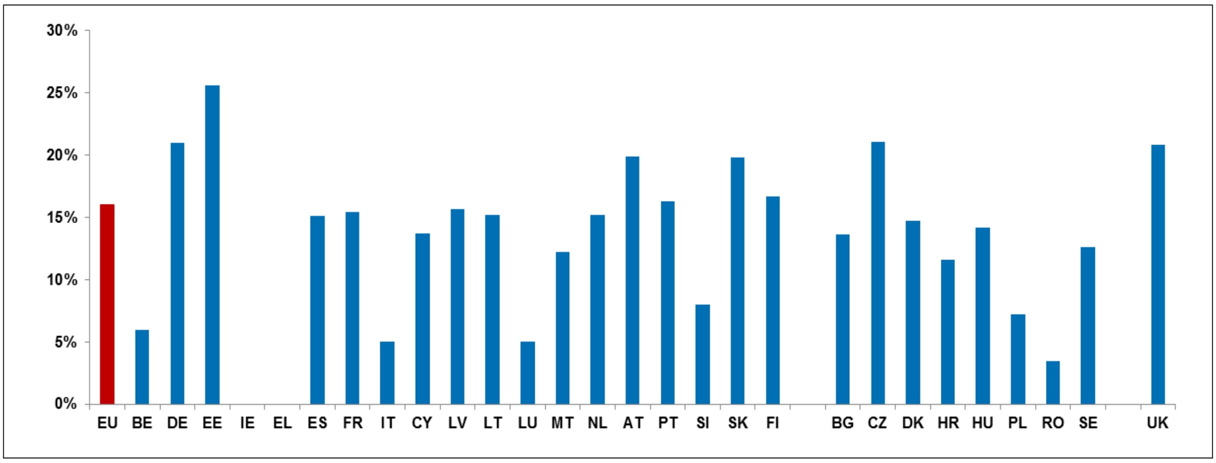
([93]) Eurostat (2018): The life of women and men in Europe; Eurostat (2019), Database, 2018.

([94]) European Commission (2019a): 2019 report on equality between men and women in Europe.

Gender pay gap

There is a persistent gender pay gap (95) in the EU; compared to 16.8% in 2013, the gap only slightly decreased to 16.0% in 2017. The biggest gaps in the EU Member States were recorded in Estonia (25.6%), Czechia (21.1%), Germany (21%) and the UK (20.8%), with the lowest gaps found in Romania (3.5%), Luxembourg and Italy (both 5%) (96).

Graph 16: Gender pay gap, European Union Member States, 2017 (%)



Source: Eurostat
Notes: Data from 2018 are not yet available; Greece and Ireland have not reported data since 2015.

The education level of working men and women reveals little about the gender pay gap (see the subsection 'Education' below). Instead, the combination of women being (a) under-represented in high-paying professions, such as science, technology and engineering, and (b) over-represented in lower-paying sectors, such as care and education, is a major cause of the gender pay gap. In addition, women's career choices are also the result of unequally shared care work and family responsibilities; women tend to be the main caregivers and, therefore, require more flexibility in their job to fulfil both roles instead of having to sacrifice higher-paid jobs (97).

Apart from different career choices, women also tend to earn less per hour than men do for the same profession, independently of whether it is a highly skilled profession or a lower-skilled job (98). This can be partially attributed to unequal gender norms that accord higher value to male work effort and lower value to female work effort, and thus imply labour market discrimination against women.

To address this, the European Commission funds projects that are combating stereotypes and segregation in the labour market. These projects promote good practices related to gender roles and aim to overcome gender-based stereotypes in education, training and in the workplace.

Decision-making

Women still face numerous obstacles to attaining senior management positions. The proportion of women on the boards of the largest publicly listed companies (99) registered in the EU Member States stood at 26.7% in October 2018. France (44%) is the only EU Member State with at least 40% of women at board level. In Italy, Sweden, Finland and Germany, women account for at least one third of board members (36.4%, 36.1%, 34.5% and 33.8%, respectively). At the other end of the scale, Malta, Greece and Estonia recorded a share of female board members of less than 10% (9.5%, 9.1% and 8.0%, respectively) (100).

Progress in this area has been slow. Between October 2015 and 2018, the annual rate of change in the proportion of women board members was 1.3 pps. Where governments have introduced quotas for under-represented women or taken other targeted measures, stronger improvements were recorded. For example, the four European countries with binding quotas (France, Italy, Germany and Belgium)

(95) The unadjusted gender pay gap refers to the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

(96) Eurostat (2019): Database, 2017.

(97) Boll, C., Lagemann, A. (2018): Gender pay gap in EU countries based on SES (2014).

(98) Eurostat (2018b): The life of women and men in Europe.

(99) The largest companies in each country are taken to be the members (maximum of 50) of the primary blue-chip index maintained by the national stock exchange.

(100) European Institute for Gender Equality (EIGE) (2018): Gender statistics database.

currently have on average 37.5% women on boards and have seen this proportion rise by 27.6 pps since 2010 (annual rate of change of 3.5 pps) ([101]).

Education

Based on the proportion of persons aged 30-34 who completed tertiary education ([102]), the EU-wide gender gap in education is -10.1 pps (i.e. the proportion of women that had attained tertiary education exceeded that for men by 10.0 pps).

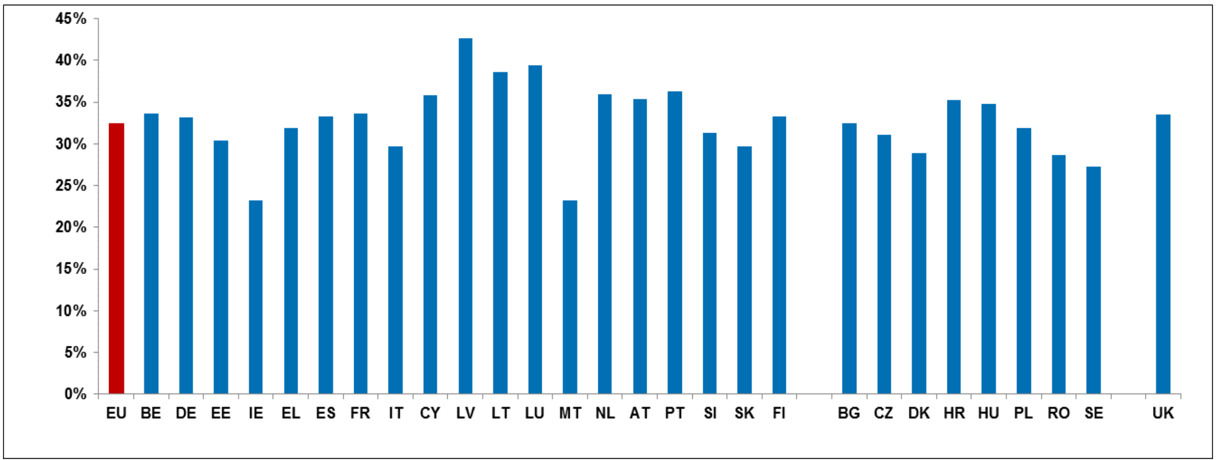
Looking at the gender education gap on a country level, all EU Member States recorded a negative gender gap in tertiary education attainment in 2018. The gap ranged from -0.9 pps in Germany (the smallest gender gap in absolute value) and -5.3 pps in Malta to -24.6 pps in Latvia and -24.7 pps in Slovenia (the largest gender gap in absolute value) ([103]).

Accordingly, differences in the level of education of men and women do not explain the existing gender employment and pay gaps. While women have higher educational attainment than men do, they tend to earn less and are less likely to be employed than men are. On the contrary, unequally shared caring responsibilities and other social constructs appear to be key factors that prevent women from accessing the same high-paid roles and sectors as men.

Women entrepreneurs

Women in Europe are less likely than men to become self-employed or to start a business. Women face more challenges than men in starting, managing and growing their businesses, as they are more likely to be constrained by a lack of necessary human and financial capital. Additionally, they are more disadvantaged than men due to social norms that commit women to family and home responsibilities, setting limits for their time and mobility.

Graph 17: Female share of the self-employed population, European Union Member States, 15 years and older, 2018 (%)



Source: Eurostat

In 2018, out of 33 million self-employed persons in the EU Member States, only 32.4% were women. The gap was highest in Malta and Ireland (both 23.2%), as well as Sweden (27.3%), as a proportion of the self-employed population as a whole. In contrast, Latvia (42.6%), Luxembourg (39.4%) and Lithuania (38.6%) reported the highest share of female population being self-employed. For enterprises with employees, the gap between men and women is even greater, in that only 26.5% of self-employed persons who hired employees were women ([104]). Graph 17 depicts the female share of the self-employed population in the EU Member States in 2018.

Concerning the EU Member States, there are slight differences between men and women in the reasons they give for becoming self-employed, as illustrated in Table 8 below.

([101]) Ibid.

([102]) Referring to persons graduating from universities or other higher education institutions.

([103]) Eurostat (2019): Database, 2018.

([104]) Ibid.

Table 8: Reasons for becoming self-employed – differences between men and women, European Union Member States (%)

	Men	Women
No job found as an employee	11.7	11.5
Request by former employer	1.9	1.6
Usual practice	13.9	16.3
Suitable opportunity	23.6	21.8
Continued family business	20.9	13.9
Not planned and wanted	4.4	6.5
Flexible working hours	8.6	13.4
Wanted for other reasons	14.9	14.8

Source: Eurostat

Women are more likely than men to become self-employed due to the flexibility this path offers. Against the background of imbalances in caring and domestic responsibilities, women tend to opt for part-time or flexible working to be able to better balance private and domestic tasks. Men, however, are more likely than women to become self-employed in order to continue the family business.

Access to finance

According to the Global Findex, the share of female account ownership in 2017 was slightly lower compared to the total (-1 pp in EU Member States and -2.8 pps across the EaSI programme countries). In the EU Member States, female account ownership was lowest in Romania (53.6%), Hungary (72.2%) and Bulgaria (73.6%).

In addition, there has been a slight gender gap when it comes to borrowing from a financial institution: in all but four EU Member States (Bulgaria, Cyprus, Greece and Romania), women were less likely to borrow from a financial institution than men. The gap was largest in Italy (11.2 pps) and Sweden (9.0 pps) ([105]).

Microfinance

Microfinance constitutes an important source of finance for women entrepreneurs. European microfinance providers recognise that women are an important client segment. The majority of credit unions/financial cooperatives (87%), non-governmental organisations (NGOs) (71%) and non-bank financial institutions (NBFIs) (60%) focus on targeting women clients in their institutional policies. According to the latest industry survey ([106]), the number of active women borrowers increased by 6% in 2017, compared to the previous year, amounting to 347 779 borrowers, or 36% of all borrowers. However, there is room for improvement as, for the EU Member States, the proportion of women borrowing is 42.3% of all borrowers, less than half of all borrowers ([107]). Microfinance providers are also emphasising gender diversity within their organisations, with 14 743 female workers in 2017, representing 59% of all paid staff ([108]).

2.1.3. Regional inequalities in Europe concerning growth and income

There is significant inequality between regions within the EU and candidate countries in terms of growth, GDP per capita and unemployment levels, which EU cohesion policies aim to address. Recent literature shows a complex set of developments, with increasing populations and growing creative industries in urban centres but lagging peripheral regions. Yet there is evidence also of some convergence, with lagging regions catching up (see, for example, the 2017 European Commission report on lagging regions ([109]) and Simona Iammarino et al, 2018 ([110])). Moreover, empirical studies show that economic disparities among regions within countries exhibit pro-cyclical behaviour, increasing in periods of expansion and decreasing in periods of slow growth or recession (see, for

([105]) World Bank (2018b): The Global Findex Database 2017.

([106]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe: Survey Report 2016-2017.

([107]) World Bank (2018b): The Global Findex Database 2017.

([108]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe: Survey Report 2016-2017.

([109]) European Commission (2017b): Competitiveness in low-income and low-growth regions.

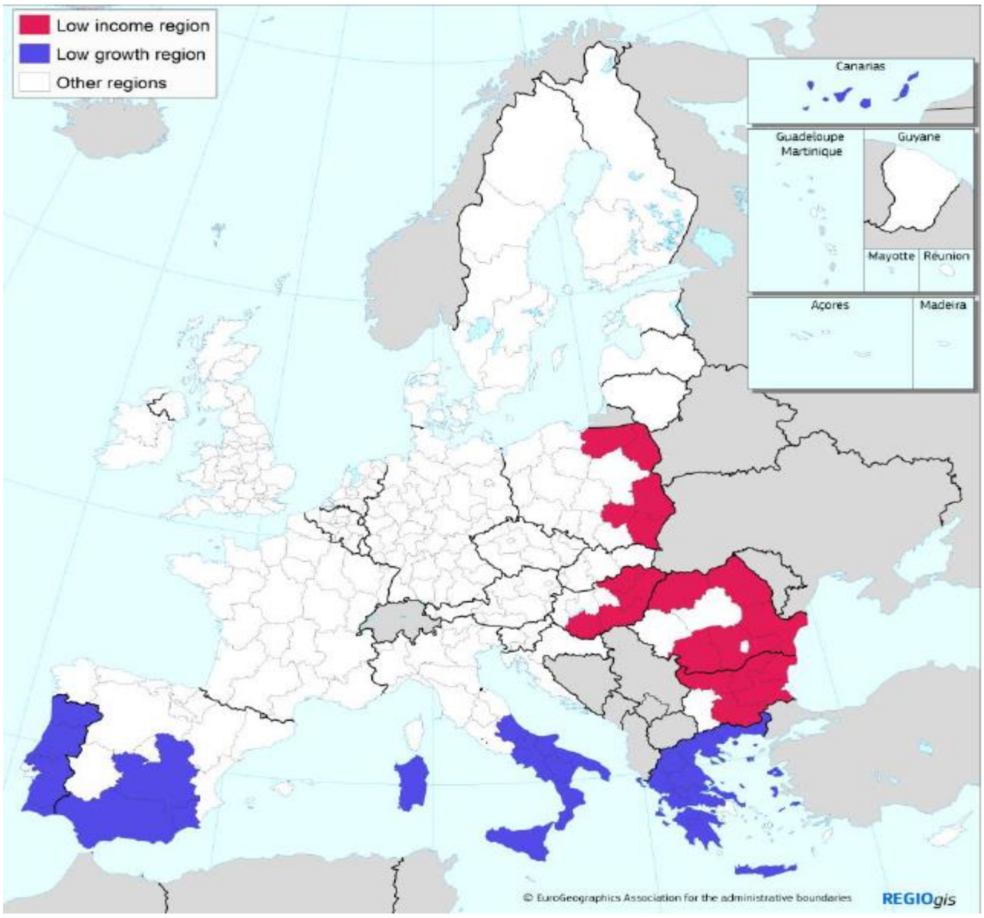
([110]) Iammarino, S., Rodríguez-Pose, A., Storper, M. (2018): Regional inequality in Europe: evidence, theory and policy implications.

example, Panagiotis and Petrakos, 2014 ([111])).

European Union (and Iceland)

Figure 8 shows lagging regions in the EU based on two criteria: (i) GDP per capita below 50% of the EU average (NUTS 2 regions – *nomenclature des unités territoriales statistiques*) and (ii) regions that do not exhibit convergence to average EU GDP per capital levels. Lagging regions either refer to low income, which are mainly in the eastern and southern parts of the EU (i.e. Poland, Hungary, Romania, and Bulgaria), or to low growth, and these regions are in southern Italy, southern Spain, Portugal and Greece. Unemployment, especially youth unemployment, also reveals striking regional patterns: high youth unemployment rates exist in Spain (e.g. Extremadura), Portugal, southern Italy and peripheral regions in eastern Europe.

Figure 8: Lagging regions in the European Union, low-income and low-growth regions



Source: Reproduced from European Commission (2017b)

Although overall unemployment rates have fallen in the aftermath of the 2008 economic and financial crisis, unemployment has been much slower to fall in many of the least developed regions, with youth and long-term unemployment rates remaining high. High and persistent unemployment in the lagging regions can be associated with slower industrial growth and, more importantly, lower skills and education levels within the labour force. Moreover, these regions suffer from low digital literacy rates and low access to finance, which can be a particular issue for micro-enterprises and vulnerable populations. This suggests that particular attention should be given to education, notably in financial and digital literacy for micro-enterprises, in Europe's least developed regions.

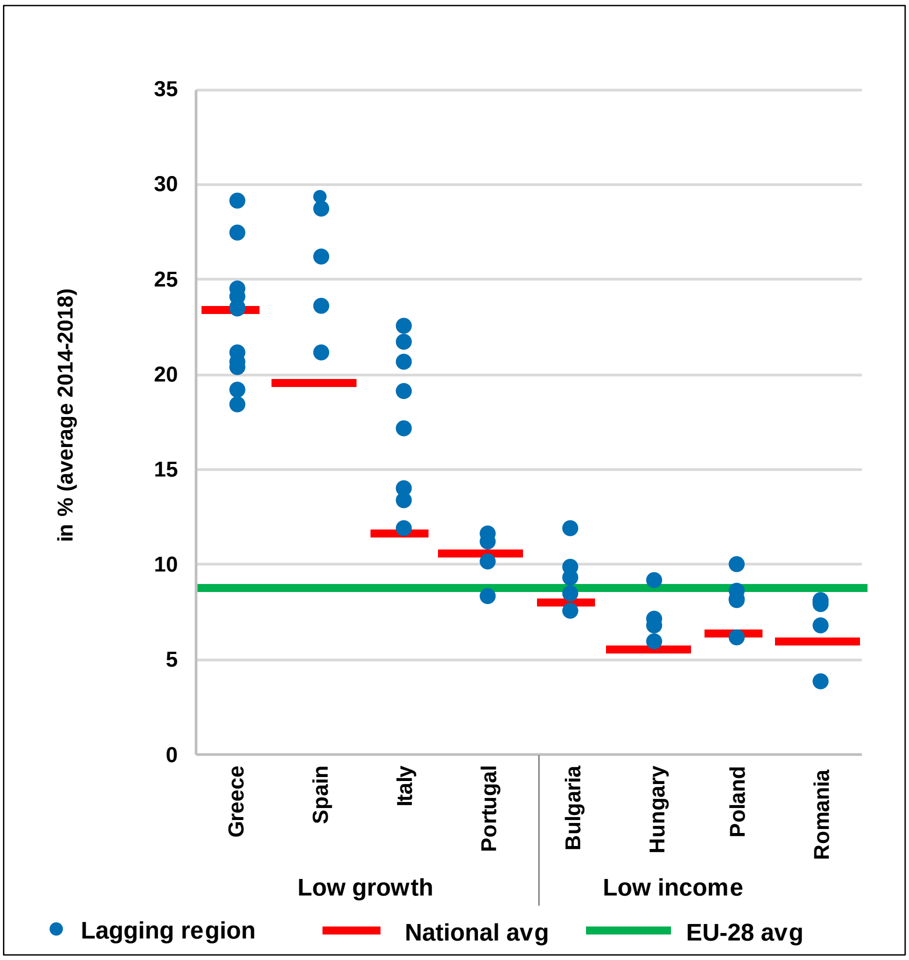
Candidate countries

Regional disparities in EU candidate countries are even more profound. In the Western Balkans, there are huge disparities in income levels and growth rates between capital city regions and periphery regions. Experience from the previous EU accession of central and eastern countries indicates that central capital regions benefited the most from EU accession, which might be a relevant lesson for EU candidate countries.

([111]) Panagiotis, A., Petrakos, G. (2014): Intraregional spatial inequalities and regional income level in the European Union.

Overall, it is evident that high long-term and youth unemployment rates are key challenges for the least developed regions in the EU and candidate countries, and it is one of the reasons supporting the European Commission's proposed shift in emphasis of cohesion policies towards youth unemployment, education and integration of migrants for the ESIF 2021-2027 programming period.

Graph 18: Unemployment rate, lagging regions, 2014-2018 (%)



Source: Eurostat

2.1.4. Target market of micro-enterprises and the vulnerable population

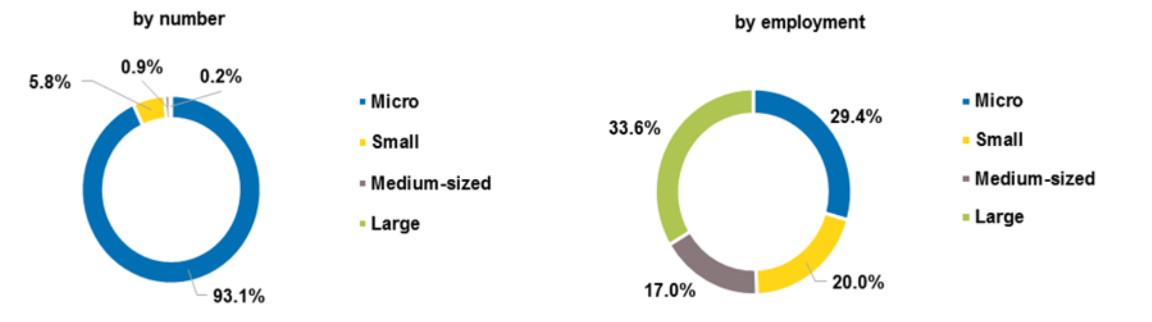
Micro-enterprises (companies with fewer than 10 employees and with an annual turnover or annual balance sheet of EUR 2 million or less) play an important role in terms of boosting jobs, growth and investment, as well as building a fairer Union – all key EU policy priorities. Micro-enterprises include the self-employed, start-ups, small businesses and farms. They account for 93.1% of all 24.5 million European enterprises and 29.4% of all employment in Europe.

Microfinance also targets vulnerable members of society. This includes persons with disabilities, unemployed persons, young and elderly people, women, immigrants, refugees and minorities. Usually, these groups are under-represented and disadvantaged in the labour market, even more so when it comes to them becoming entrepreneurs ([112]). In 2016, 138 million Europeans were financially excluded from society, with no access to formal bank accounts; the majority were also vulnerable ([113]). Insufficient access to financial services and non-financial services in the form of supporting the business development and vocational training can have severe consequences for individuals and businesses, restricting their ability to invest, regularise their income or find work.

([112]) OECD, European Union (2017): The missing entrepreneurs 2017.

([113]) Mastercard (2016): Europe's financially excluded.

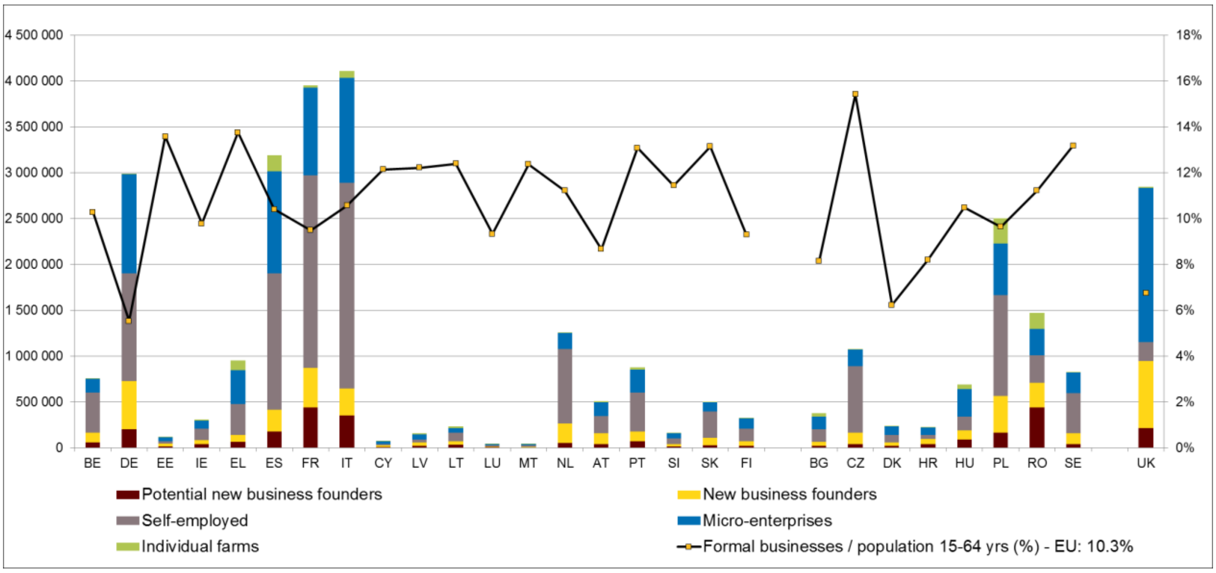
Graph 19: Different types of enterprise in the European Union, by number and employment, 2017 (%)



Source: European Commission (2018a)

In total, the estimated potential target group for microcredit in the countries eligible to access the EaSI programme represents 84.4 million entities or 34.9 million entities (see Graph 20), excluding informal businesses. Over the past eight years, the number of self-employed entrepreneurs and micro-enterprises working in the formal sector has grown by 11.3% and 15.1% respectively.

Graph 20: Target group population for business microcredit, European Union Member States, 2017



Source: Own calculations; refer to Sections 1.1.2. and 5.2. of the report

Relevant policies and regulations for local businesses

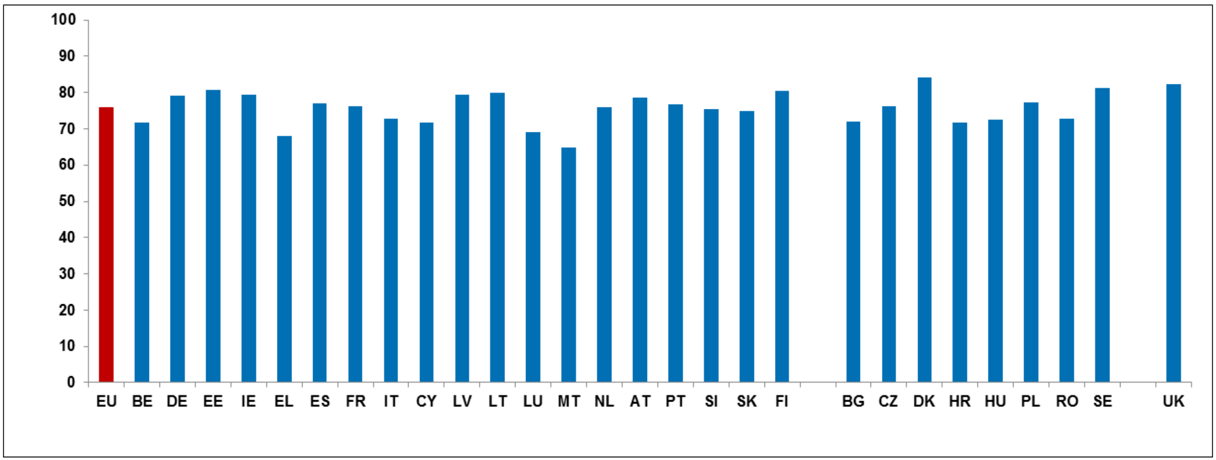
We focus on two key indicators that summarise the status and development of policy and regulatory environments for business in the EU Member States: the Ease of Doing Business index and the Starting Business score from the World Bank. Every year since 2003, the World Bank has published the most comprehensive global database on doing business using a combination of empirical evidence from its own operations and academic support, providing an objective measure of business regulations for local firms ([114]).

Business environment

Although not focused on micro-enterprises, the World Bank's Ease of Doing Business index provides a good summary indicator of the relative ease of doing business in countries, including the regulatory environment that applies to domestic enterprises, which is indicative of the situation for micro-enterprises to set up and develop their business (see Graph 21).

([114]) However, according to the Doing business 2018 report (World Bank, 2018a: Doing business 2018, p. 15), the EU – with funding from the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO), launched the first in a series of new subnational reports focusing on the EU Member States. World Bank (2017): Doing business in the European Union 2017: Bulgaria, Hungary and Romania builds on subnational studies completed in Italy, Spain and Poland. The next study in the subnational series will cover Croatia, Czechia, Portugal and Slovakia.

Graph 21: Ease of Doing Business score, European Union Member States, 2018



Source: World Bank (2018a)
Note: EU is an unweighted average.

According to the graph, the average Ease of Doing Business score ([115]) for EU Member States is 75.8 points, ranging from 84.1 (Denmark) to 64.7 (Malta). In general, on a global scale, European countries are at the higher end of the rankings for their ease of doing business, with Malta ranking 84th out of 190 countries ([116]). The region was also in the group with the largest number of related policy and regulatory reforms in the past year, whereas the EU Member States belonging to the Organisation for Economic Co-operation and Development (OECD) have implemented almost all relevant regulations.

One component of the Ease of Doing Business score covers the ease with which entrepreneurs can start a business. The score for starting a business takes into consideration the number of procedures, time for being registered and cost. In addition, it relies on a benchmark for a small to medium-sized limited liability company to start up (with the required minimum equity) and formally operate in the country's largest business city ([117]). Four European countries (Ireland, Netherlands, Sweden and the UK) rank among the top 20 locations on a global scale for starting a business ([118]). Countries scoring below the EU average are mainly located in south-east and southern Europe (Bulgaria, Romania, Greece, etc.).

Compared to 2014, the majority of the EU Member States (23 out of 28) have improved their Starting a Business score, most notably Malta (+9.6), Spain (+8.7), Slovakia (+8.4) and Czechia (+8.0) (see Graph 22). Many countries have taken measures to improve the situation for starting a business, including options for digital registration. For example, Malta removed the requirement of a trading licence to start a business, Spain and Slovakia made reforms to contract enforcement and Czechia lowered the registration fees for very small limited liability companies. In general, the EU Member States already have high scores, so fewer improvements are likely in the upcoming years.

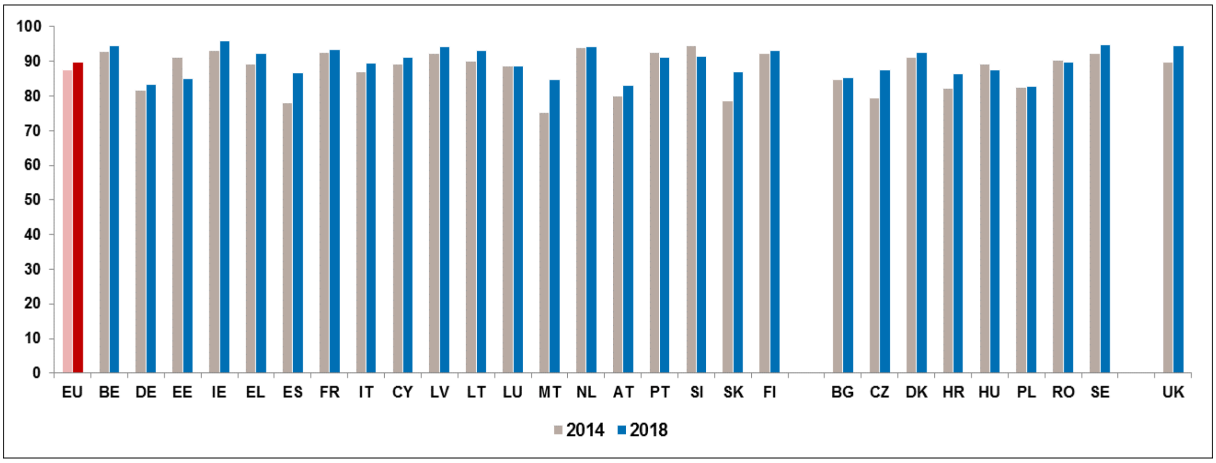
([115]) The total Doing Business score covers 11 indicators (Starting a business, Labour market regulation, Dealing with construction permits, Getting electricity, Registering property, Getting credit, Protecting minority investors, Paying taxes, Trading across borders, Enforcing contracts and Resolving insolvency) on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of Doing Business ranking ranges from 1 to 190.

([116]) Compared to 2009 or 2010, the majority of EaSI programme countries (29 out of 34) have improved their Doing Business score. The largest improvements were recorded in North Macedonia (+16.84), Serbia (+15.92) and Poland (+14.13). North Macedonia implemented various measures to improve the business climate, from conceiving a secured transactions system and providing modern features for collateral registry to creating one-stop shops for company registration and introducing compulsory online registration by certified agents (World Bank, 2008: Doing business 2009; World Bank, 2009: Doing business 2010).

([117]) However, the World Bank 2018 Doing Business report also assesses simplification of the parameters to measure the start of a business (World Bank, 2018a: Doing business 2018). It is one of the first indicators to be tracked since 2003 and there is an equal balance between male and female entrepreneurs.

([118]) Ibid.

Graph 22: Starting a Business score, European Union Member States, 2014 and 2018



Source: World Bank (2014, 2018a)
Note: EU is an unweighted average.

2.2. Factors affecting the supply side

The supply side of microfinance is composed of various types of providers (public, private, NGOs), with different compositions observed across countries and even sometimes across regions within the EaSI programme countries. Overall, the volume of supply of microfinance and type of financial products available can vary considerably across countries and regions. Typically, some key factors influence the supply of microfinance.

- **The development status of the financial sector.** Countries with a more mature financial sector can offer larger volumes and more differentiated and targeted financial products. With a mature financial sector, more information (data) and systems are available that relate to micro-enterprises, credit registry and credit history, etc., which tend to reduce market failures.
- **Trends in the financial sector,** such as mergers, digitalisation (fintech), etc., affect the availability and modes of provision of finance to MSMEs.
- **The efficiency of the financial sector.** Funding and other costs within the financial sector affect the conditions that financial providers offer to their clients.
- **General economic and financial market situation.** General economic conditions and financial market conditions (e.g. level of inflation, central bank rates, spread of interest rates, etc.) together with policy and regulatory factors influence the terms and conditions that finance providers place on their products (e.g. interest rates, maturity (tenor) of credits, etc.). In turn, these conditions affect the attractiveness of financial products to potential clients.
- **European and other international banking regulations and policies.** The financial sector is also subject to supranational policies and regulations, notably the Basel regulations, which affect the risk appetite and possibilities for credit volumes for banks (in relation to bank assets/equity).

2.2.1. Financial sector development

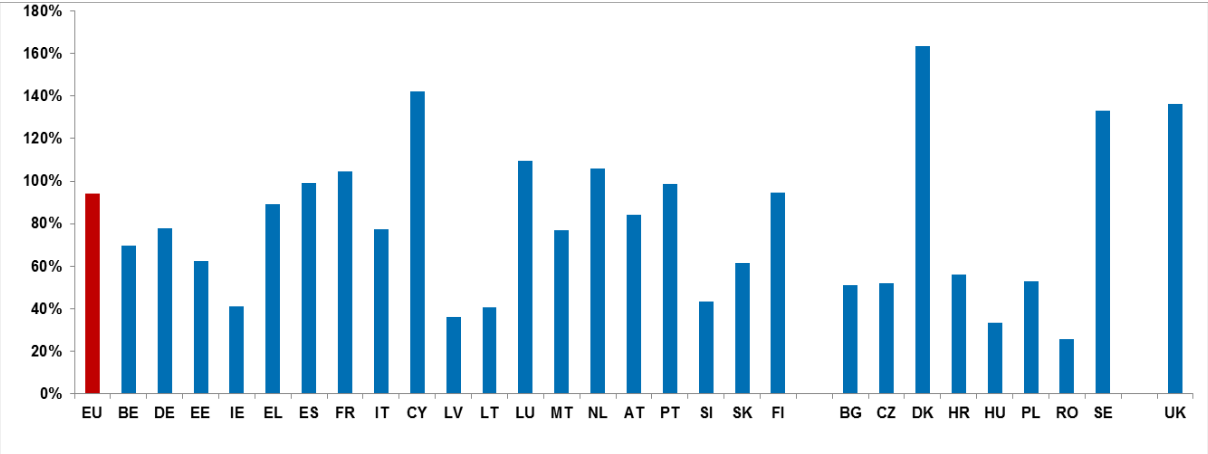
In 2018, the total value of loans outstanding from financial institutions in the EU Member States slightly increased by 2.0% to more than EUR 25.1 trillion (whereas deposits are almost the same volume with EUR 23.5 million) and for the whole EaSI programme region it accounts for EUR 25.6 trillion ([119]).

The ratio of domestic credit (to the private sector) to GDP gives a summary indicator of the development of the financial sector, relevant for the purpose of this report (Graph 23).

The EU average domestic-credit-to-GDP ratio is 95%, but there are large variations across countries. Romania shows the lowest ratio regarding domestic credit to private sector as a percentage of GDP of 25.9%, followed by all other eastern and central European Member States. Denmark and Cyprus stand out, with the highest ratios (163.5% and 142.3%, respectively).

([119]) European Banking Federation (EBF) (2019): Banking in Europe.

Graph 23: Domestic credit to private sector, 2018 (% of gross domestic product)



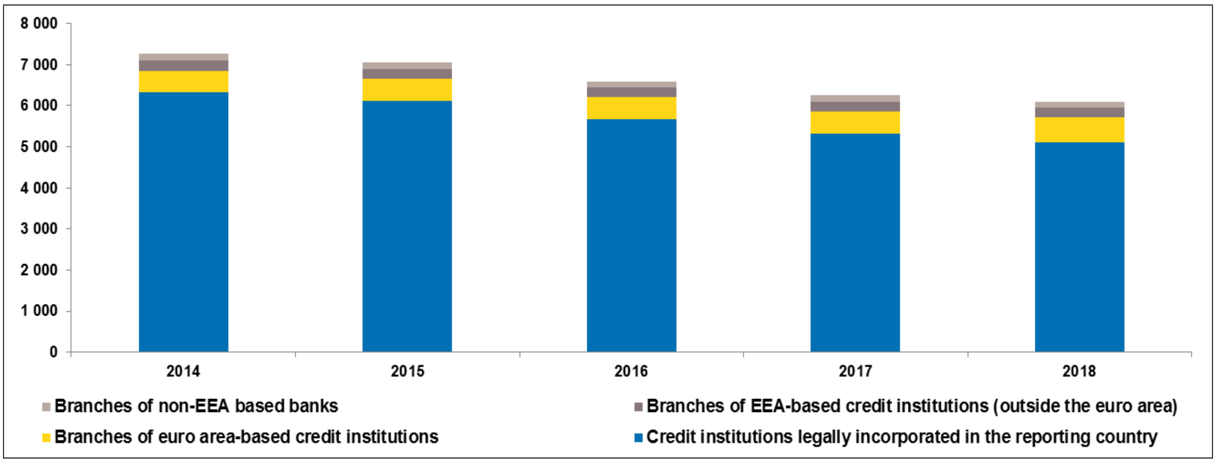
Source: World Bank (2019)

The high-level analysis of (private sector) domestic-credit-to-GDP ratio suggests that the least developed (or shallow) financial sectors among the EU Member States are located in eastern and central Europe. In part, this situation may be a hangover from the relatively late development of the financial sector in the former transition countries ([120]).

Trends in the financial sector

In 2018, there were about 6 088 credit institutions ([121]) in the EU. This represents a decline of 2.7% compared to 2017 and follows a pattern of a continuing downward trend since 2014 (-16 pps). In part, the decline reflects a consolidation trend of mergers in the sector, undertaken by banks in an effort to enhance profitability ([122]). This has implications for non-bank microfinance providers that have banks as their correspondent, as they do not all have full-fledged branches with teller operations installed and, in some countries (e.g. Greece, Germany), only banks can issue loans.

Graph 24: Number of credit institutions, European Union Member States, 2014-2018



Source: European Banking Federation (2019)
Note: 'EEA' refers to European Economic Area

The number of bank branches has continued to decline in line with the consolidation trend and the increasing use of digital channels (Graph 24). By the end of 2018, there were around 174 000 bank branches in EU Member States. The number of branches fell by 5.6% in 2018, the largest drop since the global financial crisis. The number has fallen by almost 65 000, or 27%, since 2008. In 2018, the largest decreases in absolute terms were in Germany (-2 185 units), Italy (-1 920) and Spain (-1 314).

([120]) Transition countries that developed after the meltdown of the Soviet system and the dissolution of the former Yugoslav Republic, with privatisation of the financial sectors occurring about 25 years ago.

([121]) Banks are called 'Credit Institutions', the business of which is to receive deposits or other repayable funds from the public and to grant credits for its own account, according to Directive 2013/36/EU (European Parliament, 2013: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC)

([122]) EBF (2019): Banking in Europe.

Only Bulgaria added branches (+82 units) ([123]). Given the close links between non-bank microfinance providers and the banking sector, this structural change – particularly the growing importance of digital channels – needs to be taken into account by microfinance providers when developing business strategies. Individuals in the EU are increasingly using digital banking, with more than half (54%) now accessing banking services through digital means, up from 29% in 2008 ([124]). Although use of cash by micro-enterprises still dominates in some countries, the trend of rapid growth in digitalisation implies changes in the operational model of many microfinance providers. One key challenge will be how to deal with declining face-to-face contact with clients, as such contact is usually beneficial for the implementation of sound microfinance operations.

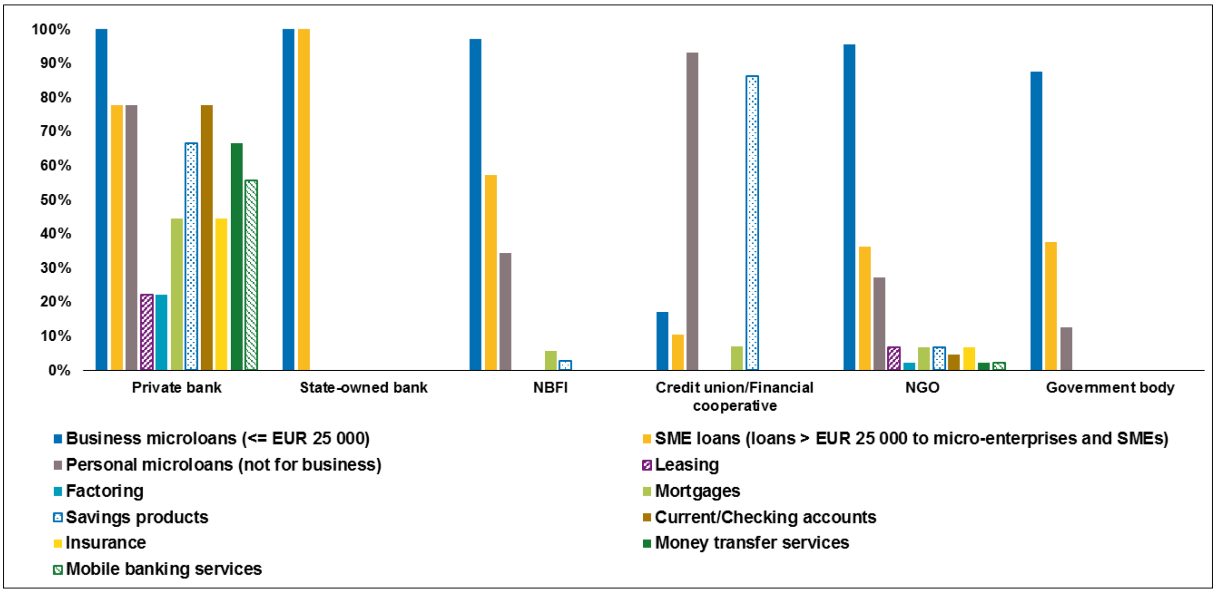
Banking sector crises

Alongside the global financial crisis, in the last decade around half of the EU Member States have suffered banking crises ([125]). Economic downturns, devaluations or bank failures have severely affected the banking sectors of Bulgaria, Cyprus, Greece, Italy Spain and Ireland. In these countries, access to finance in general and microcredit in particular has become very difficult due to a lack of liquidity or increased portfolios at risk. Recent research has shown that interventions by international financial institutions (IFIs) can be important for combating the effects of crises on SMEs ([126]).

Trends in type of financial instruments provided by microfinance institutions

Microfinance is gaining importance as a tool to help address unemployment and to promote entrepreneurship and social inclusion. A range of institutions provide financial and support services to micro-enterprises and vulnerable people that cannot access traditional sources of financing. They do so to facilitate self-employment, create jobs and increase productivity, which in turn offers advantages for public budgets. At an individual level, loans for healthcare, education or the improvement of living conditions can also promote social integration ([127]).

Graph 25: Types of financial products and services offered by institutional type, European Union Member States (%)



Source: EMN-MFC overview survey, 2016-2017 database (EU Member States)
Note: 127 responding microfinance providers.

According to the EMN-MFC overview survey 2016-2017 ([128]), the most common financial products offered by microfinance providers are business microloans (80% of microfinance providers), personal microloans (48%) and SME loans (40%). Within the EU Member States, banks provide a wider range of financial products and services, while NBFIs, NGOs and governmental bodies focus primarily on the

([123]) Ibid.

([124]) Ibid.

([125]) Laeven, L., Valencia, F. (2010): Resolution of banking crises. Austria, Belgium, Denmark, Germany, Iceland, Ireland, Lithuania, Luxembourg, the Netherlands and the UK suffered systemic banking crises with a full range of policy responses, including the nationalisation of private banks and major restructuring. France, Greece, Hungary, Portugal, Slovenia, Spain and Sweden could be regarded as more 'borderline' cases, with extensive liquidity support and guarantees on liabilities.

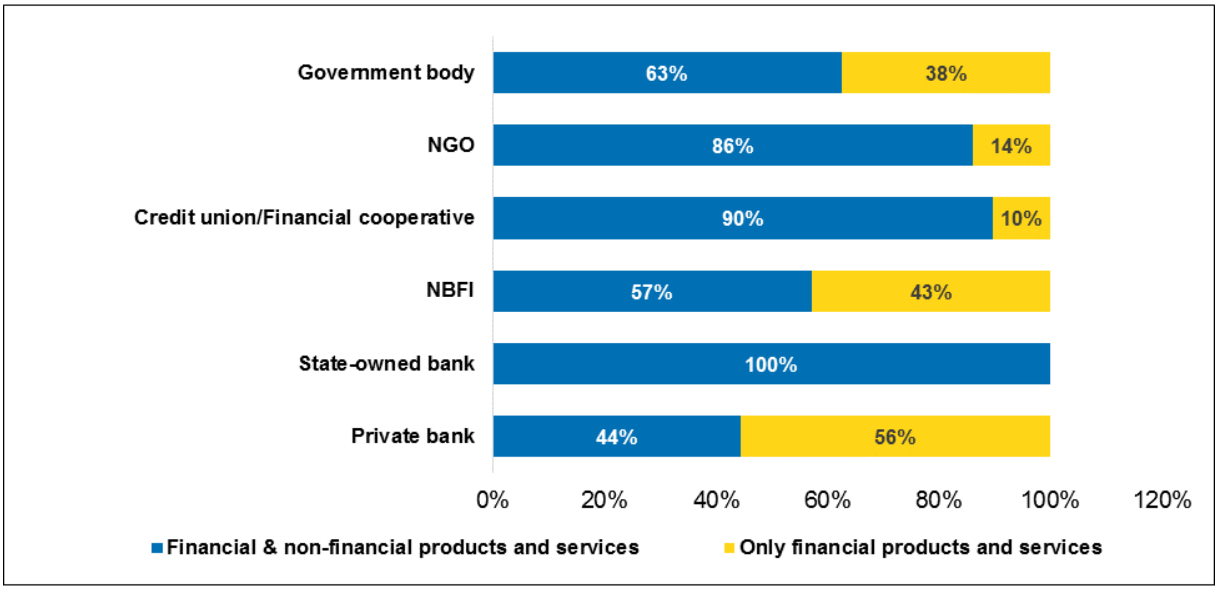
([126]) Gerebehn, A., Rop, A., Petricek, M. and Winkler, A. (2019): Do IFIs make a difference?

([127]) Footnote 7 elaborates on the global paradigm shift towards social inclusion within microfinancing.

([128]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

provision of business microloans, together with SME loans and personal microloans (Graph 25). The core products of credit unions and financial cooperatives are personal microloans and savings products.

Graph 26: Financial and non-financial products and services offered, by institutional type, European Union Member States (%)



Source: EMN-MFC overview survey 2016-2017 database (EU Member States)
Note: 126 responding microfinance providers. Percentages are rounded.

In the EU Member States, the provision of non-financial services directly to micro-entrepreneurs is likewise important. State-owned banks, credit unions or financial cooperatives and NGOs almost systematically adopt an integrated approach in the delivery of financial and non-financial services (Graph 26) while, conversely, less than half of private banks provide both financial and non-financial services.

The main modality of delivering non-financial support is through coaching, consulting and mentoring, followed by group support. Online modalities (e-learning) are mostly used by banks and by specific non-bank microfinance providers, such as Qredits in the Netherlands.

2.2.2. Efficiency of the sector and credit conditions

Efficiency

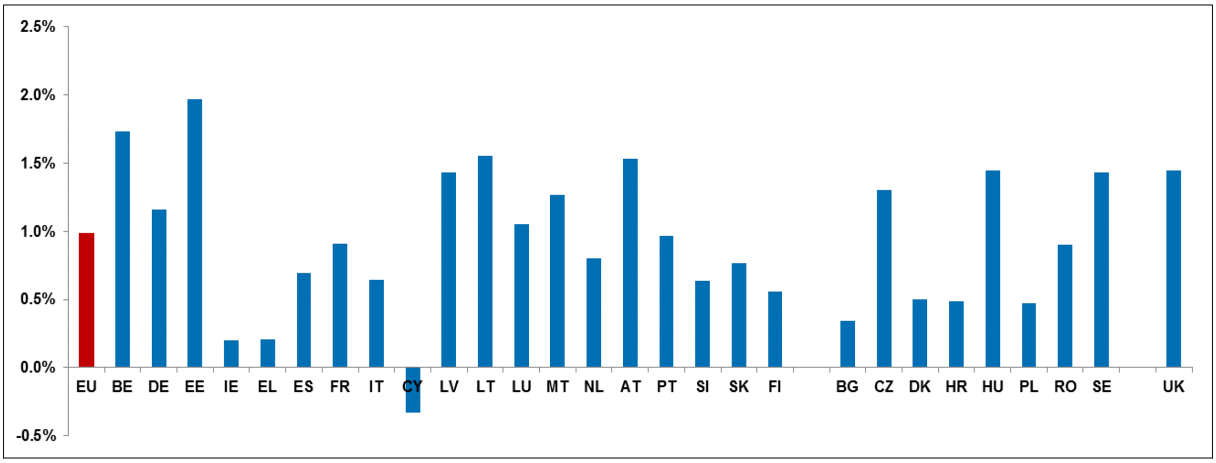
Funding costs for banks have increased because of changes in regulations since the financial crisis (Basel II, III and IV). Under the latest regulations, risks are evaluated more rigorously and banks are required to hold larger reserves in relation to outstanding loans, which puts pressure on interest rates (upward trend) and profitability (downward trend). In addition, there are more limitations on the use of short-term finance for longer-maturity loans. These changes imply that funding costs for commercial banks have risen and the risk appetite of these banks has decreased. This development will affect the lending conditions for MSMEs, raising both risk premiums and interest rates.

Credit conditions

In 2018, the average **annual inflation** rate in the euro area (EA) was 1.8% (and 1.9% for all EU Member States). Cumulating the inflation rate since the introduction of the euro, average consumer prices in the EA today are 37% higher than 19 years earlier, in 2000. The average annual inflation rate of the euro since its introduction stands at 1.7%, whereas for some non-EA countries the inflation rate is higher than this average ([129]), with a definite impact on the interest rates for loans.

([129]) Eurostat (2019): Database, 2018.

Graph 27: Average annual inflation rate, Harmonised Index of Consumer Prices, European Union Member States, 2014-2018 (%)



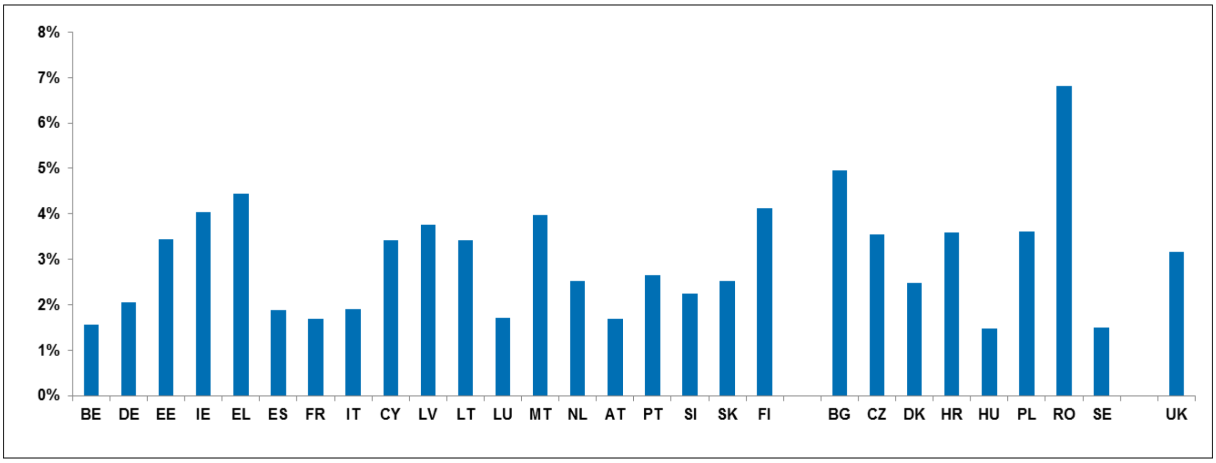
Source: Eurostat

As shown in Graph 27, **average inflation rates** for 2014 to 2018 were highest in the Baltic states, Belgium, Hungary and Austria, but still below 2%. This development has implications for the values of assets and level of nominal interest rates in these countries. Higher inflation rates can have an adverse impact on collateral or cause other securities values to become riskier.

Although inflation rates are relatively low, the **interest rate** level in non-EA countries is relatively high, especially for Romania (6.8%) and Bulgaria (5.0%). In the EA, Greece (4.4%), Finland (4.3%), Ireland and Malta (both 4.0%) all have relatively high lending interest rate levels too. In general, apart from rates of inflation, current economic and financial sector challenges also have an impact, often implying lower availability of affordable finance in countries within and outside the EA.

Although the current funding costs of financial intermediaries are low (due to low interest rates in the EA in 2019) as displayed in Graph 28 below, they are set to rise due to regulatory changes (stricter regulation of the financial sector – for example Basel III and its subsequent reforms) and potentially increasing inflationary pressure.

Graph 28: Lending interest rates, European Union Member States, 2017 and 2018 (%)



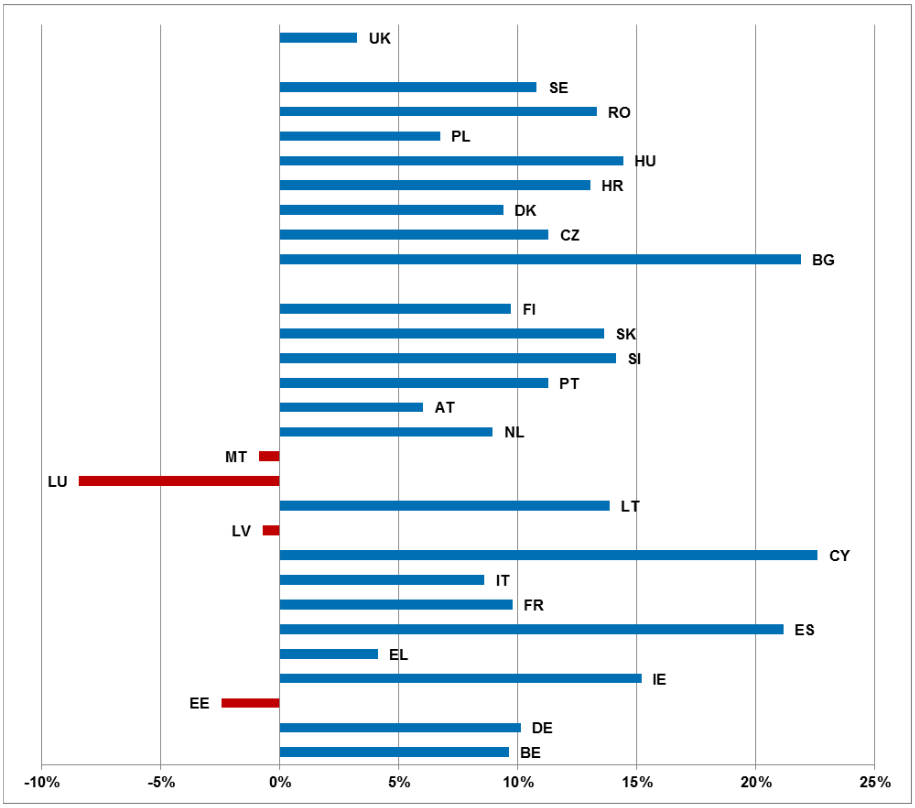
Sources: ECB for euro countries in 2018: euro-denominated loans up to EUR 1 million; floating rate or initial rate fixation of up to one year to euro-area non-financial corporations (percentages per annum, rates on new business), 2018/12. Non-euro countries only available for 2017: World Bank/IMF Lending Interest Rate information for Belgium, Czechia, Hungary and Romania; National/Central Bank information for Croatia and Poland; OECD information on SME loans for Denmark, Sweden and the UK.

2.2.3. Financial access

When it comes to lending to SMEs and large enterprises, results from the quarterly ECB's bank lending survey suggested that demand increased for loans to SMEs but decreased for loans to large firms in Q2 2019 ([130]).

([130]) European Central Bank (ECB) (2019): The euro area bank lending survey.

Graph 29: Bank loan availability, March to September 2018 (%)

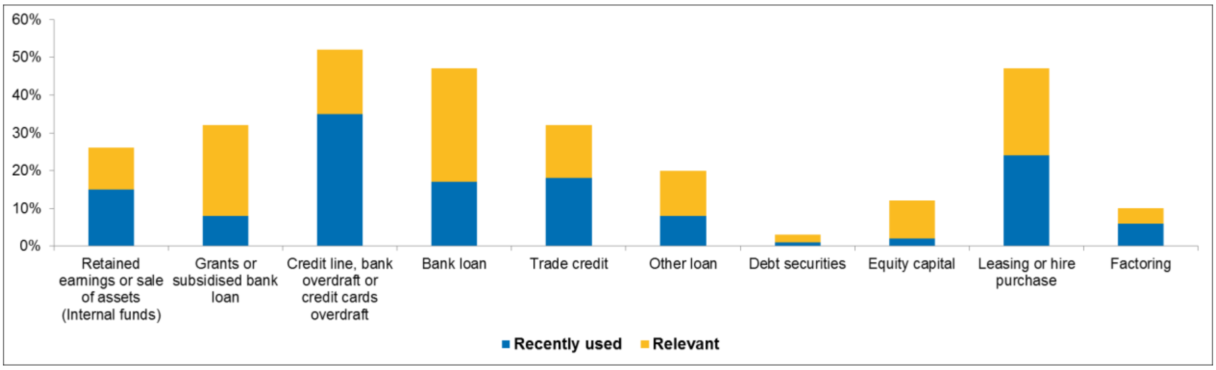


Source: ECB
Note: Bank loan availability measured as the difference between reported improvement (+) and reported deterioration (-). For example, if 10% of respondents say 'improved' and 4% say 'deteriorated', the bar will show the net of +6%.

The survey indicates that 10% of SMEs and 5% of micro-enterprises (with up to nine employees) in the EU reported improvements in the availability of bank loans from April to September 2018 ([131]).

As shown in Graph 30, findings from the ECB SAFE survey indicate that the most **relevant (important) sources of external financing** for SMEs are credit lines or overdrafts, followed by leasing and hire-purchase, together with bank loans ([132]).

Graph 30: Most relevant sources of small and medium-sized enterprise finance, 2018 (%)



Source: ECB SAFE survey

The World Bank's Doing Business report provides information on the **Ease of Getting Credit**, based on how well the credit information systems and collateral and bankruptcy laws facilitate access to credit ([133]). Surprisingly, some countries with quite developed financial sectors, such as Austria, Belgium, France, Luxembourg ([134]), Netherlands and Sweden have scores that are below the EU

([131]) European Commission (2018f): Survey on the access to finance of enterprises (SAFE).

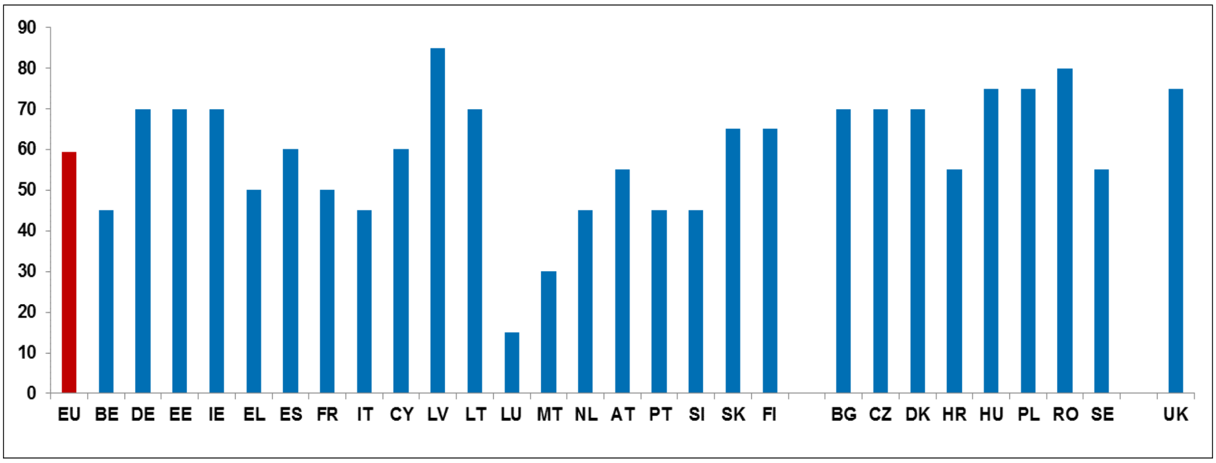
([132]) Ibid.

([133]) World Bank (2018a): Doing business 2018.

([134]) Luxembourg has the lowest score among all EU countries (15/100). It relates to the performance in depth of credit information: data on both firms and individuals is not distributed, and borrowers, by law, have no right to access their data in the credit bureau or credit registry.

average. Southern European countries (Cyprus, Greece, Italy, Malta, Portugal and Spain), as well as Croatia and Slovenia, also score below the EU average (Graph 31).

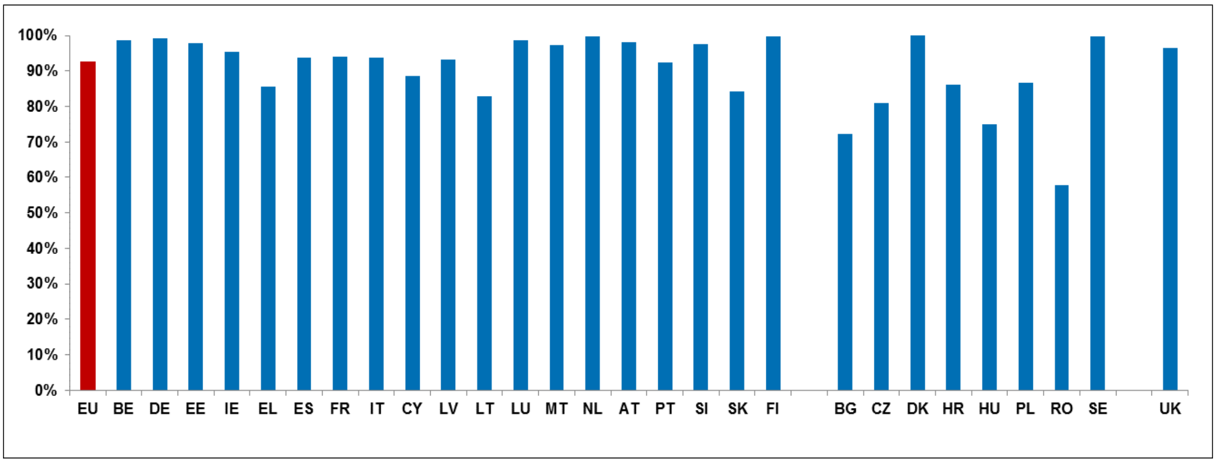
Graph 31: Ease of Getting Credit score, European Union Member States, 2018



Source: World Bank (2018a)

Global Findex data ([135]) show that the share of adults (aged 15+) in the EU Member States with a **bank account** is 92.4%, well above the global average of 69%. There are, however, marked differences across countries, with the lowest rates of account ownership (below 80%) in Bulgaria, Hungary and Romania.

Graph 32: Account ownership, 15 years and older, European Union Member States, 2017 (%)



Source: World Bank (2018b)

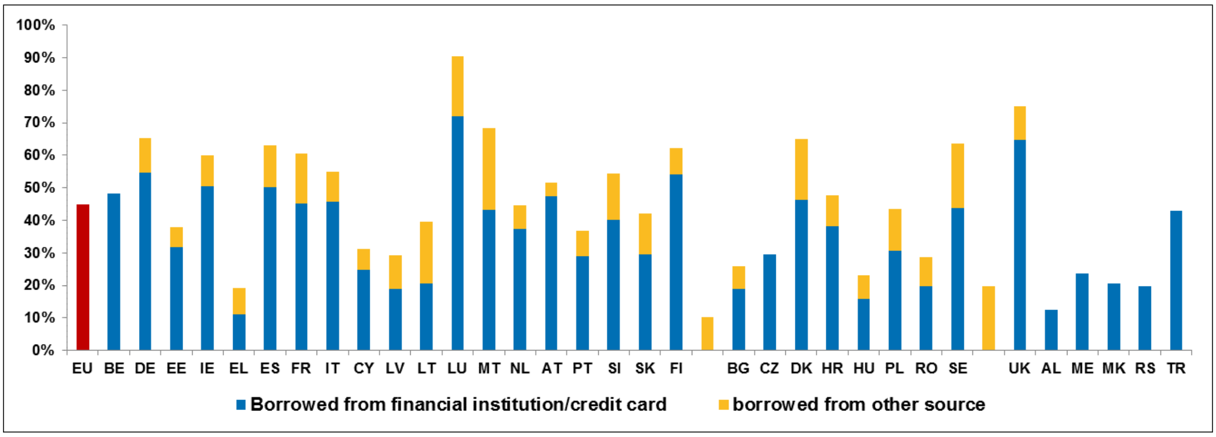
Account ownership for women is slightly lower than for the population as a whole (-1 pp in EU Member States), although the trend is much the same as for overall account ownership. In the EU, account ownership is mandatory for access to employment services and to be integrated into most social security systems. Fewer **young adults** (15-24 years) own bank accounts, with a rate of 76.0% in EU Member States.

Global Findex data on the **borrowing patterns and access to credit** show that 55.6% of adults in EU Member States borrowed in the past 12 months (2017), either via financial institutions or informally through family and friends or other sources. This share is higher than the global average: 47% of adults worldwide reported having borrowed either formally or informally, with 64% in high-income economies and 44% in low-income economies.

The EU Member States positioned below the worldwide average for access to credit are Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia, as former transition countries, as well as Cyprus, Greece and Portugal from southern Europe, and the Netherlands from among the countries with a more developed financial sector.

([135]) World Bank (2018b): The Global Findex Database 2017.

Graph 33: Borrowed money in 2017, 15 years and older, European Union Member States (%)

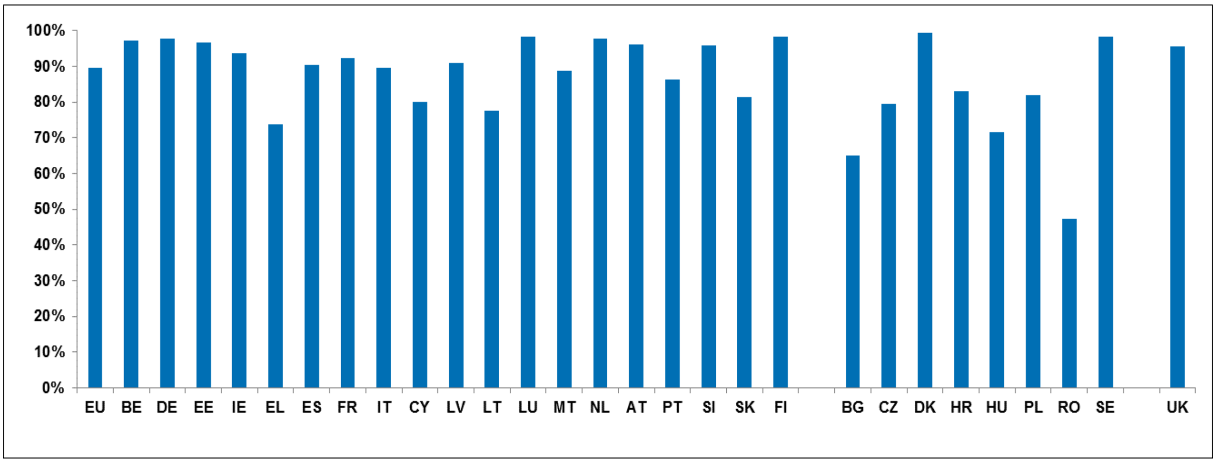


Source: World Bank (2018b)

Formal borrowing (via financial institutions or by using a credit card) is the most common source of credit, accounting for 80.6% of total borrowers (136).

Use of **digital payments** has risen, with 89.5% of account owners in the EU Member States reporting having made or received at least one digital payment in the past year (2017). Globally, 76% of account owners report making digital transactions, with 97% in high-income economies and 70% in low-income countries (137). Among the EU Member States, use of digital transactions by account owners is below the worldwide average in Bulgaria, Hungary and Romania, as former transition countries, and Greece.

Graph 34: Made/received digital payments in the past year, 15 years and older, European Union Member States, 2017 (%)



Source: World Bank (2018b)

2.2.4. European microfinance

Microfinance here describes financial services that target very small enterprises, which lack access to finance from traditional institutions (such as banks), and individuals who have problems managing their money. The practice was established in the 1970s to support micro-enterprises and poor individuals in developing countries (e.g. Grameen Bank in Bangladesh). Now, microfinance is prevalent in many countries, often having developed with support from development banks, donors and credit unions. Microfinance services aim to be more affordable than traditional financing for poor and socially marginalised customers, and they can, therefore, help these customers to start or develop a business. Available services include provision of microcredit (small loans), support in managing savings and checking accounts, and micro-insurance and payment systems.

The European microfinance industry emerged after the start of the new millennium, and was often socially driven and reliant on external funds and subsidies. However, due to national legacy and social context, the microfinance landscape in Europe is very fragmented, with a variety of institutional models and regulatory frameworks.

(136) Ibid.

(137) Ibid.

Microfinance products and services are widely available and provided by various institutions, including specialised MFIs, NGOs, commercial banks and credit unions. In 2017, the European microfinance sector reported one million active borrowers and disbursements of EUR 2 billion, an increase of 50% since 2014. Nonetheless, Europe represents only 10% of the global microfinance portfolio ([138]) and the European microfinance ecosystem and development trends have followed their own path, with European microfinance providers facing very different realities than those on a global scale, particularly in developing countries.

As observed a decade ago, differences prevail between central, eastern and western European financial markets in terms of loan sizes, target beneficiaries and intermediaries ([139]). In central and eastern Europe, the major purpose of microcredit has been to increase financial inclusion and sustain economic development. By contrast, in western Europe the financial market is highly developed and banks already provide finance to the majority of the population, including less risky microcredit applications. As a result, the microfinance sector in western Europe is mostly focused on the marginalised population (who bear implicitly higher risks), with a greater emphasis on combating social exclusion.

Table 9 summarises the main differences between the eastern and western market models.

Table 9: Key differences between western and eastern European microcredit market models

	Western Europe	Central and eastern Europe
Maturity of the market	From ‘young’ to ‘adolescent’ within 10 years	From ‘more mature’ to ‘mature’ within 10 years
Number of loans	Fewer loans – average of 1 226 loans per institution	More loans – average of 1 575 loans per institution
Average loan size	Volume larger	Volume smaller
Social focus	Those suffering from poverty and social marginalisation	Those excluded from traditional banking services, which constitutes a major obstacle to the launch of new business activities
Commercial priority, attention, profitability	Grant and donor dependency, with less financial sustainability	Larger presence of commercial intermediaries with more sustainable business models
Microcredit legislation	Increasingly specific legislation and the Code	Specific legislation exists, allowing market to be more commercially oriented and sustainable

Sources: Kraemer-Eis, H., Conforti, A. (2009); European Commission (2013, p. 12); and own estimations

The European Commission has supported self-regulation of non-bank providers with the introduction of the Code, an industry-wide framework. As at October 2019, 40 non-bank and 44 bank providers adhered to the Code. Adherence to the Code is also a precondition for accessing EU support for microfinance, primarily provided through the EaSI programme ([140]). A continuation of this trend should contribute to reducing the impacts of regulatory fragmentation within the European microfinance sector.

As mentioned, businesses or personal microloans are the most common micro-financial products provided by non-bank providers. As a broader concept, microfinance also integrates other financial services – such as savings or micro-insurance – although, as is the case in developing countries, their development remains limited. Around one third (37%) of non-bank providers offer these products in addition to microloans and SME loans ([141]).

In Europe, the type of microcredit offered is individual, rather than the collective type prevailing in developing regions. Furthermore, microfinance providers in Europe usually charge clients lower interest rates, due to different macroeconomic environments (capital is more readily available in developed countries) but also due to lower servicing costs and bigger average loan size and subsidies, which allow them to offer products at lower prices.

([138]) Council of Europe Development Bank (2019a): Supporting inclusion in Europe through microfinance.

([139]) Kramer-Eis, H., Conforti, A. (2009): Microfinance in Europe.

([140]) This includes the provision of EaSI financial instruments in the form of guarantees, capacity-building investments, and debt and advisory support. Refer to Chapter 6 for more information about the EaSI programme for microfinance.

([141]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

2.2.5. Microcredit definition and scope at European Union level

The EU has traditionally defined microcredit as a loan up to EUR 25 000 granted to existing and potential micro-entrepreneurs at risk of social and financial exclusion, with the policy objective of entrepreneurial support and job creation in Europe ([142]). This broad interpretation of microcredit has been adopted in the two waves of EU support to the sector (2007-2013: Jasmine (Joint Action to Support Microfinance Institutions in Europe) and Progress Microfinance; 2014-2020: EaSI programme) with the aim of embracing the diversity of microcredit practices across Europe ([143]).

According to the EU definition, microloans are categorised into loans for business and loans for personal consumption, reflecting the purpose of the loan, as described in Box 1.

Box 1: Categories of microloan

Business microloan – a loan under EUR 25 000 with the aim of supporting the development of micro-enterprises or self-employment

Personal microloan – a loan under EUR 25 000 with the aim of covering personal or consumption necessities (e.g. rent, private emergencies or education)

The European Social Fund Plus (ESF+) regulation ([144]) contains a new definition that will influence the implementation of the new EU tools in support of the sector (e.g. InvestEU, 2021-2027), as in Box 2.

Box 2: Microfinance and micro-enterprise under European Social Fund Plus

(11) 'microfinance' includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities;

(12) 'micro-enterprise' means an enterprise with fewer than 10 employees and an annual turnover or balance sheet below EUR 2 000 000

Source: European Parliament (2018) ([145])

According to this definition, microcredit – which is part of the microfinance toolbox – is intended as a combination of credit and accompanying non-financial services that are provided to individuals and enterprises that are financially excluded. Interestingly, no thresholds for microcredit are currently set in the ESF+ regulation. This should allow microfinance providers to cater better to the needs of the (micro) entrepreneurs as the purchasing power varies across the EU Member States, as do the sums needed to start a business or finance the growth of an existing one. In this respect, it is worth noting that more than one third of the microfinance providers in Europe are already offering loans larger than EUR 25 000 in order to meet the growing needs of their clients ([146]). The elimination or substantial enhancement of the cut-off threshold appears as a necessity for the development of the sector, considering that the EUR 25 000 ceiling was established in 2003. According to the data available from Eurostat, the cumulated inflation rate 2003-2018 for EU countries amounted to almost 30%, with GDP growth of 23% ([147]).

Another innovative element of the ESF+ definition is the central role played by the non-financial support that is now considered an inherent part of the microcredit disbursement. This specification echoes the current practice in the sector, where the vast majority of the microfinance providers adopt

([142]) Commission Staff Working Paper 'Microcredit for European small businesses', SEC (2004)1156, cited in European Commission (2007b): The regulation of Microcredit in Europe; European Parliament and Council of the European Union (2006): Decision No. 1936/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013); European Commission (2003): Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

([143]) European Commission (2007b): The regulation of Microcredit in Europe.

([144]) European Parliament (2018): Impact Assessment: Accompanying the document proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus (ESF+), p. 26.

([145]) Ibid.

([146]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([147]) Eurostat (2019): Database, 2018.

an integrated approach.

One issue of continuity with the definition is the fact that microcredit is explicitly intended to support income-generating activities, confirming that the provision of personal and social inclusion microloans is not yet part of the EU agenda. The idea of personal microcredit envisions a product designed for disadvantaged individuals and low-income households who want to finance personal and family development projects or necessities arising from daily needs, potential risks and temporary or unforeseen circumstances (e.g. home expenses, health, education, disability requirements, family reunification or to purchase a means of transport necessary for job purposes) ([148]). Currently, half of the microfinance providers in Europe offer personal microloans ([149]) ([150]).

Personal microcredit differs from traditional consumer credit because it doesn't merely target consumption, but rather has the objective of enhancing the financial and social inclusion of beneficiaries. As the provision of personal microcredit alone might not be enough to support the financial inclusion of beneficiaries, the personal microloans are often supplemented with the provision of non-financial services (e.g. financial education and personal follow-up) and the offer of additional financial products (e.g. access to bank accounts in order to encourage savings, micro-insurances). The combination of these elements, along with the specific segment of clients targeted and the fact that the loan should be adapted to suit the borrower's project and repayment capacity, makes personal microcredit different from other forms of consumer credit that are provided by various bank and non-bank entities.

However, as practices are different across countries (and single non-bank providers) and there is no common agreement on what can be considered a 'legitimate' need to be financed with personal microcredit at the moment, it is difficult to track the provision of this product in a homogeneous way. Further research is needed to highlight the specific breadth of coverage of personal microloans in the European market and find a common understanding of its scope. In this respect, the revision of the regulation on personal microloans set at national level can be a starting point (e.g. in France, personal loans are directly connected with the maintenance of, or return to, a job or specific social integration projects).

For the purpose of this report – as some legislation on microcredit has already defined the scope of personal microloans (e.g. in Italy, France and Montenegro) and this product represents an important element of the microcredit provision in Europe – available statistics on personal microloans provision will complement the latest data on the business microcredit portfolio.

In summary, in a European context, the most discernible differences in the microfinance sector occur on geographical lines between eastern and western European countries. Eastern non-bank microfinance providers tend to focus on lending to micro-enterprises, are generally more financially sustainable and are more similar to those of emerging economies. Western non-bank microfinance providers tend to focus on social and financial inclusion of the most vulnerable groups, rarely reach break-even and have a portfolio of loans with high-risk indicators.

2.2.6. Other trends – fintech and crowdfunding

Digitalisation, in combination with new technological developments, financial players and business methods, offers tremendous opportunities for customers, providers and the market as a whole. Moreover, with the emerging landscape becoming more complex, there is increasing pressure on traditional providers to go digital.

Figure 9 depicts key stages in the evolution of financial services. A recent report by the International Monetary Fund (IMF) and the World Bank – *Fintech: The experience so far* (May 2019) – provides some key insights for the assessment of potential future development of the microfinance sector ([151]).

In general, the provision of fintech ([152]) financial services can result in a broader variety of more tailored financial products and solutions, and result in lower-cost financial services through technology and increased competition, which may lead to increased access to finance. However, given the high level of financial development, banking penetration and competition, demand for fintech solutions in Europe may not benefit from the 'leapfrog' effect seen in developing economies. Conversely, high levels of

([148]) EMN (2016): Personal loans.

([149]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([150]) EMN (2016): Personal loans.

([151]) International Monetary Fund (IMF), World Bank (2019). Fintech: The experience so far.

([152]) In 2017, the Financial Stability Board (FSB) reported that 'Fintech is defined as technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services' (FSB, 2017: FinTech and market structure in financial services, p. 1).

mobile phone and internet access (153) are highly beneficial to the proliferation of fintech solutions that may improve outcomes in Europe.

Figure 9: Evolution of financial services

Source: Reproduced from IMF, World Bank (2019)
Notes: H refers to high, M refers to medium and L refers to low.

For microfinance, two areas of technological innovation are most relevant: payments and borrowings (circled in red in Figure 9 above). The important innovations in the payments sphere relate to remittances, mobile payments, mobile points of sale, peer-to-peer (P2P) payments and business-to-business (B2B) transactions. When it comes to borrowings, non-bank microfinance providers are increasingly applying credit risk modelling, platform lending, crowdfunding and auto-underwriting (154).

Within Europe there are relevant regional differences in the uptake of digital financial services (DFS). For example, whereas countries in western Europe (e.g. Denmark, Finland, Luxembourg or Germany) have high rates of digital payment uptake, with more than 97% of the adult population having made or received digital payments in the past year, south-east European countries (e.g. Albania, Romania or Montenegro) lag behind, with less than 66% of the population having used digital payment options.

Table 10 details the latest developments at country level in the EU.

Table 10: Recent developments on fintech regulation in the European Union

Regulatory approach on fintech solutions	Countries	Regulatory authority
First regulatory sandbox on fintech regulation	UK (2016)	Financial Conduct Authority
Fintech Action Plan	EU	European Commission
Rules to expand crowdfunding	EU single market	European Commission

(153) World Bank (2018b): The Global Findex Database 2017.

(154) **Credit risk modelling** refers to the process of using data models to find out two important things. The first is the probability that the client will not pay back the credit. The second is the impact on the financial statements of the funder if this occurs; **platform lending** is internet-based online platforms through which credits are directly provided to the clients; **auto-underwriting** consists of a technology-driven underwriting process that provides a computer-generated loan decision. For crowdfunding, refer to the subsection below.

Draft Ethics Guidelines on the development and use of artificial intelligence	EU	European Commission
Regulatory sandboxes on crypto-assets, initial coin offerings and digital currencies	Denmark, Lithuania, Netherlands, Poland (for innovations); Hungary and Spain (in planning stage)	Danish Financial Supervisory Authority, Bank of Lithuania, Central Bank of the Netherlands, Polish Financial Supervision Authority
Recognition of crypto-currency and law that governs crypto-assets	Malta	Malta Digital Innovation Authority
Digital currency: e-krona	Sweden (upcoming)	Central Bank of Sweden
Fintech knowledge hub	EU	European Banking Authority (EBA)
Resolution on distributed ledger technologies and blockchains	EU	European Parliament

Sources: EBA (2019); European Commission (2018b, 2019c, 2019p); IMF, World Bank (2019)

In the digital area, the EU advanced two key regulations that came into effect in 2018: (a) the General Data Privacy Regulation (also known as GDPR) and (b) the Payments Services Directive 2 (PSD2) that obliges banks to give third-party payment providers access to customers' bank accounts, if requested by the customer. The full implications of these significant policy developments will take some time to become clear: for example, whether PSD2 will lead to an increase of payment providers and whether end users will accept and use these new payment providers.

The UK is a leader in Europe in the field of fintech innovation and investment. It is still unclear what will be the impacts of Brexit on the development of both the UK and the European fintech sector. Most national regulatory authorities in the EU have established 'innovation hubs' that provide non-binding guidance to fintechs to help them navigate the regulatory framework and supervisory expectations, including licensing requirements. Although less common than innovation hubs, 'regulatory sandboxes' are schemes that enable firms to test innovative financial products, financial services or business models, pursuant to a specific testing plan agreed and monitored by a dedicated function of the relevant competent authority.

In a recent case study ([155]), the MFC observes that, although all microfinance providers are using digital technologies, most are far from transforming themselves into a digitally driven organisation. Most digital transformation efforts in European microfinance focus on the lending process and the customer interface, with loan application and approval typically being the first process to be digitised and automated.

Overall, most European microfinance providers, especially those in the EU Member States, have adopted digital solutions as an extension of their current operations in an effort to increase efficiency, but they are not yet enjoying the full extent of benefits that technology and automation offer.

Annex 5 provides detailed information about digital transformation trends in the financial sector, as well as the risks and opportunities for providers.

Crowdfunding

Crowdfunding, also called alternative finance, is a way of raising money to finance projects and businesses. It enables fundraisers to **collect money from a large number of people or dedicated investors via online platforms**. It has been growing continuously in recent years. Global funding volumes have increased from EUR 0.64 billion in 2011 to EUR 33.4 billion in 2014 and EUR 370.9 billion in 2017. This growth is mainly driven by expansion in Asia, notably China, which has an 86.5% share of the overall funding volume. As acknowledged within the industry (Massolution 2015), despite strong growth, crowdfunding only accounts for a very small part of the overall financial sector. Indeed, total global crowdfunding volumes in 2017 roughly correspond to the total combined value of total loans made by banks in Greece and Czechia ([156]).

Early crowdfunding activity was mainly conducted in mature economies but there has been a shift to other regions, such as Asia and the Americas, in recent years, providing a 'leapfrog' option for financial sector development. There are two main crowdfunding models: (a) non-financial crowdfunding, either in the form of donation-based or reward-based crowdfunding; and (b) financial crowdfunding in the form of lending, equity and royalty-based crowdfunding (Massolution 2015).

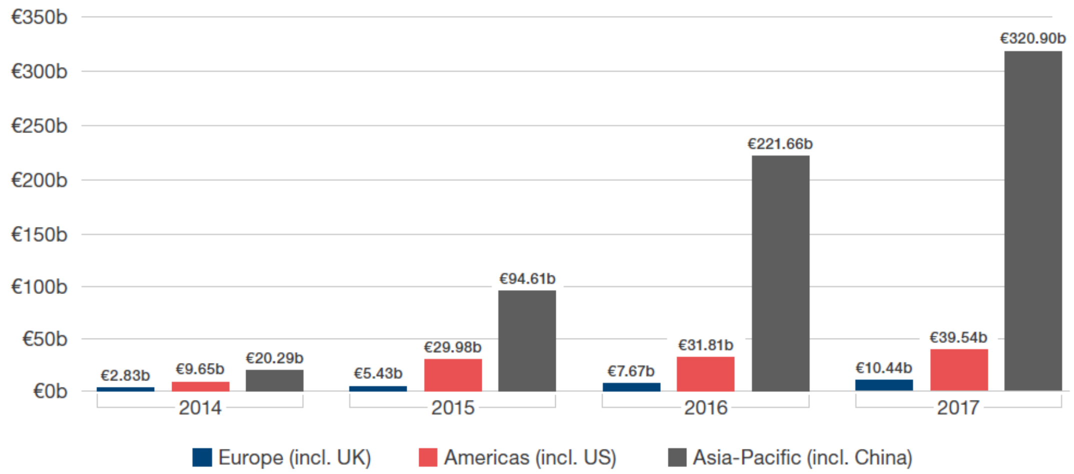
([155]) Microfinance Centre (2018): Experimenting with digital solutions.

([156]) The gap between traditional finance and crowdfunding can also be illustrated by comparing global crowdfunding volumes with the volume of total outstanding credit by European banks of the EaSI region. The latter amounted to EUR 25 trillion at the end of 2017, which is more than 67 times greater than global crowdfunding volumes in 2017. Comparing the same credit volumes of European Banks with the European crowdfunding market, the relation increases to 2 395 times. The comparison is for illustrative purposes only.

Alternative finance volumes are positively related to the number of lending platforms (local or international) in a country. P2P lending has emerged as by far the largest crowdfunding activity on a global level, substantially ahead of donations-based, rewards-based or equity-based funding. Business and entrepreneurship funding is the largest segment of crowdfunding volumes, accounting for 41.8% of funding in 2018. Graph 35 shows total volumes and growth of crowdfunding from 2014 to 2017.

Similar developments are observed in the EU where, according to the 4th European Alternative Finance Benchmarking Report on alternative finance ([157]), the volume of the online alternative finance market stood at EUR 10.44 billion in 2017. Online alternative finance for businesses has grown to EUR 1.66 billion and provides finance to 24 000 businesses across the region with an average credit of EUR 69 000, and targets a different segment than European microfinance. Debt models (including P2P business lending, invoice trading, etc.) accounted for 76% of all business finance, while equity models (equity-based crowdfunding, etc.) accounted for 21%. France (EUR 325 million), the Netherlands (EUR 264 million), Italy (EUR 171 million), Sweden (EUR 126 million) and Germany (EUR 101 million) drove business-based alternative finance volumes, supporting their SME markets through a variety of models ([158]). P2P consumer lending has the second largest volume within the EU markets, and there is very strong representation in the UK, which accounts for 68% of the overall European alternative finance market.

Graph 35: Crowdfunding – total funding volumes and growth, 2014-2017 (billion EUR)



Source: Reproduced from Ziegler, T., Shneor, R., Wenzlaff, K., Odorovic, A., Johanson, D., Hao, R., Ryll, L. (2019)

In response to the rapid growth of crowdfunding, in March 2018 the European Commission proposed a regulation on crowdfunding service providers as part of its Fintech Action Plan, aiming to create a more competitive and innovative financial market in Europe. In June 2019, the European Council concluded its discussions on the European Commission's legislative proposal, which will enable the final discussions with the European Parliament to set out a regulatory framework for the operation of crowdfunding platforms across the EU.

2.3. Global trends and challenges

This section describes global trends that shape the market environment of European microfinance providers and have an impact on the microlending activity. Here, we will refer to providers of microfinance services as financial service providers (FSPs), as they can take many institutional forms, such as banks, MFIs, credit unions, etc.

While we are focusing on **microfinance** in Europe, it is important to consider what microfinance activities take place on a global scale. Globally, a paradigm shift has taken place, as the sector has moved from microcredit in the early 1990s, to microfinance and finally to financial inclusion in the last 10 years, building a broader concept and understanding. While microfinance covers a certain segment of the excluded market with targeted products, **financial inclusion** has widened the scope to look at

([157]) Ziegler, T., Shneor, R., Wenzlaff, K., Odorovic, A., Johanson, D., Hao, R., Ryll, L. (2019). Shifting paradigms. The UK makes up about 68% or EUR 7 billion of the overall level of the European crowdfunding volume.

([158]) After supporting the P2P online business lending platform Funding Circle with GBP 100 million for UK SMEs through the platform, the European Investment Bank (EIB) – as institutional investor – will lend for the second time EUR 100 million to Dutch and German SMEs. The bank expects this investment to support more than 2 000 start-ups and small businesses, based on the average loan amount of EUR 40 000-70 000.

everyone who is excluded and the full range of services they need.

The Center for Financial Inclusion at Accion International ([159]) has defined financial inclusion as 'a state in which everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity. Financial services are delivered by a range of providers, in a stable, competitive market to financially capable clients'.

Hence, **financial** inclusion not only encompasses provision of financial services to those without access to banking provision, but also focuses on literacy campaigns, quality of services and consumer protection, while taking government and central banks' efforts into account. Central to this is a better understanding of what clients need and how financial services are made available to them in ways that align with how they live their lives.

For the broader conceptualisation of microfinance globally, several transitions are taking place.

- **Diversification.** Financial products for the poor have diversified over the past decades. While in the early 1990s only microcredit was considered, financial services for the poor have now diversified into savings, payments, insurance, leasing and credit. In line with this expansion, FSPs have often transitioned from credit-only MFIs to deposit taking MFIs, commercial banks, cooperatives and telecommunication or fintech companies.
- **Digitalisation.** Digital finance offers a transformational solution for financial inclusion. Powered by the mobile phone, new data and technological innovations, it has become affordable and convenient for unbanked customers to access and use formal banking services. While new technological developments and financial players bring tremendous opportunities, the emerging landscape is also becoming more complex and is putting increasing pressure on traditional providers to go digital. Given its tremendous impact on the financial industry, and on European microfinance, digital transformation is addressed separately in this report (Annex 5).
- **Global development.** Financial inclusion has matured from silo microcredit initiatives to an integral part of national and global development agendas. It is increasingly understood and used as a stepping stone (facilitator) for access to and provision of other development services, for example as a means to provide access to electricity and water, to promote food security or to enable sustainable agriculture. While the SDGs do not explicitly target financial inclusion, greater access to financial services is positioned as a key enabler for many of them ([160]).

With these developments, policymakers are playing an increasingly important role in ensuring access to financial services for all. This transition is best illustrated by the efforts of the Alliance for Financial Inclusion (AFI), the world's leading organisation on financial inclusion policy and regulation. As of July 2018, more than 107 financial regulatory and policymaking institutions from 92 developing and emerging countries have signed the Maya Declaration, in which they committed to unlock the economic and social potential of the poor through greater financial inclusion.

Annex 6 provides an overview of the current state of financial inclusion developments.

2.4. Funding trends in the European Union and beyond

2.4.1. Government finance

The **government budget deficit-to-GDP** ratio in the EU Member States stood at -0.6% in 2018, an improvement of 0.4 pps compared to 2017 (-1.0%).

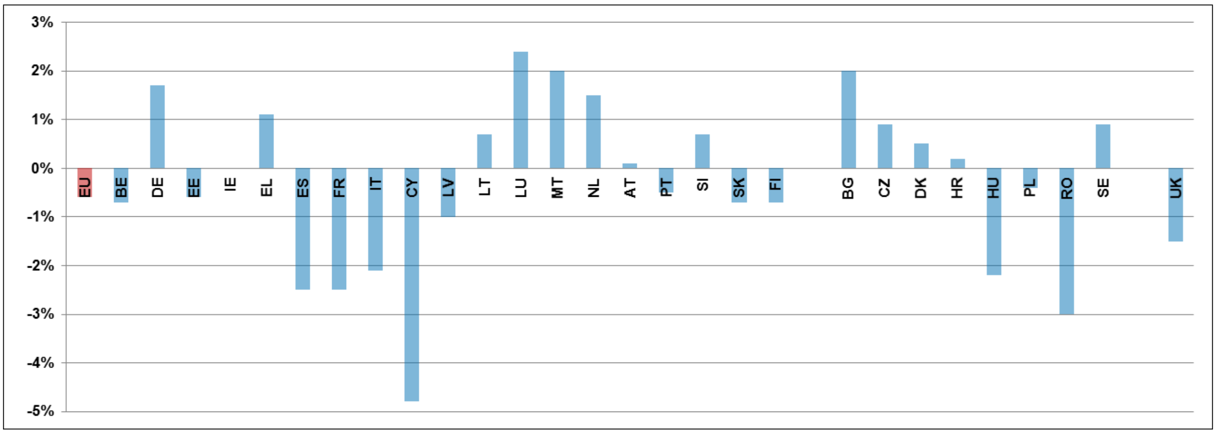
Thirteen EU Member States registered government surpluses, with Luxembourg (+2.4%), Bulgaria and Malta (both +2.0%) having the highest surplus. Conversely, there were 15 states that recorded deficits in 2018. Of those, Romania had a deficit of 3.0% of GDP, right at the EU's Stability and Growth Pact threshold, while Cyprus had a temporary deficit of 4.4% of GDP in 2018 that was due to the one-off support measures related to the Cyprus Cooperative Bank sale (-4.8%) ([161]).

([159]) Center for Financial Inclusion at Accion International (2012): Financial inclusion.

([160]) The Consultative Group to Assist the Poor (CGAP) and the United Nations Secretary General's Special Advocate for Inclusive Finance for Development (UNSGSA) have drawn a link between financial inclusion and 11 out of the 17 SDGs: Eliminating extreme poverty (SDG 1), Reducing hunger and promoting food security (SDG 2), Achieving good health and well-being (SDG 3), Fostering quality education (SDG 4), Promoting gender equality (SDG 5), Clean water and sanitation (SDG 6), Affordable and clean energy (SDG 7), Decent work and economic growth (SDG 8), Industry, innovation and infrastructure (SDG 9), Reducing inequalities (SDG 10) and Peace, justice and strong institutions (SDG 16) (CGAP, UNSGSA, 2016: Achieving the sustainable development goals).

([161]) European Commission (2019e): European economic forecast: Autumn 2019.

Graph 36: Government budget deficit/gross domestic product, European Union Member States, 2018 (%)

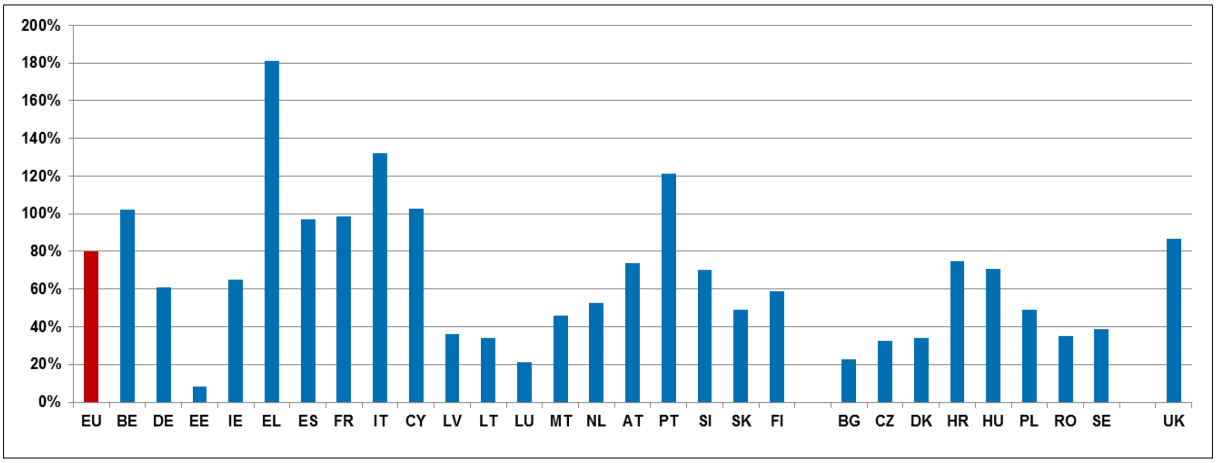


Source: Eurostat

The government balance in relation to the GDP improved in 18 EU Member States, with the largest improvements being in Portugal (+2.5 pps of GDP), Poland (+1.2 pps of GDP) and Luxembourg (+1.0 pp of GDP).

The **government debt-to-GDP** ratio of EU Member States decreased between 2017 and 2018 from 81.7% to 80.0% of GDP. Fourteen countries recorded a debt-to-GDP ratio above the EU threshold of 60%, with the highest ratios recorded by Greece (181.1% of GDP), Italy (132.2% of GDP) and Portugal (121.5% of GDP). Conversely, 14 countries recorded a ratio below the 60% of GDP threshold, with Estonia (8.4% of GDP), Luxembourg (21.4% of GDP) and Bulgaria (22.6% of GDP) recording a government debt-to-GDP ratio of less than 30%.

Graph 37: Government debt/gross domestic product, European Union Member States, 2018 (%)



Source: Eurostat

Compared to 2017, government debt-to-GDP ratios increased in three states, while the ratio decreased for 24 Member States, most notably in Lithuania (-5.2 pps of GDP), the Netherlands (-4.5 pps of GDP), Austria (-4.4 pps of GDP), Malta (-4.2 pps of GDP) and Latvia (-4.0 pps of GDP).

The state of public finances affects the ability of central governments to support MSMEs (through guarantees, technical assistance (TA) or funding programmes). Although the situation of public finances has generally improved since the economic and financial crisis of 10 years ago, there are some countries (Greece, Portugal, Spain, Italy and Romania, among others) still operating with large budget deficits and high public debts as a percentage of GDP.

2.4.2. Trends in government programmes and international funding

Although the investment in microfinance at a global level represents a well-established business for investors and lenders ([162]), there are some trends relevant in government programmes and international donor funding.

([162]) Symbiotics (2017): White paper.

- **Increasing blending between financial instruments and between funds** (or institutions). The ESIF and other development organisations and programmes are making increased use of blending of different funds and instruments (such as grants, TA, loans or equity) for projects and programmes. Investment projects with some revenue potential alongside commercially unviable components are increasingly financed with a combination of financial instruments. These instruments can be blended within one fund, but sometimes blending takes place between different funding channels (e.g. EIB and DG REGIO). Blending public with private funds aims to de-risk projects or at least maximise leverage potential (see, for example, Natural Capital Financing Facility (NCFF), under the LIFE (L'Instrument Financier pour l'Environnement) programme of the DG for Climate Action and the DG for Environment).
- **One-stop-shop funding.** Some institutions, for example the European Commission and the Government of the Netherlands are streamlining different subsidies and funding into one overall fund (InvestEU, Invest-NL). The Government of the Netherlands aims to merge several funding agencies – RVO (Netherlands Enterprise Agency), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO – Dutch Development Bank), Waterschapsbank – into one organisation combining several funding streams. The idea is to create one clear front office to potential applicants and harmonise some principles.
- **Upcoming thematic funds on climate change and green transition.** Climate change, climate mitigation and adaptation are high on the policy agenda at United Nations (UN), EU and national levels. For example, the **EU Climate Action Plan and related action plan on financing sustainable growth** set targets for reducing carbon emissions and promoting more transparency and labelling of sustainable investments and financial products. As a result, governments and donors have been establishing dedicated climate funds. In the last 10 years, an increasing number of climate and energy funds and instruments have been established targeting projects or companies in the areas of climate change mitigation or adaptation, for example the Green Climate Fund, instruments under the EU LIFE programme (Private Finance for Energy Efficiency – PF4EE) and European Bank for Reconstruction and Development (EBRD) support programmes for energy efficiency targeting financial intermediaries in transition countries, etc. Moreover, various regions and countries have been setting up dedicated energy funds, such as Energie Fonds Limburg in the Netherlands.
- In the recent proposal for EU cohesion policies in the programming period 2021-2027, the European Commission proposes more emphasis on its goals of **a low-carbon economy, innovation, reducing youth unemployment** and **integration of migrants**. This might imply ESIF funds will shift more towards these thematic areas.
- The rise of the knowledge economy and recognition of the importance of human capital, research and development and 'learning regions' for regional economic growth has fostered **the establishment of innovation funds** targeting research and innovation projects in a number of countries and regions. Often, it is regional authorities, regional development agencies and managing authorities (MAs) of ESIF programmes that have initiated these funds.
- **'Gender-smart' investing** refers to investments made in companies, organisations and funds with the explicit intent to have a positive impact on women (application of a so-called 'gender lens'). For the European region, the most notable experience is the Women in Business programmes of the EBRD. Since 2014, the EBRD has been implementing Women in Business programmes in the Western Balkans (Albania, Croatia, Montenegro, North Macedonia, Serbia, Kosovo and Bosnia-Herzegovina), Croatia and Turkey. Although the target group refers to women-led enterprises that include MSMEs, the average loan amounts are often around about EUR 15 000, suggesting that loans go mainly to enterprises at the lower end of the MSME segment. The programmes include an integrated approach encompassing funding (senior loans), TA programmes to the partner financial institutions and direct business advisory services to women (in the form of self-assessment – or 'gender-smart'– coaching, mentoring, training and workshops). The 14 partner financial institutions channelled EUR 338.1 million to 23 000 women, although the minimum senior loan amount is greater than EUR 1 million and the EBRD mainly works with banks. Notable global initiatives include: (a) The Billion Dollar Fund ([163]) for start-up companies founded by women; (b) the 2X Challenge Financing for Women ([164]) of the G7 development finance institutions (DFIs), which aims to collectively mobilise USD 3 billion by 2020 for investing in women; and (c) the DFI

([163]) The Billion Dollar Fund (2019): About us.

([164]) 2X Challenge – Financing for Women (2019): Homepage.

Gender Collaborative (165) established by 14 DFIs and the EIF to encourage the application of gender-smart principles in their operations.

- **Adoption of the SDGs** in 2015 seems to be shifting funders' focus from financial inclusion as a goal in and of itself to that of an enabler of broader development and inclusive growth. The SDGs encourage collaboration between the private, public and philanthropic sectors to further social and environmental progress across a broad range of themes and sectors towards 2030. Thus, it can be expected that funders are increasingly positioning financial inclusion in a wider context. It will become a crosscutting priority and investors will seek synergies in their programming to achieve the SDGs as well as financial inclusion outcomes. According to the latest results of the annual impact investing survey published by the Global Impact Investing Network (166) in 2019, more than 40% of interviewed impact investors report tracking the performance of their investments to the SDGs, 20% mention doing so for some of their investments and another 15% plan to do so in the future.

- **DFS** are increasingly found among funding priorities, including creating the necessary ecosystem. The 2017 CGAP Funder Survey (167) illustrates that, given the need to build DFS ecosystems, there is a priority for funding for infrastructure, policy and capacity building. Overall DFS funding accounts for roughly 5% of global tracked funding, shared almost equally between funder types: DFIs, bilateral and multilateral organisations, and foundations. Their efforts vary by type of intervention; for example, DFIs account for half of funding to FSPs, while foundations drive efforts on policy and capacity building. It may be noted that the African Development Bank's new financial inclusion strategic framework is almost entirely focused on DFS (168). The World Bank Group (World Bank and the International Finance Corporation – IFC) have been the leading funders in support of digital financial inclusion for over five years at the national and global levels. The World Bank also tracks the Universal Financial Access index for coverage of the financial access gap to 2020 (169).

- **Funding of refugee assistance.** The latest annual impact investing survey published by the Global Impact Investing Network (170), finds that almost 50% of respondents address humanitarian issues in their impact investing practices. Notably, 19% replied that they invest in enterprises or entities providing refugee assistance. To help tackle this growing issue, the Global Development Incubator (an incubator of social impact projects) established the Refugee Investment Network in 2018 with the aim of mobilising USD 1 billion in investments and generating more than one million jobs for refugees and their host communities by 2030 (171) by linking entrepreneurial refugees with investors. The intention is to spur economic growth, create jobs and increase stability among displaced populations and their host countries. The EU is financing a large-scale programme through its Facility for Euro–Mediterranean Investment and Partnership, a funding and TA programme to EIB's Southern Neighbourhood Microfinance Facility and Actions. Aimed at youth, unemployed individuals, migrants and refugees, this programme includes various financial instruments: grants for TA to partner financial institutions (EUR 2 million), loans through the EIB's Southern Neighbourhood Microfinance Facility, a EUR 71.25 million envelope for small microfinance investments in the MENA region, and equity and quasi-equity for private sector development in the region.

- The **EU External Investment Plan** (EIP) (172) aims to leverage EUR 44 billion between 2017 and 2020 from an investment of EUR 4.5 billion through the European Fund for Sustainable Development (EFSD), which is the main financial arm of the EIP. The fund comprises guarantees and blending programmes for the Southern Neighbourhood and sub-Saharan Africa regions. The EU is implementing the programmes through a variety of bilateral and multilateral financial institutions. The plan covers the previously mentioned trends related to sustainable finance and digitalisation, as well as gender and refugee assistance.

(165) CDC Group (2018): Development finance institution Gender Finance Collaborative.
(166) Mudaliar, A., Bass, R., Dithrich, H., Nova, N. (2019): 2019 Annual impact investor survey.
(167) Tomilova, O., Dokle, E. (2019): CGAP funder survey 2017.
(168) African Development Bank (AfDB) (2019): Launch of the Africa Digital Financial Inclusion Facility.
(169) World Bank (2018c): Universal financial access 2020.
(170) Mudaliar, A., Bass, R., Dithrich, H., Nova, N. (2019): 2019 Annual impact investor survey.
(171) Refugee Investment Network (2019): What RIN does.
(172) European Commission (2019j): What is the EU's external investment plan?

2.5. Conclusions

From the analysis of the market environment and trends, the following conclusions are relevant.

1. Since the global economic and financial crisis of the past decade, several economic variables influencing demand for microfinance show a positive development for the EaSI programme countries and particularly in the EU Member States: GDP, income, unemployment and poverty. Overall, economic growth has improved, albeit with clear outliers, and vulnerable target groups have been shrinking slightly, although unemployment and poverty are still high in central and eastern Europe and the Balkans. Improving economic and social conditions should have a positive impact on the volume of demand.
2. Despite a reduction in overall unemployment, youth unemployment remains persistently at double-digit rates in 26 of the 34 EaSI programme countries, and is extremely high (over 20%) in Croatia, Cyprus, France, Italy, Portugal, Spain and Turkey. This suggests that the youth population is a potentially important target group for EaSI-type instruments.
3. Demographic developments vary substantially within the EU Member States, with small or even negative population growth in central and eastern Europe and other countries coping with significant increases in population size (e.g. Ireland, Luxembourg and Malta). As for the vulnerable population, the elderly population is increasing, especially in the northern and western EU Member States. The inflow of migrants has been highest in Germany, France and the UK (from Syria, among other places) in absolute terms, whereas in relative terms, Cyprus and Malta have been most impacted by refugee migrants, given their population size. These trends increase pressure on the labour force and the motivation for self-employment in these countries, provided that economic growth exists.
4. Progress on gender equality is being made in Europe, albeit slowly, but there is clear evidence that gaps remain, for example in labour market participation, decision-making and earning potential. In terms of entrepreneurship, women in Europe are less likely than men to become self-employed or to start a business. In relation to access to finance, women are less likely than men to borrow from a financial institution in all but four EU Member States (Bulgaria, Cyprus, Greece and Romania). European microfinance providers have recognised the gap in finance, with women constituting their most targeted client group according to their mission statements. Nonetheless, in terms of actual finance provision, only 36% of their clients are women borrowers.
5. There are significant differences across European regions in terms of GDP per capita, unemployment levels and growth rates. EU cohesion policies aim to address these regional level imbalances. Lagging regions within the EU can be mainly found in the eastern and southern Member States (i.e. Poland, Hungary, Romania, Bulgaria and low-growth regions in southern Italy, south Spain, Portugal and Greece). Within countries, regional disparities are also evident, particularly between high-growth and low-unemployment central capital regions and less dynamic peripheral regions. Overall, high long-term and youth unemployment rates are key challenges in the least developed regions in the EU.
6. Although the overall interest rates in the EA are still considered quite low, the lending interest rates in countries in central and eastern Europe and some countries in the south (i.e. Greece, Malta and Turkey) are relatively high, especially for non-EA countries.
7. The characteristics of the vulnerable groups targeted by EU microfinance instruments have been changing since 2010. Although average economic growth in the EU has been increasing since the end of the global financial crisis, youth unemployment remains high (over 20%) ([173]) in regions that are lagging behind the rest of the EU, such as Bulgaria, Greece, Hungary, Italy, Poland, Portugal, Romania and Spain as well as EU candidate countries (the Balkans and Turkey). Moreover, due to the Syria crisis, there are large migrant influxes in France, Germany, Greece, Italy, Turkey and the UK. Faced with the challenge of finding paid work, migrants may seek to be self-employed (and may require support through microcredit). EaSI-type instruments should therefore strongly focus on youth populations and refugees in these countries.
8. Microfinance is gaining importance as a tool to help address unemployment and to promote entrepreneurship and social inclusion. Micro-enterprises and vulnerable people who cannot count on traditional sources of financing access provide financial and support services from a range of institutions. They do so to facilitate self-employment, create jobs and increase productivity. In turn, this benefits public budgets. Also, at an individual level, loans for healthcare, education or improvement of living conditions can promote social integration.

([173]) Eurostat (2019): Database.

9. However, the European microfinance market comprises a complex set of actors on the demand and the supply sides, as well as at the level of financial institutions. In Europe, microfinance markets generally function at national, regional and local levels due to legal requirements, the use of different languages and the small size of the enterprises. Institutions that provide services to support microfinance include specialised units of commercial banks, cooperative banks, NBFIs, credit unions or cooperatives, guarantee institutions, public support and development banks or funds and NGOs. Depending on the country and development stage of the microfinance market, financial services focus mainly on granting credits.

10. Difficulties in the banking sector may restrict access to finance (to all groups, not just vulnerable groups). Conversely, restricted access to finance in the commercial banking sector may stimulate demand and opportunities for the development of alternative (microfinance) provision.

11. Digital transformation is affecting both the banking sector broadly and microfinance provision in particular. In the banking sector, digitalisation is expected to drive consolidation and a reduction of brick-and-mortar branches. Changes in the banking sector will impact non-bank microfinance providers that have banks as their correspondents, as they do not conduct cash operations themselves and, in some countries (e.g. Greece, Germany), only banks are allowed to issue loans. In the microfinance industry, the main avenues of digitalisation have been in credit operations and efficiency improvements but the industry remains some way from fully implementing and realising the benefits offered by technology and automation. Advances in fintech and crowdfunding are being made in Europe, especially in western Europe, with the UK as the standout country for fintech innovation and investments.

12. In future, fintech innovations for borrowing (credit modelling, platform lending, crowdfunding, auto-underwriting) and payment innovations (remittances, mobile payments, mobile points of sale, P2P payments, B2B transactions) will be the most relevant for the European microfinance providers' target clients. For providers, when it comes to digitalisation, new technological developments, financial players and business methods will bring tremendous opportunities for customers, providers and the market as a whole. Yet, the emerging landscape is also becoming more complex and is putting increasing pressure on traditional providers to go digital, which implies that more support might be needed to leverage these developments throughout the EaSI programme region.

13. The rise of fintech, digital transformation and crowdfunding platforms affects both regular banking and microfinance sectors. These trends bring new challenges, especially in countries and regions where there is less access to bank accounts and use of DFS is low (e.g. Greece, Italy and south-eastern Europe), reflected in low digital financial literacy ([174]). Here, micro-enterprises need more support to cope with the development of digital banking. Fintech firms operating a non-traditional credit supply for micro-enterprises pose new challenges relating to transactions and contracting for financial instruments targeting microfinance ([175]).

14. Sustainability, climate change, gender-smart investing and refugee funding have moved up European, national and donors' agendas, mirroring the priorities for the future of the EU in terms of carbon-neutral growth and gender equality. IFIs and investors are placing greater emphasis on sustainable finance and investments. Gender-smart investing refers to investment in companies, organisations and funds with the specific aim of achieving positive outcomes for women. Policies and financiers will orient more towards sustainable enterprises and provide more incentives for climate mitigation and adaptation, and gender equality. European financial institutions targeting microfinance may need financial and technical support in order to develop and offer new products and services tailored to specific needs; for instance, the needs of micro-enterprises using more energy-efficient technologies, needs specific to women (e.g. the requirement for more flexible loan conditions because of lack of guarantees or irregular income streams) and the needs of refugee and migrant entrepreneurs who do not have long track records in EU Member States and, therefore, need special attention (e.g. viable loan products) ([176]).

15. Non-bank providers' funding and needs will change**.** They will increase their demand beyond the currently provided guarantee instruments, in the form of funded instruments (debt finance), mezzanine capital (quasi-equity) and equity funding. Access to such instruments would give them

([174]) Refer to Graph 2, World Bank (2018b): Global Findex Database for access to bank accounts and Batsaikha, U., Demertzis, M. (2018): Financial literacy and inclusive growth in the European Union. In Europe, the Bank of Portugal has designed and is implementing an inclusive strategy for digital financial literacy improvement; refer to the Bank's presentation at the first fintech peer exchange programme for regulators organised by the Czech National Bank and the AFI in Prague on 26-27.9.2019 (Leitão, M. L., 2019: Global fintech dialogue).

([175]) Please see in detail the challenges in Chapter 6 under 'EU-funded financial instruments'.

([176]) OECD (2017): International migration outlook 2017.

the chance to grow and bridge market gaps. In addition, some Tier 1 providers ([177]) might need support to enable bond (debt securities) issuance as a mechanism for fundraising. Moreover, non-bank providers in general require more non-financial support in the form of advisory support. The main assistance needs to include help for entering new markets and fields of activities and consultancy for compliance with the Code. Other areas of possible support include investment readiness training and coaching, especially for Tier 2 providers, and supporting marketing and sales, and consultancy for the implementation of non-financial services. Tier 3 – very small providers – in particular require holistic support across all types of function ([178]). Finally, there are some topics of increasing relevance for the future and that are valid for all types of providers in all regions, and these reflect the need to respond to the trends of digitalisation, vulnerable groups (gender-responsiveness, refugee finance and youth entrepreneurship) as well as the adaptation and mitigation of climate change.

16. The outlook for the availability and costs of market funding for non-bank providers is challenging. Although the current funding costs of financial intermediaries are low (due to low interest rates in the EA in 2019), they are set to rise due to regulatory changes (stricter regulation of the financial sector – for example Basel III and its subsequent reforms) and potentially increasing inflationary pressure. This means that availability of debt funding will decrease, or it will become more costly, and that banks targeting microfinance may exercise greater caution in serving the market ([179]). Non-bank providers will likely need increased non-market debt funding in the period 2020-2027.

([177]) The estimated range of Tier 1 bank and non-bank providers in Europe is between 10 and 15. Mostly smaller banks and larger non-bank providers would be in need of such a mechanism. As for the definition of ‘Tier 1’, see European Microfinance Platform (e-MFP) (2013): e-MFP Action Group of Investors in Tier 2/3 MFIs. MicroRate and other stakeholders discussed a categorisation of MFIs that is widely accepted among investors. Providers are grouped in three tiers according to size, sustainability and transparency; refer to the Glossary for definitions of Tiers 1 to 3.

([178]) These functions are credit management, financial management, human resource management, IT (information technology), reporting, risk management and internal audit.

([179]) Regulatory changes following Basel III reforms are expected to decrease return on equity (ROE) in the EU banking sector by tightening up minimum capital and higher liquidity requirements in the aftermath of the 2008 global financial crisis. In response, banks might withdraw from low-profitability and high-risk clients such as microcredit providers, or microfinance clients directly. Indeed, current bank loan rejection rates are much higher for micro-enterprises (11.1%) than for small (3.1%) or medium-sized (3.3%) companies, according to the latest results of the ECB SAFE survey published in 2019.

3. MARKET ASSESSMENT – PART 1: DEMAND FOR FINANCE BY FINAL BENEFICIARIES

3.1. Micro-enterprises and vulnerable populations

All over Europe, there are **social groups that face an increased risk of financial exclusion**. In 2017, 138 million Europeans were financially cut off from society, without having a formal bank account or mode of payment ([180]). This figure includes long-term unemployed, youth, disabled persons, women, rural populations and seniors. In addition, migrants and refugees arriving in Europe who need financial instruments to facilitate their social and economic integration often have difficulties in accessing formal financial services.

These social groups encounter difficulties in accessing financial services and advice for both business and personal purposes. This may arise, for example, because persons in these groups have little personal capital and skills, lack collateral and guarantees, or have little or no credit history. Furthermore, they tend to ask for relatively small loan amounts, perceived both as too expensive in terms of administrative costs and too risky by banks.

A lack of access to finance can have severe consequences for individuals and businesses, restricting their ability to make necessary investment in their business, stabilise their income patterns or find employment.

Microfinance in Europe has gained traction as a tool to counter financial and social exclusion. European MFIs provide financial and non-financial products predominantly targeted at groups excluded from mainstream finance, such as ([181]) ([182]):

1. women clients (targeted by 64% of surveyed MFIs/microfinance providers)
2. rural populations (46%)
3. unemployed or welfare recipients (30%)
4. youth (26%)
5. ethnic minorities (12%)
6. immigrants or refugees (10%)
7. disabled people (4%)

Moreover, European microfinance not only directly provides finance to vulnerable groups but also provides financial and non-financial products to enterprises who employ or serve those vulnerable groups. In order to reach the target client groups, non-bank providers focus on providing services, particularly microloans ([183]), to very small enterprises, including:

i) self-employed;
ii) micro-enterprises ([184]);
iii) individual farms;
iv) start-up entrepreneurs.

These **very small enterprises** are an important element in the European economic fabric, accounting for 93% of all European businesses and 30% of total employment in Europe ([185]). They are often found in sectors such as construction, hospitality, retailing or wholesaling. While being considered as the job engine of the economy, these enterprises often face more challenging conditions than those faced by their larger counterparts, especially when it comes to access to finance. The financial situation of micro-enterprises is often opaque, as their annual statements or contracts are not publicly available. This contributes to information asymmetry and potential morally hazardous conditions that often

([180]) Mastercard (2016): Europe's financially excluded.

([181]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([182]) Please note, the groups mentioned are not mutually exclusive.

([183]) A microloan is defined as a loan or lease of less than EUR 25 000, which supports the development of self-employment and micro-enterprises (Commission Staff Working Paper 'Microcredit for European small businesses', SEC (2004)1156, cited in European Commission, 2007b: The regulation of microcredit in Europe; European Parliament and Council of the European Union, 2006: Decision No. 1936/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013); European Commission, 2003: Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises).

([184]) There is no universally accepted definition of micro-enterprises, as it largely depends on the economic context in a given country. The European Commission defines micro-enterprises according to the number of employees, annual turnover or balance sheet total. In this respect, micro-enterprises have fewer than 10 employees and an annual turnover or balance sheet total of no more than EUR 2 million.

([185]) European Commission (2018a): Annual report on European SMEs 2017-2018.

prevent micro-enterprises from accessing formal financial instruments.

Microfinance in Europe can be a relevant instrument to address the needs of vulnerable populations and micro-enterprises. The following subsections take a closer look at access to financial and non-financial services for micro-enterprises and estimate the demand for microfinance services.

3.2. Access to finance

Access to micro-enterprise credit

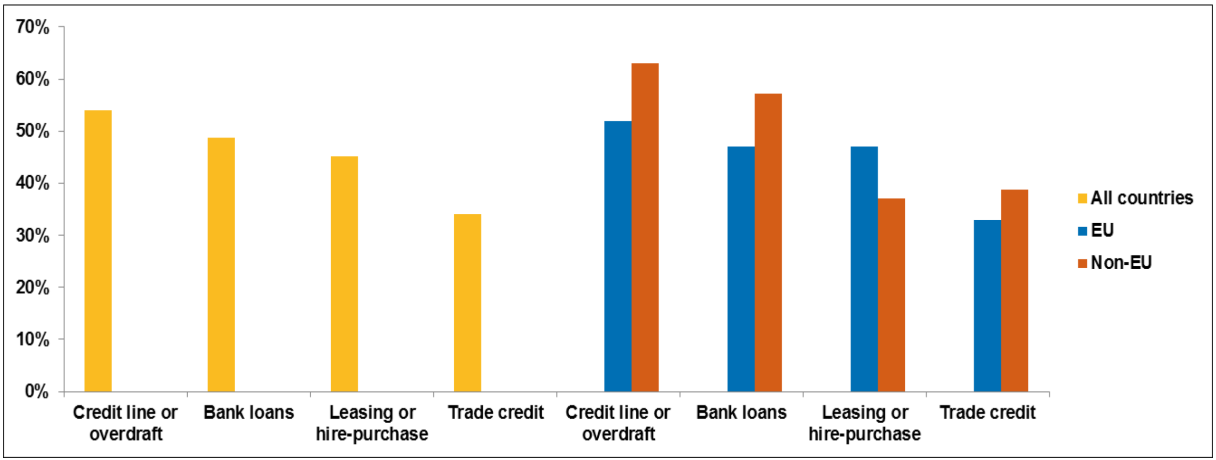
Results from the 2018 EBC SAFE survey indicate that, among a list of identified problems, access to finance is the least frequently mentioned 'most pressing problem' for SMEs ([186]) (only 7% of respondents). At a national level, access to finance is indicated as the 'most pressing problem' more frequently in Greece (17% of SMEs) and in Cyprus and Lithuania (13% of SMEs). Looking only at micro-enterprises, the figure is only slightly higher: **8% of respondents from micro-enterprises in the EU indicate that access to finance is their most pressing problem**. Access to finance has steadily declined in importance throughout the survey years; in 2013, access to finance was still the second most important problem.

Information from the ECB SAFE survey on funding sources shows that **debt financing is very relevant for SMEs**. In EU countries, 84% of all SMEs indicate that debt funding is relevant for them, in the sense that they have used it in the past or would consider using it in the future. The proportion of SMEs that indicate that debt financing is a relevant funding source ranges from 94% of all SMEs in Cyprus to 72% in Hungary.

Among the funding sources (Graph 38), **52% of EU SMEs mention a credit line or overdraft as a relevant source of external financing**. Bank loans are the second most relevant type of finance, with 47% of the respondents mentioning them. Leasing and hire-purchase are relevant for 47% of SMEs in EU Member States.

Of the SMEs in the EU that report that bank loans are not relevant, three quarters (75%) indicate that this was because they did not need that type of financing. The second most common reason for bank loans not being relevant is high interest rates and other costs, mentioned by 8% of the SMEs in the EU Member States.

Graph 38: Relevance of funding sources, 2018 (%)



Source: ECB SAFE survey

Concerning the actual use of financing sources, EU SMEs most often report using credit lines or overdrafts (35% of SMEs). There are, however, substantial differences between countries: 51% of SMEs in Cyprus report using a credit line or overdraft, while the corresponding figure in Greece is only 13%. **Bank loans are used by 17% of SMEs in the EU Member States.** Trade credit is used by 18% of SMEs, with the highest use observed in Cyprus (55%) and the lowest in Slovenia (2%). Internal sources of funding (retained earnings, sale of assets) constitute an important source of funding and are used by 15% of SMEs, with the highest use in Malta (33% of SMEs).

The proportion of enterprises using a credit line or overdraft increases with enterprise size. The **use of**

([186]) Micro-enterprises are enterprises with 1-9 employees, small enterprises are those with 10-49 employees, medium-sized enterprises have 50-249 employees and large enterprises have 250 or more employees. The term 'small and medium-sized enterprises' (SMEs) as used by the ECB SAFE survey covers micro-enterprises, small and medium-sized enterprises.

a credit line or overdraft is lowest among micro-enterprises (30% of micro-enterprises in the EU) and most prevalent among medium-sized enterprises with 50-249 employees (36%). Similarly, among all SMEs, **micro-enterprises make less frequent use of bank loans** (11% of micro-enterprises), **leasing and hire-purchase** (12%) and **trade credit** (14%), but they also use **internal funding** less often (9%).

In 2018, 29% of EU SMEs applied for a credit line, bank overdraft or credit card overdraft. Of these applications, 80% were successful in the sense that these SMEs obtained at least 75% of the required amount. Comparable results are obtained for bank loans and trade credit.

The main reason for SMEs not applying for external financing is the availability of enough internal funds, which is reported to be the case by 41% of EU SMEs. Other reasons prevent 23% of SMEs from applying for trade credit. Only 4% of SMEs report 'fear of rejection' as a reason for not applying for external financing.

Compared to SMEs, a smaller proportion of micro-enterprises apply for any type of external financing. The main reason for not applying is sufficiency of internal funding. Micro-enterprises that do apply for external financing are slightly more frequently rejected or receive only a limited amount of the finance requested.

For all SMEs, 38% of successful applications for external financing were for amounts of less than EUR 100 000. **For micro-enterprises** ([187])**, 66% indicated that they received amounts of less than EUR 100 000 and 30% obtained amounts of less than EUR 25 000.**

The sizes of the loans obtained vary considerably across countries. SMEs in Poland and Spain report smaller loans, and SMEs in Denmark report larger loans. The size of the most recently obtained loan varies significantly with enterprise size and correlates with it, meaning that large companies (i.e. enterprises with more than 250 employees) ask for larger amounts.

In 2018, the interest rate on bank overdrafts and credit lines paid by SMEs amounted to 33.7%. Interest rates charged on SME bank overdrafts and credit lines vary considerably across countries, with the highest rate in Greece (5.9%) and the UK (5.7%), while the lowest rate was in Luxembourg (1.3%). Typically, among all SME size classes, micro-enterprises pay higher interest rates (4.6% in EU Member States) than larger enterprises.

The proportion of SMEs, including micro-enterprises that reported an increase (rather than decrease) in interest rate in 2018, is constant. This is a reversal of trends observed during 2014-2017, when more SMEs reported interest rate decreases. Regarding collateral requirements, in 2018 more SMEs reported deterioration rather than an improvement.

Availability

As in recent survey years, in 2018 SMEs were generally positive about changes in the availability of most types of financing; the proportion of SMEs that reported an improvement was higher than the proportion of SMEs reporting a deterioration. With the exception of bank loans, **micro-enterprises in EU Member States observed a general improvement in availability of various external financing instruments in 2018**. The net balance of change in availability was, however, slightly lower for micro-enterprises than for SMEs (albeit by only a few percentage points). **In the case of bank loans, micro-enterprises, as well as small firms, experienced deterioration of availability in 2018**, with only medium-sized enterprises reporting improved availability. In 2018, most SMEs in the EU did not report any changes in their need for finance for any of the types of funding. However, the proportion of SMEs that reported that their need for trade credit, bank loans or leasing, or hire-purchase had increased was higher than the proportion reporting a decrease. **Among micro-enterprises, there was a small increase in the proportion reporting an increase in their need for finance.**

In EU Member States, 45% of SMEs looking to obtain external funds to finance their growth ambitions do not expect to run into any obstacles, yet 13% of SMEs regard the costs associated with the financing – including interest rates and price – as the prime limiting factor to obtaining finance (although this limitation only applies to enterprises that prefer debt financing for future financing) and 12% of SMEs consider insufficient availability of collateral or guarantees as the most important limiting factor. **For micro-enterprises** in EU Member States, 16% consider high interest rates and other charges as a limiting factor, and 14% view insufficient collateral as a limiting factor; these are higher than the corresponding figures for large firms (7% and 10%, respectively).

([187]) The data categorise enterprises by number of employees, independent of the turnover criteria applied under the usual EU definition. An estimated 10% of micro-enterprises in the survey have an annual turnover of more than the EUR 2 million limit applied under the EU definition. Accordingly, there may be a variance of +/-10% between the reported results and those that would arise under the strict EU definition.

Access to accounts

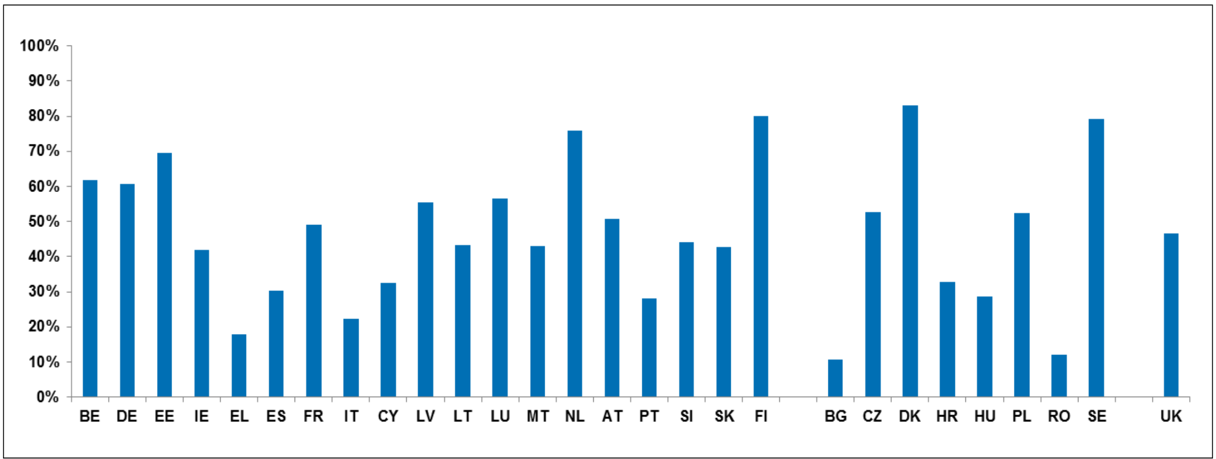
Access to accounts includes bank, non-bank and mobile payment accounts. According to the Global Findex 2017, **92% of adults in the EU Member States have an account.** In the countries of the north, over 99% of adults have an account, but the figures are much lower for several eastern European countries, such as Hungary (74%), Bulgaria (72%) and Romania (58%). This trend is in line with the above-mentioned usage of mobile and digital payments. Account ownership is somewhat lower among women (91%), with notable exceptions being Bulgaria, Cyprus and Poland, where women's account ownership is above the average for the whole population (by more than 1 pp). **In several countries, however, women are less likely to have an account, with the largest gender gap in Romania (14% gap) and Hungary (8% gap).** Moreover, data indicate that financial inclusion (account ownership) is below the overall average for poorer adults, with **only 84% of the poorest 40% of adults having an account**; rates are particularly low in Romania (58%) and Bulgaria (72%). However, the vulnerable group most severely affected by financial exclusion are young adults, with only 76% of adults aged 15-24 owning an account. The largest gap in account ownership between young people and the older population is seen in Czechia, where it amounts to 113% (only 41% of young people have accounts, compared to 88% of adults aged 25+), followed by Croatia (98% gap) and Greece (85% gap).

The most common reasons for not having an account are, first, that someone else in the family already has an account (15% of the excluded) and, second, a lack of sufficient funds to place in the account (13% of the excluded).

Use of digital payments

Europe is the leading region for use of digital payment channels, with 85% of the adult population making at least one transaction this way during the last year. However, accessing the account through the internet or a mobile application is not yet the most common access channel, with less than half of account owners (42%) using online banking services. Scandinavia has the highest rate of account holders using online banking services (over 80%) and Greece has the lowest (17%) (Graph 39).

Graph 39: Share of account holders that use a mobile phone or the internet to access an account, European Union Member States, 2017 (%)



Source: World Bank (2018b)

3.3. Access to non-financial services

The term 'business development services' (BDS) broadly refers to a range of non-financial services critical to the entry, survival, productivity, competitiveness and growth of micro-enterprises and small enterprises within the marketplace. There is a key distinction between 'operational' and 'strategic' BDS. On the one hand, operational BDS focus on day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labour laws and other regulations. Strategic BDS, on the other hand, address medium- and long-term issues in order to improve business performance, access to markets and competitiveness.

The provision of non-financial services is important within a development context, as it can help micro-enterprises and SMEs run their businesses more profitably, allowing the private sector to become a more effective driver of socially inclusive development.

In the EU, the provision of non-financial services is an important facilitator of private sector development. The provision of non-financial services and access to finance go hand in hand, in that the support can both enhance an enterprise's capacity to access finance and enable them to more effectively use the finance received. Cooperation programmes focusing on competitiveness may also include a BDS component.

Importance of non-financial services

The provision of a range of non-financial services in the form of BDS by non-bank providers is based on the assumption that doing so is beneficial to both clients and providers, and that the non-financial services and credit are mutually reinforcing ([188]).

Current evidence for the positive impact of non-financial services or BDS is mixed. Some studies suggest that business training enhances the sales, profits and business knowledge of the owner–manager of the enterprise ([189]), while other studies find no evidence of changes in key outcomes, such as business revenue, profits or employment, despite observed business knowledge improvements ([190]).

Types of non-financial services

Three broad categories of non-financial services can be identified, each relevant to a given stage of enterprise development and client readiness to start a business ([191]).

- **Client development services:** raising awareness among clients of their basic business or (personal) financial situation. Generally, these are aimed at preventing harmful situations (e.g. over-indebtedness, harmful market environments), which, if they occur, typically imply that clients are in survival mode and generally not willing to pay for these services.
- **Entrepreneurship development services:** helping people to start a business, raising awareness about entrepreneurship as a career choice and offering basic business skills training. In this instance, clients set up businesses as a conscious choice, not out of necessity.
- **BDS:** supporting existing small businesses to improve their operations, with services ranging from business advice to technical skills training and linking entrepreneurs to markets.

The selection of non-financial services should be based on the needs of the beneficiaries, identified through research and analysis of the main barriers to business success for the relevant target group in a given geographic area.

Access to non-financial services or business development services

According to an EMN-MFC overview survey of European microfinance providers ([192]), most respondents (68%) provide non-financial products and services alongside their financial services. Providers that offer non-financial products and services are found to provide one or more of the following: client development services (56%), entrepreneurship development services (57%) and BDS (57%).

Non-financial products and services are delivered in different ways, including individual in-person support (e.g. coaching, consulting, mentoring), in-person group support (e.g. workshops, seminars, webinars), online self-service (e.g. e-learning) and online group support (e.g. webinars). Almost all microfinance providers engaged in non-financial services use one-to-one in-person support (92%). The least common delivery methods are online group support (5%) and online self-service (11%).

In 2017, about half of non-financial service users (52%) were not active borrowers, a statistic that demonstrates that the bulk of the effort goes to potential microfinance clients rather than current ones. The scale of outreach of BDS is low, in that more than half of responding microfinance providers (57%) reached fewer than 1 000 users with their non-financial products and service offerings ([193]).

Demand for non-financial services or business development services

To date, no comprehensive study has been conducted to understand the demand for BDS among European entrepreneurs. However, microfinance providers engaged in non-financial services provision

([188]) While this is the prevailing assumption in European microfinance, many practitioners and researchers challenge the link.

([189]) Abeysekera, R., Patton, D., Mullineux, A. (2015): Co-production in business counselling in microfinance setting.

([190]) Karlan, D., Valdivia, M. (2011): Teaching entrepreneurship; Halder S. (2003): BRAC's business development services.

([191]) TriodosFacet, Inholland (2009): Stimulating business development.

([192]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([193]) Ibid.

that were interviewed in an earlier study (194) indicated the potential for non-financial services among various target groups.

Table 11: Share of non-financial service users in different target groups for business microcredit (%)

Target group	Share of potential clients that receive non-financial services
Potential new business founders escaping from social exclusion	80
New business founders	50
Existing self-employed persons	50
Existing micro-enterprises	20
Existing individual farms	20
Informal businesses	*80*

Source: EMN-MFC overview survey 2016-2017

The demand for non-financial services ranges from 20% (for existing micro-enterprises and individual farms) to 80% for potential new business founders escaping from social exclusion and informal businesses.

Non-financial services providers – either microfinance providers or external providers – also realise that the landscape of need for their clients is complex. Potential users have different needs and preferences regarding the content and modes of delivery. Some of them need general knowledge to improve basic skills, while others need rather specialised and advanced knowledge. Preferences range from intensive human interaction with an expert to distance learning and access to technology-enhanced education or self-learning materials. It is a challenge for one microfinance provider to cater to all the various needs and preferences of its clients.

3.4. Factors influencing microcredit demand

The future demand for microcredit will depend on the growth of the target group of micro-enterprises and the expected change in the average loan value. There are no specific Eurostat growth projections available for these variables, so an approximation needs to be made based on determinants. One approach is to forecast the growth of the number of enterprises in the EU based upon economic growth forecasts for the EU, while the change in average loan value can be approximated using scenarios for the inflation rate.

Below, we present forecasts and scenarios for GDP, inflation and loans to corporates for the period 2020-2027, derived from European Commission sources.

Gross domestic product

According to the most recent European Commission Spring 2019 forecast, GDP growth is expected to slow down in 2019 and 2020 (195). This is mainly due to a decline in growth of global trade. The GDP growth (in constant prices) of EU Member States is expected to be 1.4% in 2019 and 1.6% in 2020, while in 2018 growth was still at 2%.

For the longer term, until 2027, the European Commission Global 2050 report presents a few long-term scenarios (196). These scenarios assume an average annual GDP growth (constant prices) for the period 2021-2027 of 1.5-2.5% for EU Member States. Regarding the growth of micro-enterprises in the EU, we will also assume these growth rates.

For candidate countries, the GDP forecast for 2020, contained in the European Commission Spring 2019 forecast, is 3.9%, which is higher than that for EU Member States. We also assume that the long-term growth of GDP of the candidate countries will be higher for the period 2020-2027 and have a corresponding positive effect on microcredit.

Inflation

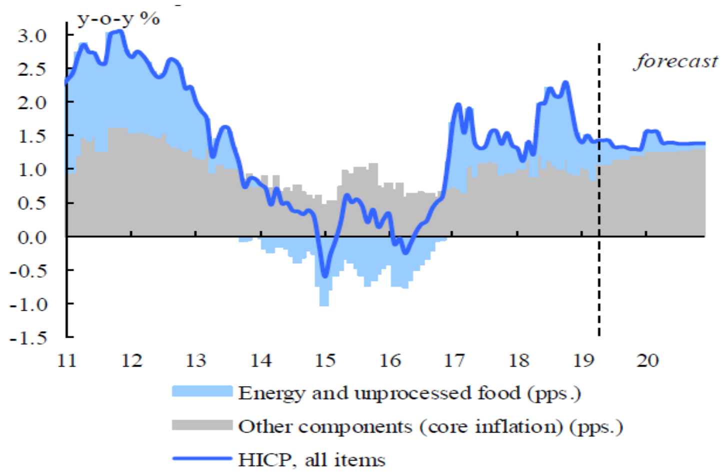
According to the European Commission Spring 2019 forecast, inflation for the EA is expected to be about 1.5% for 2019 and 2020 (see Graph 40). For the period 2020-2027, the estimate for inflation ranges between 1.5% and 2%.

(194) Unterberg, M. (2017): Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs.

(195) European Commission (2019d): European economic forecast.

(196) European Commission (2012): Global Europe 2050.

Graph 40: Inflation breakdown, euro area (%)



Source: Reproduced from European Commission (2019d)

Credit growth

According to the European Commission Spring 2019 forecast, credits to non-financial corporates are expected to grow by 2.3% in 2019 and 2.5% in 2020 (Table 12) ([197]).

Table 12: Credit growth in the European Economic Forecast, spring 2019 (%)

		Spring 2019 forecast			
		2017	2018	2019	2020
Domestic non-financial private sector		2.7	**2.7**	**3.0**	**3.4**
	(% of GDP)	85.2	**84.1**	**84.2**	**84.4**
- Credit to households		3.2	**3.0**	**3.5**	**3.9**
	(% of GDP)	50.0	**49.6**	**50.0**	**50.3**
- Loans to non-financial corporations		2.1	**2.3**	**2.3**	**2.5**
	(% of GDP)	35.2	**34.4**	**34.3**	**34.0**

Source: Reproduced from European Commission (2019d)
Notes: Figures unadjusted for sales and securitisation; counterpart area is domestic (home or reference area).

In summary, based on the above forecast for GDP and inflation, the assumption is for growth in the volume of credit demand in EU Member States of 1.5-2.5% per year (in constant prices) and 3-4.5% per year nominally. For candidate countries, the expectation is for higher growth rates (3-4.5% per year, constant prices).

3.5. Conclusions

This chapter assesses the demand for microcredit and for BDS of micro-enterprises in the EaSI programme region. The main conclusions emerging from the assessment are listed here.

1. Micro-enterprises still regard access to finance as a top priority in the EU. However, the importance of access to finance has steadily declined since 2013. Yet, surveys still regard **access to finance** as a main concern for **micro-enterprises** in the EU, despite the situation has been steadily improving in the past five years ([198]). Compared to larger SMEs, micro-entrepreneurs still make more use of their own funds (e.g. equity, profits) and less use of credit. Therefore, they apply for external finance less frequently: only 14% of micro-enterprises report insufficient availability of collateral or guarantees as their most significant limiting factor, while 16% mention high interest rates and other charges ([199]). When micro-enterprises do use external finance from financial institutions, debt finance is their preferred service over credit lines, overdrafts or bank guarantees.

2. Nowadays, an important condition for access to finance is the use of **accounts and digital technology**, and this is especially challenging in Bulgaria, Greece, Hungary, Lithuania and Romania.

([197]) European Commission (2019d): European economic forecast.

([198]) European Commission (2019k) Data and surveys.

([199]) Ibid.

3. Meanwhile, among members of the **vulnerable population**, young adults are most severely affected by financial exclusion, with only 76% of EU citizens aged 15-24 having a bank account; the largest shortfalls in financial inclusion of youth – when compared to the entire adult population – exist in Croatia, Czechia, Greece and Italy. When it comes to the unemployed, the shortfall is less striking but still considerable in Bulgaria, Czechia, Lithuania and Poland. Differences in usage for women and in rural populations are less significant. In all cases, digital technology is less widely used than bank accounts.
4. Debt finance is by far the most important category of external financing. Compared to SMEs, micro-entrepreneurs make less use of credit lines and more use of internal funding.
5. Of the micro-enterprises that obtain external financing, 66% state that they receive less than EUR 100 000 (of which, 30% declare having received less than EUR 25 000). This result shows that the financial needs of micro-enterprises tend to be higher than the amount of EUR 25 000 that was established in 2003 as the definition of microcredit.
6. In terms of access to BDS, given the different demand profile for these services – ranging from 20% (existing micro-enterprises and individual farms) to 80% for the vulnerable populations who, by establishing a business, would escape social exclusion – they should be made compulsory only for those target groups that reflect a high demand (start-ups or vulnerable populations, informal businesses).
7. A forecast regarding the growth of the number of microloans in the EU could be based upon economic growth forecasts for the EU, while the change in average loan value could be approximated by scenarios for the inflation rate. The trend calculation will be based on forecasts and scenarios for GDP, inflation and loans to corporates for the period 2020-2027 from European Commission sources.
8. Based on current European Commission scenarios for GDP growth and inflation, credit demand from micro-enterprises may be expected to grow by 1.5-2.5% per year in the period 2020-2027 (constant prices). For candidate countries, higher growth rates are expected (3-4.5% per year, constant prices).

4. MARKET ASSESSMENT – PART 2: SUPPLY OF FINANCE BY MICROFINANCE PROVIDERS

4.1. State of microfinance sector in Europe

Despite Europe representing less than 10% of the global outstanding microfinance portfolio ([200]), microfinance has become a growing sector of activity in the region.

Increasing self-employment and enterprise creation heightens the crucial role of microfinance in enabling micro-enterprises – which represent over 90% of the total number of European enterprises ([201]) – to overcome difficulties in accessing the financial resources they need. Moreover, microfinance can unlock the entrepreneurial potential within under-represented and disadvantaged vulnerable population groups, which are still significant in number within Europe ([202]).

This section will provide an overview on the state of the microfinance sector in Europe. The overview starts by looking at the heterogeneity of the legal environment regulating the provision of microloans in Europe and then moves towards the specific business models and performance of microfinance providers.

4.1.1. Regulation on microcredit provision

In Europe, there is no common legislative framework regulating the provision of microloans, and often national legislation does not take account of the specific nature of microcredit ([203]). As mentioned earlier, in some countries, such as Germany, all lending activities are restricted to banks, so non-bank providers are obliged to act as agents ([204]). Similarly, the so-called 'banking monopolies', in which only banks can issue loans, can force cooperation between non-bank providers and banks, as is the case in Greece and Serbia, where microloan portfolios are always held on the books of banks.

In other countries, substantial microlending activities are carried out by non-bank providers, including cooperatives. The activities of non-bank providers are not governed by special legislation or specific regulations; nor do the providers require a banking license. Although each country has its own specificities, in all of them, the provision of microcredit is considered a financial activity that falls in the scope of general applicable laws on financing and providing loans.

In recent years, some countries have passed special legislation covering microcredit; for example, Bulgaria, France, Italy and Montenegro have all introduced regulations on the disbursement of microloans by non-bank providers. In the case of Portugal, which passed a restrictive regulation in 2010, there are no operating MFIs, and currently microloans are disbursed by banks in partnership with social purpose organisations. In the case of Ireland, although there is no general regulation on microcredit, the only non-bank provider operating in the country received a specific mandate from the government to lend to micro-enterprises ([205]).

The highly fragmented regulatory environment for microcredit provision across Europe has resulted in a variety of microcredit lending practices. These practices can vary considerably, depending on the type of institution providing microloans, its legal set-up, the environment in which it operates, and its own ability to apply sound and efficient management procedures. To address the challenges of a fragmented regulatory environment, the European Commission has put in place the Code, which sets out good practice and common standards aimed at supporting the sector to face the challenges of accessing long-term finance, maintaining and raising the quality of services, and moving towards sustainability ([206]).

The purpose of the Code is not to introduce or replace existing regulation of microfinance providers, including non-bank providers. It is a complementary framework that provides a detailed set of common standards for the operation of and reporting by microfinance providers. Compliance with the Code (or the commitment to comply with it) has become a precondition for non-bank providers to access EU funding and TA under the EaSI programme. Banks offering microcredits can also endorse the principles of the Code.

([200]) Council of Europe Development Bank (2019a): Supporting inclusion in Europe through microfinance.
([201]) European Commission (2019i): Supporting entrepreneurs and the self-employed.
([202]) OECD, European Union (2017): The missing entrepreneurs 2017.
([203]) European Commission (2007b): The regulation of microcredit in Europe.
([204]) TrustLaw (2011): Creating jobs in Europe.
([205]) EMN (2019b): Publications.
([206]) European Commission (2019i): Supporting entrepreneurs and the self-employed.

Table 13: Regulation on microcredit and the European Code of Good Conduct for Microcredit Provision, by country

Country	Existence of a legislative framework that allows direct microcredit provision		Number of non-bank providers that obtained Code certification	Number of banks that endorsed the Code
	Existence	Non-existence		
EU Member States	**57%**	**43%**	**36**	**36**
Euro area	53%	47%	15	23
Belgium	Yes		2	-
Germany		No	-	-
Estonia		No	-	2
Ireland	Yes*		1	-
Greece		No*	2	5
Spain	Yes		1	4
France	Yes		2	1
Italy	Yes		3	2
Cyprus		n/a	-	-
Latvia		No	1	1
Lithuania		No	-	1
Luxembourg	Yes**		1	-
Malta		n/a	-	-
Netherlands	Yes		1	-
Austria		No	-	2
Portugal	Yes		-	1
Slovenia	Yes		1	-
Slovakia		n/a	-	3
Finland	Yes		-	1
Non-euro area	67%	33%	21	13
Bulgaria	Yes		3	-
Czechia		No	-	4
Denmark		No	-	-
Croatia	Yes		1	2
Hungary	Yes		2	-
Poland	Yes		1	2
Romania	Yes		12	4
Sweden		n/a	-	1
UK	Yes		2	-
EFTA and candidate countries	**67%**	**33%**	4	8
Iceland		n/a	-	-
Albania	Yes		3	-
Montenegro	Yes		-	2
North Macedonia	Yes		-	1
Serbia		No	1	3
Turkey	Yes		-	2
Total	**59%**	**41%**	**40**	**44**

Source: EMN (2019b); European Commission
*Notes: n/a = not available; * Legislative initiative in process; ** Special authorisation for one institution.*

Table 13 identifies those countries with a legislative framework that allows the direct disbursement of microloans by non-bank providers (or other public/semi-public entities), the number of non-bank providers with Code certification (a total of 40 ([207])), and the number of banks that have endorsed the Code (a total of 44). Although existing in different forms, the majority (59%) of all countries have a legal framework that, in principle, allows microcredit provision by legal entities other than private banks.

Almost all Code certifications have been awarded to institutions operating in countries with regulatory frameworks that should be more favourable to microcredit provision. The exceptions are three non-bank providers that have acquired Code certification despite operating in countries where non-bank providers are forced to partner with banks in order to disburse loans (Greece and Serbia). Banks that have endorsed the Code are also predominately located in countries with legislative frameworks that allow direct microcredit provision; Greece is an exception, as only banks can issue loans. In total, one third of bank endorsements come from countries with no legislative framework allowing direct microcredit provision.

At country level, non-bank providers in Romania were particularly receptive to the introduction of the Code. Romania has the highest number of providers with Code certification, as well as the most banks endorsing the Code. This development may reflect the very shallow financial sector and the need to access EU finance and improve operations.

Overall, the Code emerges as a harmonising ‘soft regulation’ that is progressively spreading across Europe as a response to the absence of a common regulatory framework for microcredit.

4.1.2. Institutional forms

Following from the regulatory framework, we turn to the closely interconnected subject of institutional forms, of which there are two main types operating in Europe: those with and those without a banking licence ([208]).

Non-bank providers

Non-bank providers, also called MFIs, operate in the market under different legal types, which can for the most part be aggregated under the following categories: NGOs, NBFIs, credit unions/financial cooperatives and, to a lesser extent, public funds.

Many European countries have a regulatory framework for non-bank providers in place; as they do not hold a banking license, they face some important restrictions on the provision of microcredit.

- In most countries, non-bank providers are prohibited from taking deposits, which means they must borrow capital in order to serve their clients (on-lending).
- The higher cost of funding can affect the financial sustainability of non-bank providers. Many of them – especially in the western part of Europe – rely on public subsidies to operate. Those that are financially sustainable without subsidies are often forced to pass on the costs to customers, creating a tension with their social mission.
- Non-bank providers are prohibited from making loans in some countries; in such cases, they must partner with a bank in order to do so ([209]).

The specific situation of the main legal type refers to a variety of situations found in the different legal environments of the European countries, as follows:

1. The umbrella term ‘NGO’ encompasses different types of not-for-profit organisation, such as foundations, charities, social purpose cooperatives, associations and religious institutions.
2. Credit unions/financial cooperatives are not-for-profit, member-based financial intermediaries that offer a range of financial services for the benefit of their members. Historically, these organisations are rooted in the eastern part of Europe.
3. NBFIs are often for-profit institutions that provide credit services similar to those of banks but target the lower end of the market. NBFIs are licensed under a separate category from banks; in certain countries, this can correspond to a special regulation created for microcredit providers (MCPs).

The diversity of operating models among non-bank providers contributes to different practices and

([207]) Over 100 non-bank providers have already signed up by end of 2019 (information from DG EMPL).

([208]) Bruhn-Leon, B., Eriksson, P.-E., Kraemer-Eis, H. (2012): Progress for microfinance in Europe.

([209]) EMN, Association pour le droit à l’initiative économique (ADIE), Paris Europlace (2019): European microcredit whitepaper.

performance results. These are assessed later in this chapter.

Bank providers

In several European countries, banks offer loans to micro-enterprises. Usually their activities concern existing micro-enterprises, which, despite structural problems, present less risk than new businesses. Nonetheless, compared to typical customer categories, catering for micro-enterprises presents additional challenges, particularly due to asymmetric information and potential moral hazard – which affect both micro-enterprise finance and MFI (wholesale) finance – that may engender market failure in commercial lending, together with the stringent banking requirements under the Basel III framework. Furthermore, it may be more difficult for micro-enterprises, and hence banks, to secure adequate collateral. The situation is even more difficult for vulnerable population groups and individual farms. Consequently, it is not surprising that banks often consider microcredit more in terms of corporate social responsibility activities than in relation to commercial viability and profitability. When banks do provide finance to micro-enterprises, it can be treated as something of a specialised commercial activity, with credit being issued on the basis of bank funds mobilised through deposits, thereby avoiding the need for on-lending from third-party funders ([210]).

Banks may decide to set up special programmes to target smaller businesses and possibly micro-enterprises (downscaling) that expand the range of services they offer to include microloans. This can be done in several ways: for example, by developing special products or creating a separate finance company that makes use of the banks' existing branch networks to offer the microloans, as is the case in Romania ([211]). Especially in the eastern part of Europe and Turkey, business models for financing micro-enterprises are widely disseminated. Furthermore, in countries with a presence of savings and cooperative banks (e.g. Germany or Spain) and to a limited extent regional promotional banks, they may also tap into the market of existing micro-enterprises. It does not necessarily follow, however, that simple adaptation of the banks' lending activities to service existing micro-enterprises (e.g. microloans) will translate into these banks catering to the needs of vulnerable clients and start-ups.

In Europe, the main bank models for providing microcredit – mostly to existing micro-enterprises – are:

1. commercial banks with downscaling programmes for MSMEs that include micro-enterprises or providing wholesale finance to MFIs;
2. commercial banks operating finance companies that provide microcredits;
3. savings and cooperative banks targeting MSMEs as part of their mission;
4. commercial banks operating as MSME banks (e.g. in Bulgaria, Serbia and Spain);
5. ethical banks that have a focus on social enterprises and micro-enterprises, providing first-tier or second-tier (wholesale) finance;
6. development and state-owned banks or funds.

For the most part, banks that are dealing with vulnerable groups and start-ups rely on support from public money and programmes.

4.1.3. Key features and performance of European microfinance institutions

At least 450 institutions offer or facilitate the disbursement of microloans in Europe ([212]). One third of them responded to a biannual industry-wide survey financed by the EU in 2017. These institutions serve just under one million clients with an outstanding gross microloan portfolio of EUR 3.2 billion. They also provide non-financial support services to 443 825 clients.

Bearing in mind the fragmented regulatory framework and the diversity of institutional forms, understanding the specific institutional features of MFIs is a key element in understanding the performance of the sector in Europe.

The latest EMN-MFC overview survey ([213]) provides evidence of the **variety of institutional models** used by non-bank and bank providers engaged in microfinance activities in Europe. Results from the EMN-MFC overview survey of microfinance providers indicate that the main institutional categories are: NGOs (40%), NBFIs (29%) and credit unions/financial cooperatives (19%). Other institutional types (i.e. private banks, state-owned banks, government bodies) are covered by the survey but in smaller numbers; thus, the reported results may not be fully representative of the whole sector and

([210]) Ibid.

([211]) Molenaar, K., Lehmann, J.-M. (2016): Microfinance.

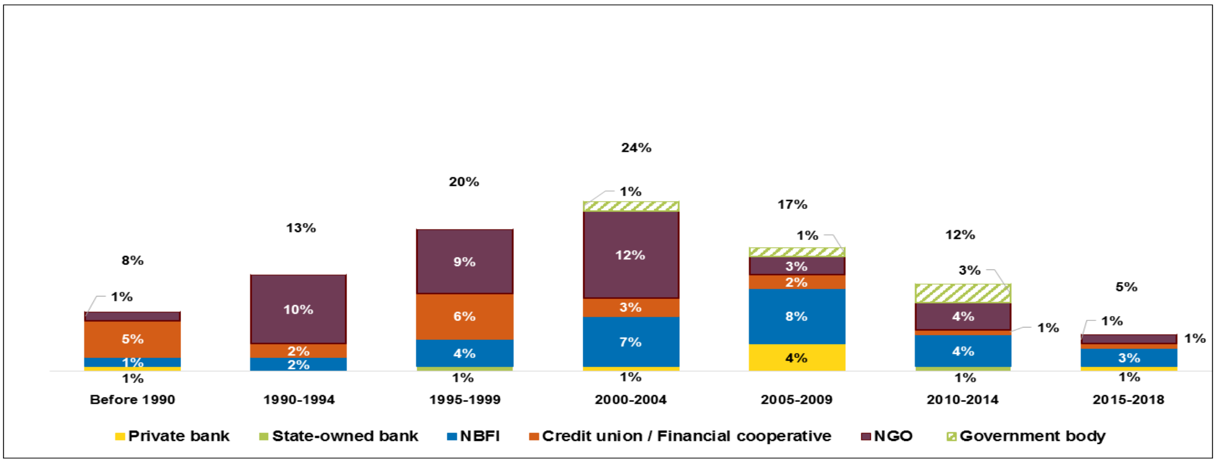
([212]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([213]) Ibid.

should be treated accordingly.

The European microfinance sector is maturing. According to the EMN-MFC overview survey, most microfinance providers (82%) started their activities before 2009 (Graph 41). There has, however, been a slowdown in market entry by new entrants, with numbers decreasing in each period since 2005. Only 5% of the microfinance providers surveyed started microlending operations after 2015.

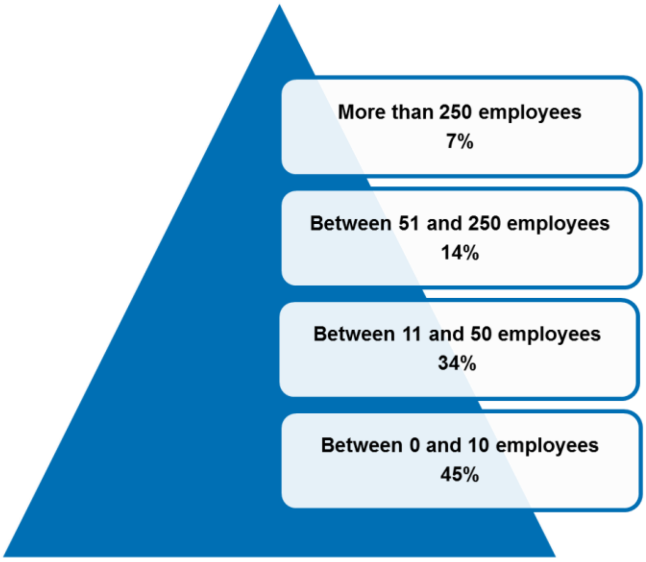
Graph 41: Share of microfinance providers by starting period of microlending activities (%)



Note: 156 responding microfinance providers (of which, 127 belong to EU Member States).

The average number of staff (full-time equivalent) employed by microfinance providers in Europe is relatively low: 79% of the providers surveyed employ less than 50 persons (89% if the analysis is limited to EU Member States only; Graph 42); 45% of them have no more than 10 employees (i.e. equivalent to the definition of micro-enterprises). Only in rare cases (5%) do microfinance providers not employ any paid staff; either these providers rely on volunteers or their employees are paid by other organisations.

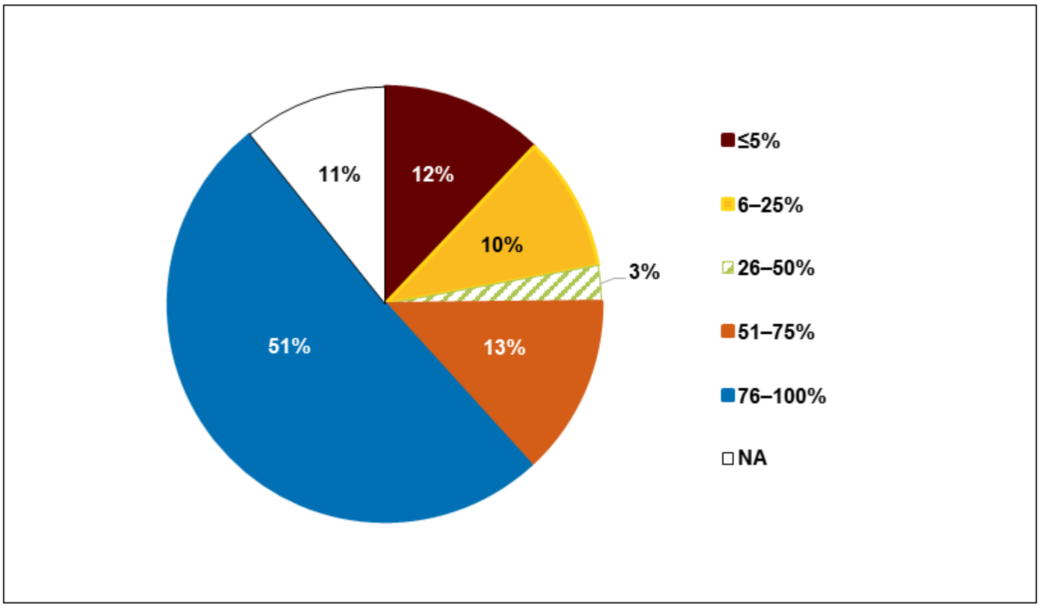
Graph 42: Share of microfinance providers per employee category, 2017 (%)



Note: 154 responding microfinance providers (of which, 127 belong to EU Member States)

The diversity of institutional forms of non-bank and bank providers is reflected in differences in the extent to which they focus on microlending. As shown in Graph 43, the EMN-MFC overview survey suggests that more than half of microfinance providers specialise in microlending (i.e. more than 75% of their turnover comes from microlending activities), while microlending is not the primary activity for 22% of providers (i.e. microlending represents less than 25% of their turnover).

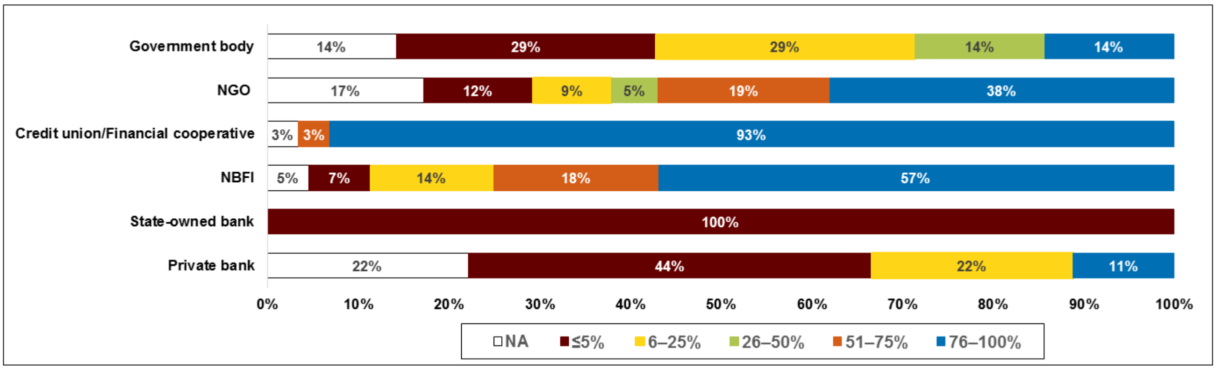
Graph 43: Share of microfinance providers dedicated to microlending, by share of turnover, 2017 (%)



Note: 149 responding microfinance providers (of which, 121 belong to EU Member States).

Microlending typically represents only a marginal activity for private and state-owned banks; all state-owned banks and 44% of private banks generate less than 5% of their turnover from microlending (Graph 44). By contrast, most credit unions/financial cooperatives and NBFIs specialise in microlending, with 93% and 57% of their turnover generated from microlending, respectively.

Graph 44: Share of turnover dedicated to microlending activities, by institutional type, 2017 (%)

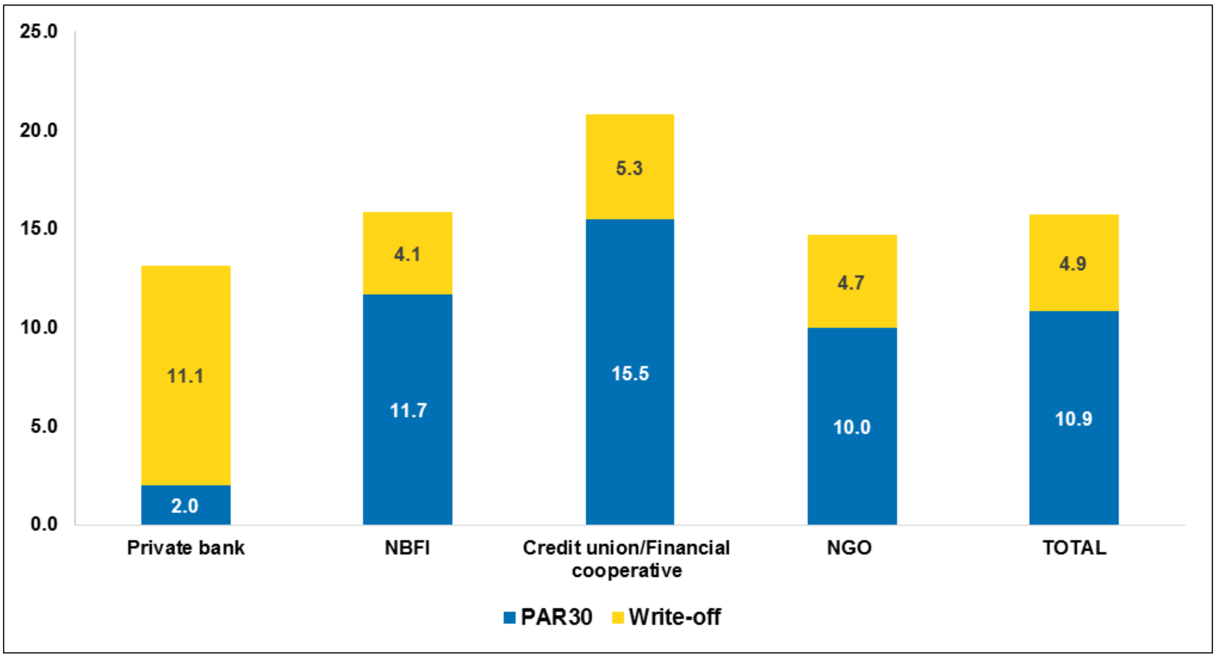


Note: 149 responding microfinance providers (of which, 121 belong to EU Member States): 9 private banks; 2 state-owned banks; 45 NBFIs; 29 credit unions/financial cooperatives; 57 NGOs; and 7 government bodies.

The findings presented so far offer a picture of the sector's heterogeneity in terms of institutional model and level of specialisation in microlending. This diversity is reflected also in the performance of different institutional types. In terms of portfolio quality (using both the portfolio at risk more than 30 days (PAR30) and the write-off ratios), it appears that banks and NGOs register a better performance compared to the average of the whole sample, while credit unions/financial cooperatives perform least well (Graph 45).

Focusing exclusively on EU Member States, credit unions/financial cooperatives, NGOs and NBFIs register similar performances, which is deficient compared to the sample of microfinance providers operating in EaSI programme countries (the sum of PAR30 and write-off ratios is 24-27%).

Graph 45: Averages for portfolio at risk more than 30 days and write-off ratios, by institutional type, 2017 (%)



Note: 50 responding microfinance providers (of which, 29 belong to EU Member States).

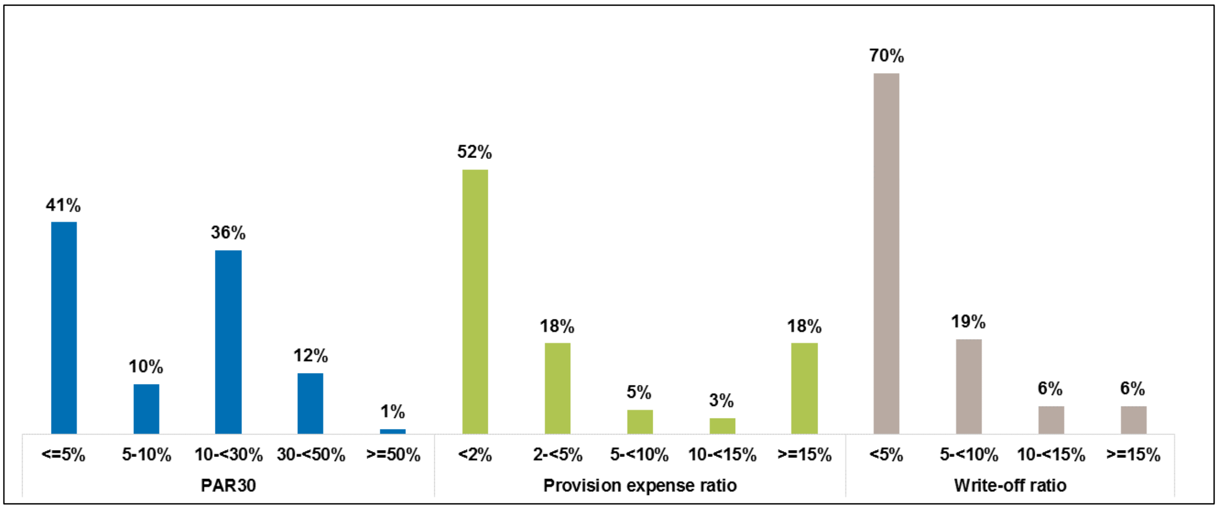
The PAR30 indicator also has a direct impact on the provision expense ratio and the write-off ratio (Graph 45), which enable a more comprehensive picture of the ability of microfinance providers to manage the risk of their microloan portfolios. In terms of PAR30, it emerges that microfinance providers are concentrated in two main segments: the first one keeping PAR30 low (no more than 5%) and the second with PAR30 of 10-30%.

As for the provision expense ratio, most microfinance providers (70%) reported a ratio below 5%, although 18% of MFIs have a ratio of more than 15%.

The write-off ratio is below 5% for a large majority of respondents (70%), and only 6% of the providers reported write-off ratios higher than 15%.

To conclude, even if the picture is sometimes mixed, most of the providers are positioned in the lower-risk segment for each of the three indicators (Graph 46). The same applies when the analysis is restricted to microfinance providers operating in the EU Member States. The only exception is that in the case of PAR30, most of the microfinance providers (45%) are positioned in the 10-30% segment.

Graph 46: Microfinance providers, by portfolio quality indicators, 2017 (%)

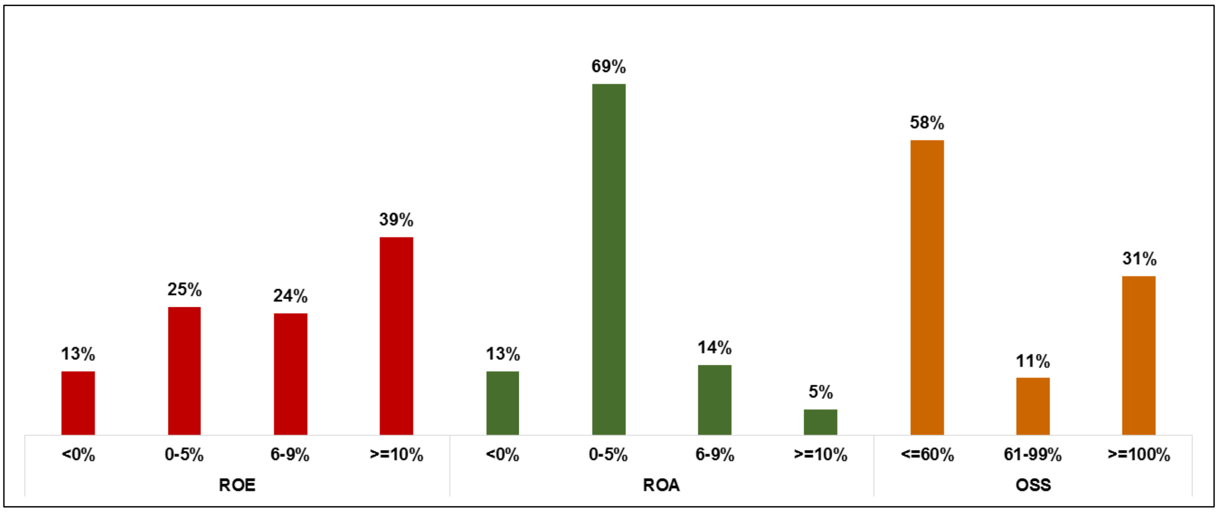


Note: 92 responding microfinance providers for PAR30 (of which, 71 belong to EU Member States); 62 responding microfinance providers for provision expense ratio (of which, 40 belong to EU Member States); 54 responding microfinance providers for write-off ratio (of which, 32 belong to EU Member States).

It is worth noting that the focus of microfinance providers on specific target groups shapes their performance across various dimensions ([214]). Therefore, portfolio quality varies between and within the different legal types depending on the specific types of clients served.

In terms of financial performance, most microfinance providers reported positive return on equity (ROE) and return on assets (ROA) values (Graph 47), although 13% reported negative values for each of these indicators. When it comes to sustainability, only 31% of the microfinance providers are operationally self-sufficient (i.e. having an operational self-sufficiency (OSS) ratio higher than or equal to 100% ([215]); 16% in the case of those operating in EU Member States), with most providers (58%) reporting an OSS ratio lower than or equal to 60%.

Graph 47: Microfinance institutions, by profitability and sustainability, 2017 (%)



Note: 80 responding microfinance providers for ROE (of which, 58 belong to EU Member States); 80 responding microfinance providers for ROA (of which, 58 belong to EU Member States); 45 responding microfinance providers for OSS (of which, 28 belong to EU Member States).

When analysing the indicators according to legal form, both banks and credit unions/financial cooperatives have an OSS higher than 100%, while NGOs and NBFIs face more difficulties in reaching sustainability related to their microcredit operations.

It is worth mentioning that, in the EMN-MFC overview survey, the response rate for financial performance indicators was much lower (45) than that for the other two dimensions (80). This presents a limitation in terms of the representativeness of these findings. Although, in general, we could conclude that microfinance providers must have types of income other than operational income, as their profitability ratios are positive despite the OSS ratio being below 100%.

4.2. Current supply in Employment and Social Innovation programme countries

Moving on from the key features of microfinance providers and the main performance data for Europe, this subsection provides an overview of the current supply of financial and non-financial services. In line with the overall geographical scope of the study, the analysis is restricted to the supply of services in EaSI programme countries. Accordingly, the data gathered in the framework of the EMN-MFC overview survey covers only microfinance providers operating in EaSI programme countries (138 microfinance providers in 24 of the 34 EaSI programme countries) ([216]). The report provides detailed data on the current supply in the annexes, referring only to the sample of microfinance providers operating in EU Member States (127 microfinance providers from 19 EU Member States). The differences in results between the two samples are shown when they are substantial.

In the EaSI programme countries, it is common practice for microfinance providers to offer a combination of financial and non-financial products and services, with 72% of the providers that responded to the EMN-MFC overview survey providing both types of product.

([214]) Botti, F., Dagradi, D. L., Torre, L. M. (2016): Microfinance in Europe.

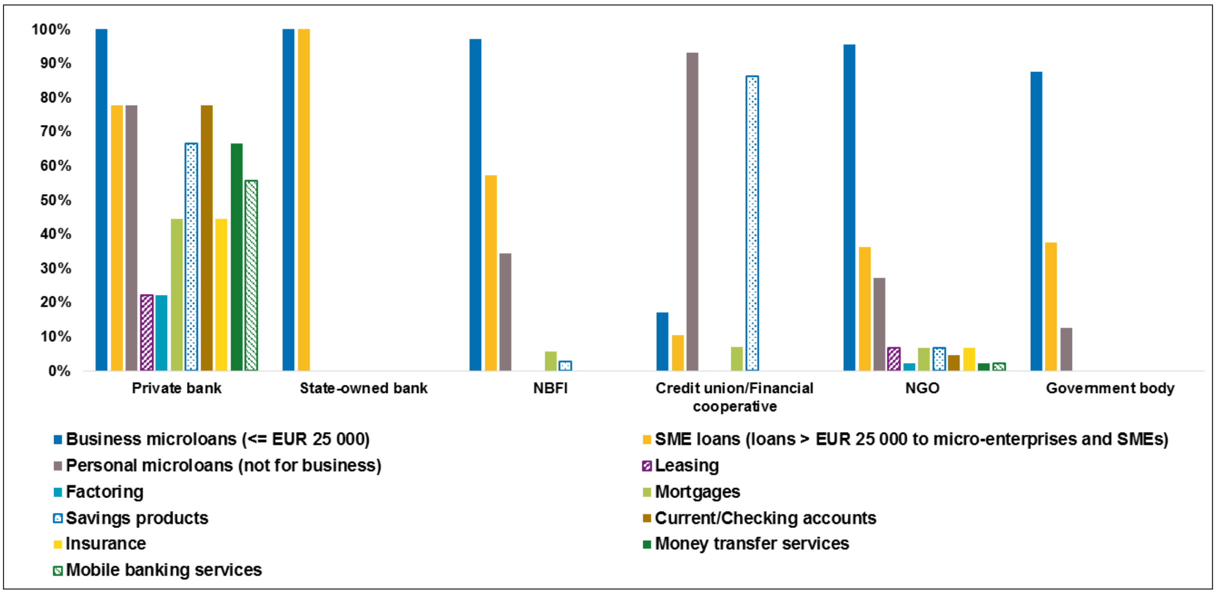
([215]) Operational self-sufficiency is defined as operating revenue divided by the sum of financial expense + loan loss provision expense + personnel expense + administrative expense.

([216]) Data on the supply of services are available for the EaSI programme countries that have more-developed microfinance markets; some countries are not covered due to the absence/low volume of microcredit operations or lack of reply by microfinance providers that were contacted.

4.2.1. Financial products

The most common financial products offered by microfinance providers in EaSI programme countries are business microloans (80% of microfinance providers), personal microloans (48%) and SME loans (40%). Looking at institutional type, private banks provide a wide range of financial products and services, whilst NBFIs, NGOs and governmental bodies focus primarily on the provision of business microloans, followed by SMEs loans and personal microloans (Graph 48). By contrast, the core products of credit unions/financial cooperatives are personal microloans and savings products.

Graph 48: Types of financial products and services offered, by institutional type, 2017 (%)



Note: 127 responding microfinance providers belong to 19 EU Member States.

Focusing exclusively on the provision of microloans, microfinance providers operating in EaSI programme countries served almost 700 000 clients in 2017, of which 36% were women, with a gross microloan portfolio of over EUR 2.7 billion (Table 14). In the same year, 356 483 microloans were disbursed, with a total value of more than EUR 1.6 billion ([217]).

In terms of the number of outstanding microloans, the majority (67%) of active loans in 2017 were personal loans. However, due to the differences in size of personal and business loans, business microloans make up a larger percentage of the value of the outstanding microloan portfolio, with the share in 2017 being 53%.

Table 14: Overview of microloan portfolio indicators, Employment and Social Innovation programme countries, 2017

	Business loans	Personal loans	Total
Number of active borrowers	232 077	465 447	697 524
Number of active women borrowers	87 464	164 019	251 483
Percentage of women borrowers	38%	35%	36%
Value of gross microloan portfolio outstanding (EUR)	1 426 954 289	1 277 177 145	2 704 131 433
Number of microloans disbursed	89 136	267 347	356 483
Value of microloans disbursed (EUR)	784 392 501	851 785 873	1 636 178 374

From 2016 to 2017, there was growth in all portfolio indicators (Table 15), with the increase in personal microloans exceeding that of business microloans in terms of the total value of loans issued.

([217]) Annex 1 provides detailed figures on microloan portfolio indicators by EaSI country for 2017.

Table 15: Microloan portfolio growth rates, Employment and Social Innovation programme countries, 2016-2017 (%)

	Business loans	Personal loans	Total
Number of active borrowers	5	5	5
Value of the gross microloan portfolio outstanding	6	12	8
Value of microloans disbursed during the year	7	10	8
Number of microloans disbursed during the year	2	1	1

Note: Growth rates are calculated excluding an outlier and only for those microfinance providers who replied for all portfolio indicators in both 2016 and 2017.

Table 16 presents the distribution of microloans by type of institution (legal entity). Collectively, private banks, NGOs and NBFIs generate nearly all microlending activity. It should be noted that the survey had only a few respondents from the other institutional types (i.e. government bodies and state-owned banks), though this is also the case for private banks. When focusing on microfinance providers operating in EU Member States, private banks are even more important (with 55.9% of active borrowers and 64.8% of the gross microloan portfolio), whereas the incidence of NBFIs is reduced by almost half compared to the EaSI programme countries sample. What stands out from Table 16 is the fact that, taken together, non-bank MCPs (NBFIs, credit unions/financial cooperatives and NGOs) cater to a similar number of clients as private banks, though offering smaller loans.

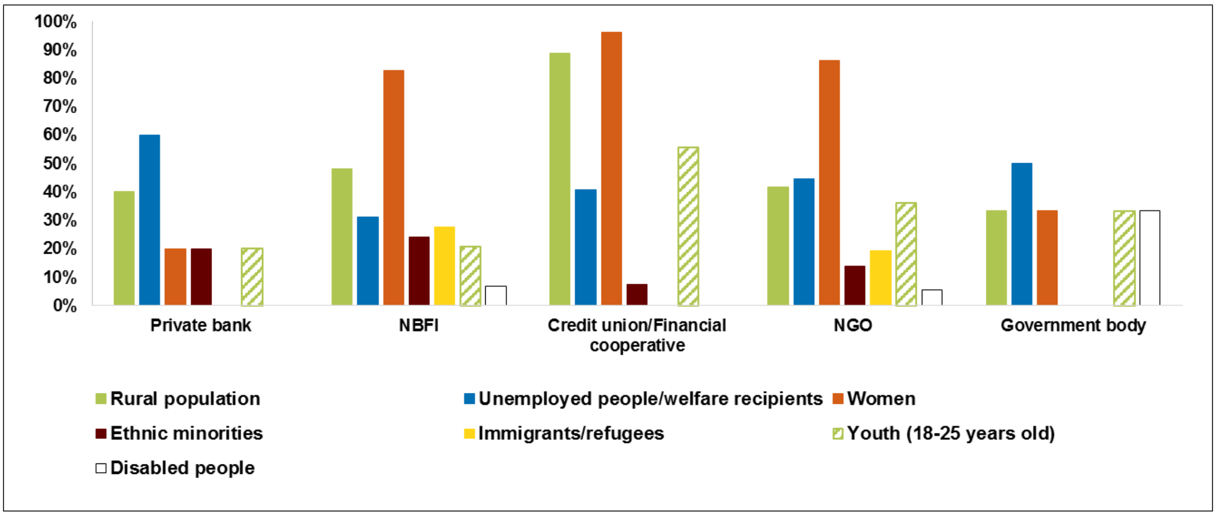
Table 16: Microloan portfolio breakdown, by institutional type, 2017 (%)

	Active borrowers	Gross microloan portfolio outstanding
Private bank	47.5	61.5
State-owned bank	0.1	0.5
NBFI	14.1	9.8
Credit union/financial cooperative	11.0	3.9
NGO	26.3	23.5
Government body	0.9	0.7

4.2.2. Microcredit clients

Microfinance providers serve a variety of target groups with their business and personal microloans. The most frequently indicated target group is women, who are a focus for NBFIs, NGOs and credit unions/financial cooperatives, with the latter category also indicating a similarly clear focus also on rural populations.

Graph 49: Target group, by institutional type, 2017 (%)

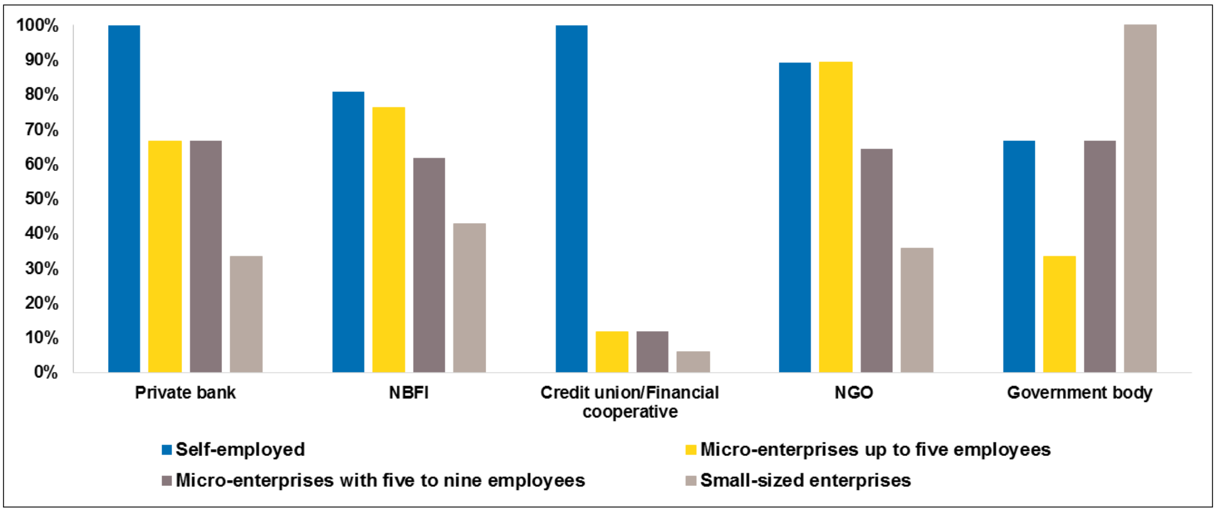


Note: 103 responding microfinance providers (of which, 95 belong to EU Member States).

Although 80% of the providers have women as a target group, this is not reflected in the overall microloan portfolio in the EaSI programme region, as only 36% of the borrowers are women (refer to Table 14 above). The apparent focus of the private bank segment on the vulnerable population group is due to Spain, where a large private bank (which is part of a larger banking group) that participated in the survey has a clear mission in this regard. The focus on women is echoed at a national level in the EaSI programme countries, with women identified as a target group for MFIs in two thirds of institutions (see Annex 1).

In terms of institutional type, microfinance providers focus on business microloans serving the smallest enterprises. In general, the larger the business, the less likely it is to be targeted as a client group by microfinance providers (Graph 50). The exception is the targeting of SMEs by government bodies. With few exceptions, the ability of microfinance providers to cater for the needs of a wider range of business – from self-employed to SMEs – is also confirmed at national level (Annex 1).

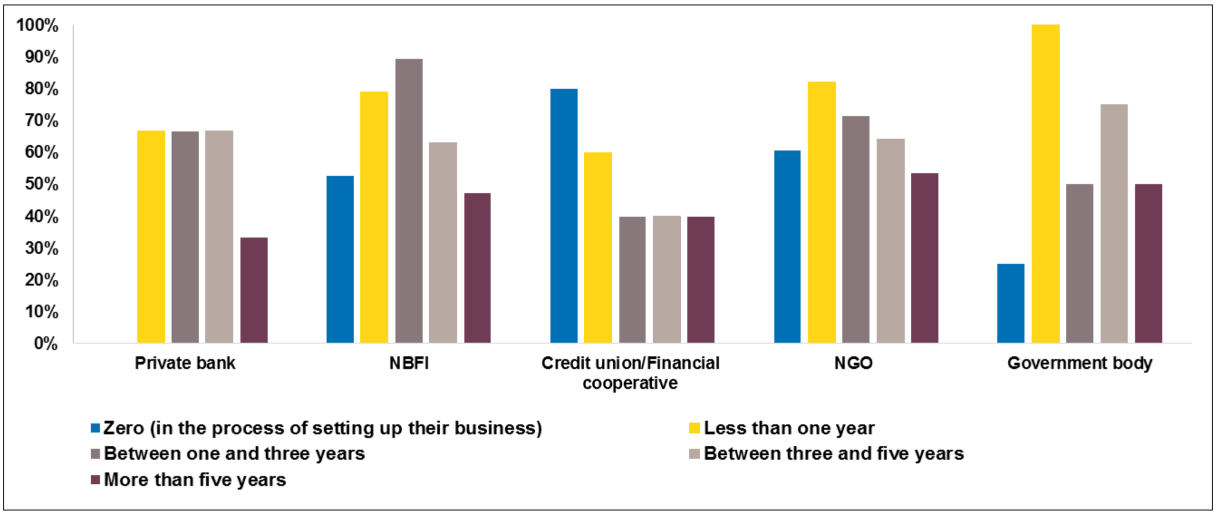
Graph 50: Type of enterprises served, by institutional type, 2017 (%)



Note: 73 responding microfinance providers (of which, 67 belong to EU Member States).

Most microfinance providers support businesses that are already established but still young (up to five years old), although credit unions/financial cooperatives tend to focus on potential entrepreneurs that are not served by banks (Graph 51).

Graph 51: Age of businesses served, by institutional type, 2017 (%)



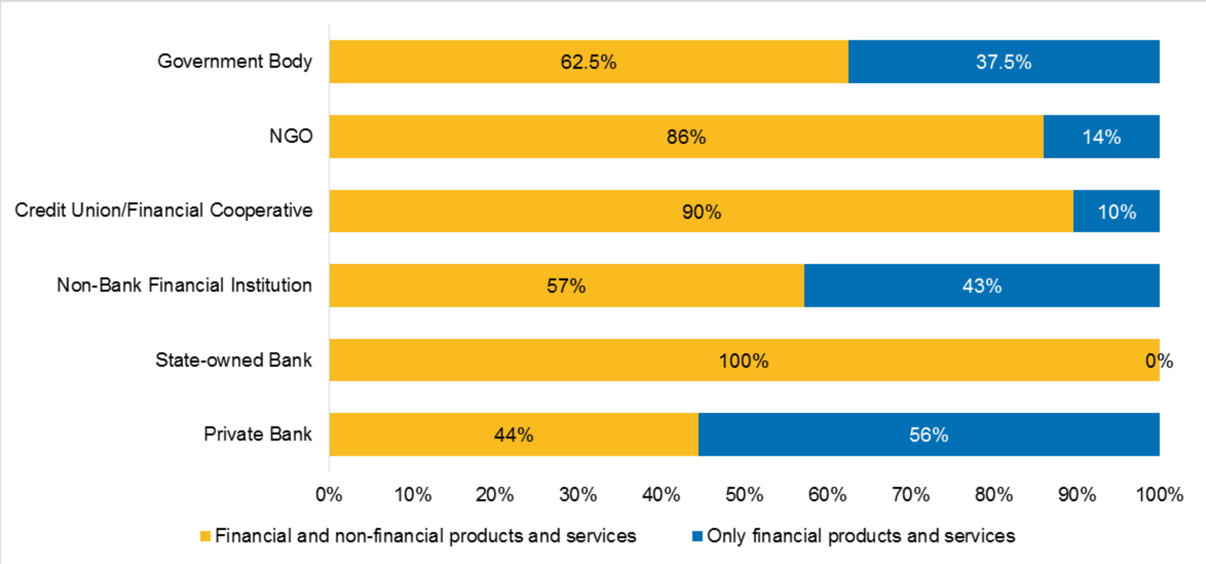
Note: 59 responding microfinance providers (of which, 56 belong to EU Member States).

A similar picture emerges at national level, with businesses being supported regardless of their age, except in Ireland, Lithuania, the Netherlands and North Macedonia, where enterprises that are not yet set up are currently not served by providers (Annex 1).

4.2.3. Non-financial services

All state-owned banks in the survey deliver both financial and non-financial products and services, with the majority of credit unions/financial cooperatives and NGOs also doing so (Graph 52). Conversely, less than half of the private banks provide both financial and non-financial products and services. In the vast majority of cases (81%), non-financial products and services are offered free of charge by microfinance providers.

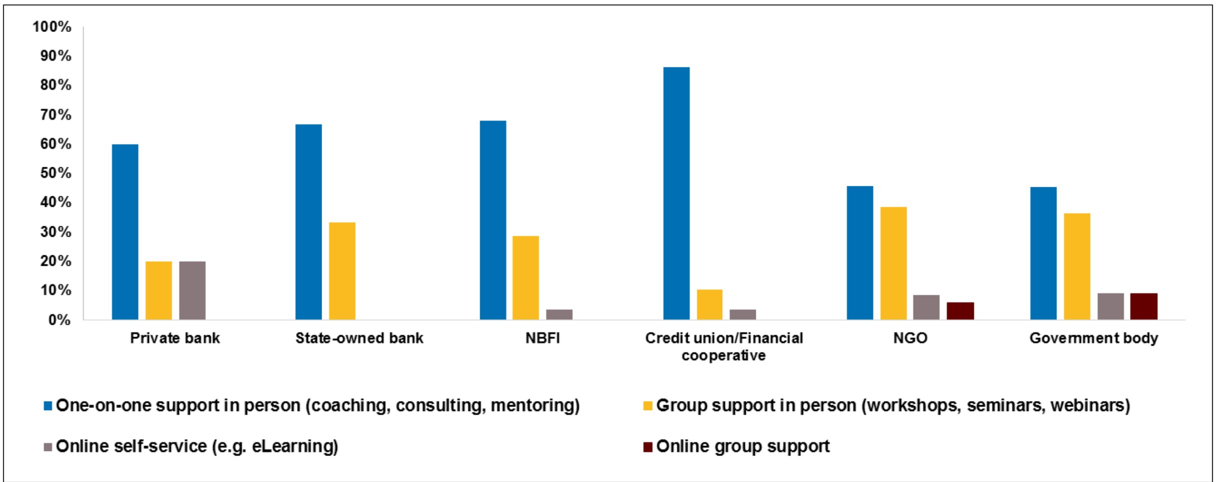
Graph 52: Financial and non-financial products and services offered, by institutional type (%)



Source: EMN-MFC overview survey 2016-2017 database (EU Member States)
Note: 126 responding microfinance providers.

For all institutional types, the main modality for delivering non-financial support is through one-to-one coaching, consulting or mentoring; this is followed by group support. Online modalities (e-learning and online group support) are used more frequently by banks than by other institutional types (Graph 53).

Graph 53: Non-financial support, by institutional type, 2017 (%)



Note: 97 responding microfinance providers (of which, 92 belong to EU Member States).

In 2017, microfinance providers implemented non-financial services to almost 423 000 entrepreneurs, potential entrepreneurs and vulnerable people ([218]). Interestingly, 55% of recipients were not active borrowers of providers. More than two thirds (68%) of the recipients of non-financial services were supported by NGOs, followed by credit unions/financial cooperatives (21%) and NBFIs (11%). Credit unions/financial cooperatives served the highest number of clients, on average, followed by NGOs (minus the outlier) and NBFIs (Table 17). When the geographical scope is restricted to microfinance providers operating in EU Member States, the average number of recipients for NBFIs drops by one third due to the exclusion of two large providers.

([218]) Annex 1 provides detailed figures on the number of users of non-financial support by EaSI country for 2017.

Table 17: Average number of non-financial services recipients, by institutional type, 2017

	Average number of recipients	Number of MFIs
Private bank	80	1
State-owned bank	377	1
NBFI	2 227	21
Credit unions/financial cooperative	3 714	24
NGO	7 948	36
NGO (without outlier) ([219])	*3 505*	*35*
Government body	140	2
Total	**4 974***	**85**

*Note: *Here total refers to the overall average number of recipients.*

At country level, France, Romania and Turkey have the largest numbers of non-financial support recipients (Annex 1). Eighty microfinance providers that responded came from EU Member States.

4.3. Funding needs

Unlike banks and credit unions/financial cooperatives, other non-bank providers depend on external funding from different types of funders, including governments, IFIs, impact investors and local banks. Most non-bank providers in Europe are not allowed to take deposits to finance their lending operations and, subsequently, need to access funding for on-lending. Access to funding is therefore essential for non-bank providers in order to allow growth, reach financial sustainability and cater to the needs of vulnerable clients by offering affordable interest rates ([220]).

Microfinance providers must find the right balance between social mission and financial sustainability (i.e. managing a double bottom line) ([221]). Due to the type of clients targeted and the size of the loans offered, non-bank providers have to bear higher operational and funding costs compared to traditional banks. This challenges the pricing of the financial services they provide.

Microfinance providers use a mix of financial instruments in order to finance their operations and growth: debt finance, guarantees, equity/retained earnings and grants are the most common types used ([222]).

1. Debt finance is key to sustaining the steady growth of the microloan portfolio due to the limitations on deposit-taking for most institutional types.
2. Risk-sharing instruments, in the form of public guarantees, allow microfinance providers to continue to cater for higher-risk vulnerable clients and to provide start-up finance.
3. Grants and soft loans play an important role in supporting microfinance providers in the initial stages of their lifecycle and enable them to provide non-financial services.
4. When microfinance providers are more mature and attractive for private investments, they might be able to access equity financing.

To provide a picture of the funding needs of microfinance providers, Table 18 presents results gathered through the EMN-MFC overview survey. In the survey, the providers were asked to estimate the additional funding needed until the end of 2019 (a projection of 18-21 months) to achieve their goals, according their capital-raising plans.

([219]) The outlier is a large NGO that influences the results considerably. Without the outlier, the average number of recipients is 3 505, compared to 7 948 with the outlier.

([220]) Council of Europe Development Bank (2019a): Supporting inclusion in Europe through microfinance.

([221]) Gloukoviezoff, G. (2016): Evaluating the impact of European microfinance.

([222]) Unterberg, M. (2017): Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs.

Table 18: Average additional funding needs, by type of institution and instrument, Employment and Social Innovation programme countries (EUR)

	No.	Average additional funding needed (EUR)	Borrowings (debt) (EUR)	Equity (EUR)	Guarantees (EUR)	Grants/ subsidies (EUR)	Other (EUR)
Private bank	1	**383 985 371**	321 605 393	39 790 334	-	-	22 589 644
State-owned bank	0	**-**	-	-	-	-	-
NBFI	15	**9 720 669**	6 212 425	3 151 700	8 000 000	40 960	6 350 599
Credit union/financial cooperative	10	**1 223 771**	1 595 127	1 000 000	1 000 000	551 130	459 157
NGO	23	**9 845 166**	11 670 849	2 191 246	5 488 950	1 651 033	2 416 782
Government body	0	**-**	-	-	-	-	-
TOTAL average	49	**15 683 101**					
TOTAL average: non-bank providers	*48*	*8 010 137*					
Total volume	49	**768 471 943**	**572 139 310**	**76 960 165**	**36 444 752**	**20 996 572**	**61 931 144**
Total volume: non-bank providers	*48*	*384 486 572*	*250 533 917*	*37 169 831*	*36 444 752*	*20 996 572*	*39 341 500*

Note: 'No.' refers to 49 responding microfinance providers.

Table 18 presents results gathered from 49 microfinance providers operating in EaSI programme countries. It shows an average additional funding requirement of over EUR 15 million for 18-21 months (i.e. EUR 9.2 million annualised). Focusing only on the non-bank providers, the average additional funding drops to around EUR 8 million for 18-21 months (i.e. EUR 4.9 million annualised).

Most of the additional funding requirement is related to debt financing (74% for all providers/65% for non-bank providers), followed by equity (10%/10%), guarantees (5%/9%) and grants (3%/5%).

Table 19: Average additional funding needs, by type of institution and instrument, euro area Member States, non-euro area Member States and the accession countries

	No.	Average additional funding needed (EUR)	Total funding needs (EUR, %)	Borrowings (debt) (EUR, %)	Equity (EUR, %)	Guarantees (EUR, %)	Grants/ subsidies (EUR, %)	Other (EUR, %)
EU: euro area	**15**	**37 896 358**	**568 445 371**	**454 485 393**	**53 140 334**	**22 000 000**	**6 180 000**	**32 639 644**
Non-bank providers	*14*	*13 175 714*						
Split by financial product			100%	80%	9%	4%	1%	6%
EU: non-euro area	**29**	**5 685 551**	**164 880 971**	**97 502 483**	**13 611 880**	**14 444 752**	**14 816 572**	**24 505 284**
Split by financial product			100%	59%	8%	9%	9%	15%
Accession countries (223)	**5**	**7 029 120**	**35 145 601**	**20 151 434**	**10 207 951**	**-**	**-**	**4 786 216**
Split by financial product			100%	57%	29%	0%	0%	14%

Note: 'No.' refers to 49 responding microfinance providers.

Breaking down the microfinance providers' funding needs into EA Member States, non-EA Member States and the accession countries indicates that the issuance of guarantees only plays a role for microfinance providers in the two categories of EU Member States (Table 19). Other funding types,

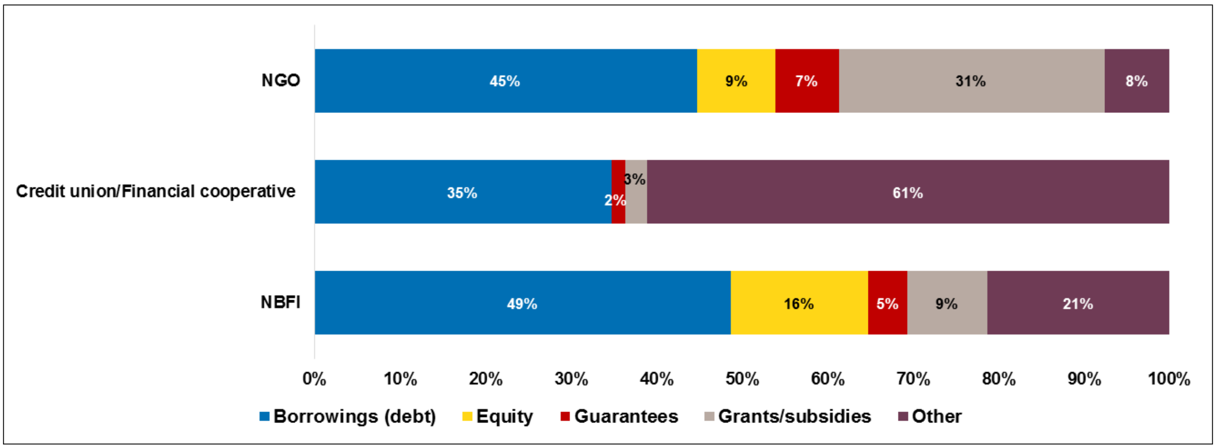
(223) For the purpose of the study, 'accession countries' refers to those countries that make use of the IPA and have ratified the EaSI programme: Albania, Montenegro, North Macedonia, Serbia and Turkey.

such as the issuance of corporate bonds, are important for countries with currencies other than the euro. For microfinance providers operating in the accession countries, it is very important to attract equity.

At country level, debt financing is the main needed funding source (in terms of volume), except for Hungary and Romania (guarantees), North Macedonia (equity) and Slovakia (equal debt and guarantees) (Annex 1). This may indicate that, in these countries (mostly not in the EA), access to local currency lending by banks is available but requires a guarantee, or a guarantee may be required to address a new riskier target segment.

Albania, France, the Netherlands and Spain stand out as countries where microfinance providers have, on average, the greatest need for funding (higher than the EUR 8 million identified in Table 18), reflecting the presence of large providers in these countries. It would be useful to evaluate whether larger microfinance providers are able to issue corporate bonds to meet their funding needs.

Graph 54: Structure of additional funding needs, by type of institution, 2017 (%)



Notes: 48 responding microfinance providers (of which, 43 belong to EU Member States); the private bank legal type is not included as there was only one reply. Sums are rounded.

Apart from credit unions/financial cooperatives (that are entitled to undertake deposit-taking), borrowing is the main financing instrument needed by non-bank providers, although compared to other institutional types, NGOs need more grants/subsidies (e.g. for providing non-financial services) (Graph 54). Overall, microfinance providers look for a mix of funding instruments to achieve their goals.

As most microfinance providers have been operating for more than 10 years, and in view of the expected long-term funding gap (refer to Chapter 5), they will increasingly require equity and mezzanine capital (i.e. subordinated loans) to realise their growth potential (leverage). The need for borrowing (debt) will continue, as most European MFIs cannot mobilise deposits.

Not all providers only need funding; some also require TA and training to strengthen their institutional capacity. Based on the experience of the advisory services implemented through the EaSI TA programme, support needs to include assistance for entering new markets and/or fields of activity, and consultancy for compliance with the Code, with a focus on risk management, IT/MISs (management information systems) and corporate planning. Other required areas comprise investment readiness training and coaching; marketing and sales; advice for the implementation of non-financial services; and holistic support for small providers across different types of institutional functions (e.g. credit, finance, human resources, IT/MISs, risk, internal audit). Finally, there are some topics of increasing relevance for the future and that are valid for all types of providers in all regions, and which reflect the need to respond to the trends of digitalisation, gender-responsiveness, vulnerable groups and the mitigation of climate change.

4.4. Conclusions

This chapter evaluated the supply of microcredits and BDS for micro-enterprises in the EaSI programme region, mainly based on the EMN-MFC industry report for 2016-2017. While recognising that providers catering to microfinance clients continue to be very heterogeneous, several conclusions come out of the analysis.

1. At least 450 institutions offer or facilitate the disbursement of microloans in Europe ([224]). One third of them responded to a biannual industry-wide survey financed by the EU in 2017. These

([224]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

institutions serve just under one million clients with an outstanding gross microloan portfolio of EUR 3.2 billion. They also provide non-financial support services to 443 825 clients.

2. Primarily, these institutions target micro-enterprises and vulnerable populations that are working as entrepreneurs while escaping unemployment and poverty. In the EU, it is still the case that a notable proportion (21%) of citizens are at risk of poverty and social exclusion, and especially vulnerable groups face unemployment challenges ([225]). Due to the challenges of accessing traditional finance through banks, these groups often refer to non-bank microfinance providers. The sector has evolved over the past 10 years with the support of EU programmes, but there are still challenges ahead to be addressed.

3. In Europe, there is no common legislative framework regulating the provision of microfinance and, in half the EU Member States, national legislation does not reflect the specific nature of microfinance. Since 2011, however, the Code has provided a harmonising soft regulation, setting institutional standards. The European Commission, together with industry actors, promotes and manages the implementation of the Code, which is a self-regulating framework. As at October 2019, more than 35 non-bank and almost 50 bank actors adhered to the Code. Adherence to the Code is a precondition for accessing EU support for microfinance, primarily provided through the EaSI programme ([226]).

4. In a number of EU countries, banks offer loans to micro-enterprises, but many cater solely to the least risky among them. In many cases, banks also secure collateral as a prerequisite for disbursing loans. This excludes vulnerable members of the population or micro-enterprises (such as start-ups). Often, banks that do cater for vulnerable groups and start-ups depend on support from public money and programmes. MFIs provide an increasing share of microcredit provision, which caters to more medium-risk enterprises ([227]). Overall, most financial institutions providing microcredits are in the lower-risk segment of micro-entrepreneurs.

5. Despite the increasing share of microfinance providers providing financial support to micro-enterprises, the non-bank providers are not always economically sustainable, especially when targeting vulnerable populations and very small micro-enterprises. They are also having similar challenges to banks when it comes to the digital transformation of the financial sector. In order to offer continued support to microfinance, providers also need to receive non-financial support, in the form of TA to further strengthen the supply side, and to provide funding to the sectors in most need.

6. There are three typical business models operating. Microfinance providers can grant microloans as a primary activity or combine microloans and BDS, while other institutions (mostly banks) have microfinance as a side activity.

7. The European microfinance sector is maturing. Most microfinance providers (83%) started activities before 2009. However, there has been a slowdown in the growth of new providers, which has fallen in each period since 2005. Only 5% of the microfinance providers surveyed started microlending operations after 2015.

8. On average, microfinance providers in Europe employ a relatively low number of (full-time-equivalent) staff, with 79% of microfinance providers employing less than 50 full-time-equivalent employees and almost half (45%) having less than 10 persons. In rare cases (5%), microfinance providers do not employ any paid staff; either they rely on volunteers or their employees are paid by other organisations.

9. Credit risk remains high for the European microfinance industry. Forty-five per cent of microfinance providers have a PAR30 ratio of less than 5% (i.e. in line with international good practice standards). Some 36% of microfinance providers have a PAR30 ratio between 10% and 30%; this points to the vulnerability of some of the target groups catered for by microfinance providers but, also, indicates that lending practices can be improved upon.

10. Operational sustainability continues to be critical. This is triggered, on one hand, by higher credit risks and, on the other hand, the work-intensive operations of small loan amounts coupled with the offer of non-financial services. This situation makes it difficult for the 69% of the microfinance providers that show OSS ratios below 100%, corresponding to the minimum in view of international good practice.

([225]) OECD, European Union (2017): The missing entrepreneurs 2017; Eurostat (2019): Database, 2018-2019.

([226]) Chapter 6 below contains more information about the EaSI programme for microfinance.

([227]) Refer to the different industry reports delivered by the EMN and the MFC over the past five years, showing an increasing volume of microloans and reflecting the levels of PAR30 and write-off ratios, while there are higher portfolio risk indicators for non-bank providers compared to bank providers.

11. Concerning financial performance, most microfinance providers reported positive ROE and ROA values, and only 13% reported negative values for both these indicators. This indicates that microfinance providers must have types of income other than operational income, as their profitability ratios are positive even though their OSS ratio is below 100%.
12. The most common financial products offered by microfinance providers in the EaSI programme countries are business microloans (80% of microfinance providers), personal microloans (48%) and SME loans (40%). Banks provide a wider range of financial products and services, while NBFIs, NGOs and governmental bodies focus primarily on the provision of business microloans.
13. Focusing on the provision of microloans, microfinance providers operating in EaSI programme countries served almost 700 000 clients in 2017 (36% of which were women) with a gross microloan portfolio of EUR 2.7 billion. Personal loans constituted the majority (67%) of the number of active loans in 2017. However, due to the different sizes of these products, business microloans make up a larger percentage of the outstanding microloan portfolio, with a 53% share. All portfolio indicators show a growing trend between 2016 and 2017. In this respect, it is worth underlining the faster growth of personal microloans (+12%) compared to business microloans (+8%).
14. Microfinance providers serve a variety of target groups with their business and personal microloans. Nonetheless, their actual microloan portfolios do not necessarily correspond to their mission statements. For example, although 80% of providers have women as target group, this is not reflected in the overall portfolio of the EaSI programme region, where only 36% of the borrowers are women, well below the global benchmarks.
15. Although all microfinance providers cater to the typical micro-enterprise types, including the self-employed, they also provide loans to small-sized enterprises with loan amounts beyond EUR 25 000 (with the exception of credit unions/financial cooperatives).
16. Most microfinance providers support businesses that are already established but still young (up to five years old). Except for banks, all microfinance providers also offer start-up finance.
17. In 2017, microfinance providers supported almost 423 000 entrepreneurs, potential entrepreneurs and vulnerable people with non-financial services. The distribution is, however, rather uneven across different types of institution and across countries. Interestingly, 55% of recipients were not active borrowers of the microfinance providers. More than two thirds of non-financial services users (68%) were supported by NGOs (here, mostly Initiative France and Adie – Association pour le droit à l'initiative économique), followed by credit unions/financial cooperatives (21%) and NBFIs (11%), with the most relevant being Agroinvest in Serbia. In the vast majority of cases (81%), non-financial services are offered for free by microfinance providers.
18. Unlike banks and credit unions/financial cooperatives, other non-bank providers depend on external funding. This funding comes from different types of funder, including governments, IFIs and impact investors. Most microfinance providers in Europe are not allowed to take deposits to finance their lending operations and, consequently, need to access funding for on-lending. Access to funding is therefore essential for microfinance providers in order to enable growth, achieve financial sustainability and cater for the needs of vulnerable clients through offering affordable interest rates. The average additional funding needs for non-bank providers is estimated at EUR 4.9 million; most of the additional funding requirement is related to debt financing (74% for all microfinance providers/65% for non-bank providers), followed by equity (10%/10%), guarantees (5%/9%) and grants (3%/5%).
19. Breakdown of funding needs according to EA Member States, non-EA Member States and accession (IPA) countries indicates that the issuance of guarantees only plays a role for MFIs from the EU Member States, while needs for other types of funding (e.g. issuance of corporate bonds) are important for countries with currencies other than the euro. For microfinance providers operating in the IPA countries, it is very important to attract equity. Albania, France, the Netherlands and Spain stand out as countries where microfinance providers have, on average, the greatest need for funding, reflecting the presence of large providers in these countries. It would be important to evaluate whether larger providers are able to issue corporate bonds to meet their funding needs.

5. MARKET FAILURE AND FINANCING GAP ANALYSIS

5.1. Establishment of market failures

Market failures can cause a mismatch between (potential) demand for microfinance and the supply from financial institutions. It results from market imperfections (in the form of market failures that refer to non-functioning aspects of the market, which end in inefficient allocation of resources and entail a supply gap or an oversupply of funding). This is also complemented by suboptimal investment situations related to the underperformance of investment activities. We will present each of these failures below, followed by an assessment of the presence of these failures in different country clusters eligible for the EaSI programme.

In general, we have identified the following market failures.

- **Information asymmetry:** Creditors typically have less information on repayment capacity than borrowers. A lack of historical financial company data, credit registry and credit monitoring, as well as a lack of data on defaults, can make it difficult for microfinance providers to properly rate risks and company prospects. This problem can result in *adverse selection*, *principal-agent problems* and *moral hazard*. Adverse selection (of too-risky companies) can lead to rising interest rates, to the disadvantage of those businesses that are viable. Moral hazard implies overfunding and/or undue shifting of risk from borrowers to lenders. Information on the track record of micro-enterprises is in general much weaker than for corporates and even SMEs. This is especially challenging for start-ups, enterprises of vulnerable target groups and informal enterprises.
- **Capacity gaps:** Lack of capacity (human resources; knowledge and skills; systems and tools) in microfinance providers and/or in entrepreneurs can affect the possibilities for credit application and credit appraisal processes. Examples include entrepreneurs' lack of financial and digital skills or microfinance providers' lack of experience with certain sectors or types of project (i.e. new sectors and target groups, such as gender finance, energy efficiency or refugee finance). These gaps can imply that either credit applications cannot be submitted at all (potential credit demand, but not realised) or the applications are not well appraised by the providers and might be rejected for the wrong reasons (part of unmet demand).
- **Absence of markets:** When certain property rights or registration systems, for land and other assets for collateral/guarantees, are not functional, or asset values are difficult to determine, the collateral for loans is insecure for the financial provider. This can result in insufficient or even complete absence of credit provision, which can be challenging in sectors such as agriculture and for informal enterprises.
- **Microfinance markets:** The development and functioning of microfinance markets run opposite to the overall maturity of markets. Microfinance markets are less mature in markets where the factor, labour and financial markets are well developed; typically, microfinance is a niche activity targeting socially excluded clients (except for some larger microfinance providers). Microfinance plays a more important role in intermediate-mature markets, as factor, labour and financial markets are facing some challenges (youth unemployment; banking crises; currency devaluation; inflation). For immature markets where labour, factor and financial markets are working suboptimally in all respects, microfinance can enter into gaps created by market failures and even evolve to function through commercial banks.
- **Imperfect competition:** The market power of a few microfinance providers might generate upward price pressure (unattractive financial conditions) and/or insufficient supply of credit. This is most likely to be the case in more immature markets and/or countries with limited possibilities for MFIs (i.e. Germany, Greece and Serbia).
- **Government policies or interventions:** Government policies can influence market distortions in negative and positive ways. Apart from the legal framework for microfinance providers (see 4.1.1. Regulation on microcredit provision), governments can intervene in the market by establishing property rights, offering insurance schemes (e.g. for agriculture in some countries), providing guarantee funds, delivering business support services, providing interest rate subsidies, etc. The latter can distort the market, as most very small microfinance providers with high cost structures cannot compete against subsidised lending schemes.
- **Specific country risks:** Some countries face specific risks relating to the political situation, lack of trust in and independence of the central bank, trade balance, currency risks, etc. These risks could create less attractive financial conditions (due to higher risk premiums and interest rates, etc.) and, therefore, potential but not realised demand. Although these risks are, strictly speaking, not market

failures when they are well priced, risk perception often plays a role and risks might be overpriced or underpriced (in relation to information issues).

Table 20 provides an assessment of the extent of the market failures in different country clusters (grouped by maturity of markets).

Table 20: Assessment of market failures, by country cluster

Market failures	**Mature markets** (north-western Europe, Iceland)	**Intermediate–mature markets** (Baltics, southern Europe)	**Immature markets** (central and eastern Europe)
Credit registration and rating; account ownership	+ Limited: good credit registration	0 Medium	- Limited: less data on company, credit and defaults; lower financial account ownership
Capacity gaps for businesses	+ Limited gaps	0/- Medium gaps (especially regarding specific industries/sectors or vulnerable target groups)	- Large gaps (especially regarding specific industries/sectors or vulnerable target groups); digital and financial capacities of entrepreneurs
Absence of markets	+ Limited	0 Medium	- High, especially in some regions
Imperfect competition	+/- Differs by country (e.g. bank market power in Germany)	+/- Differs by country	- Lack of finance suppliers in some regions
Government intervention	+ High	0 Medium	- Limited government activities in microfinance markets
Country risks	Low	Medium (high for Greece and Turkey)	Medium-high

The most remarkable market failures can be found in the immature markets of **central and eastern Europe**, where lack of information (regarding financial record-keeping and credit data) and information asymmetry (between the financial institution and entrepreneur) are most notable. Moreover, these are the regions where the gap between financial literacy and digitalisation within enterprises is widest. Accordingly, in terms of financial instruments and supporting measures (e.g. information and capacity building), there may be grounds for directing more resources within InvestEU towards these countries.

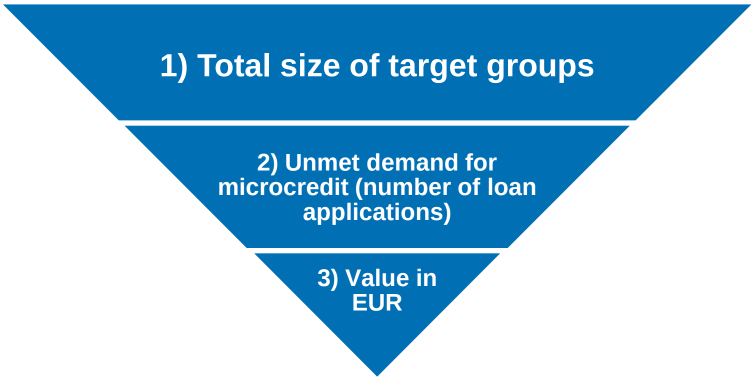
Another important observation made in all types of market relates to **a lack of or the inappropriateness of special regulations for microfinance providers to provide loans**. In some countries, such as Germany, lending activities are restricted to banks, while non-bank providers act as agents. ‘Banking monopolies’ can force cooperation between non-bank providers and banks, as is the case in Greece (although a legislative initiative is underway) and Serbia. In Portugal, with the restrictive regulation passed in 2010, there are no operating MFIs and currently microloans are disbursed by banks partnered with social purpose organisations. In Ireland, although there is no general regulation on microcredit, the only operating non-bank provider has a specific government mandate to lend to micro-enterprises.

5.2. Financing gap for final beneficiaries

As already mentioned in Chapter 1, the calculation of the financing gap will mainly follow the formula applied in *Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs* ([228]), carried out in 2017. The methodology for assessing market

([228]) Unterberg, M. (2017): Assessing the European market potential of business microcredit and the associated funding needs potential refers to the financing gap (meaning demand that is not served (yet) by any financial service provider due to several circumstances); thus, the market gap is calculated without including the supply side. The approach followed here relies on the calculations made in the EMN-MFC overview survey and follows three steps (see Figure 10).

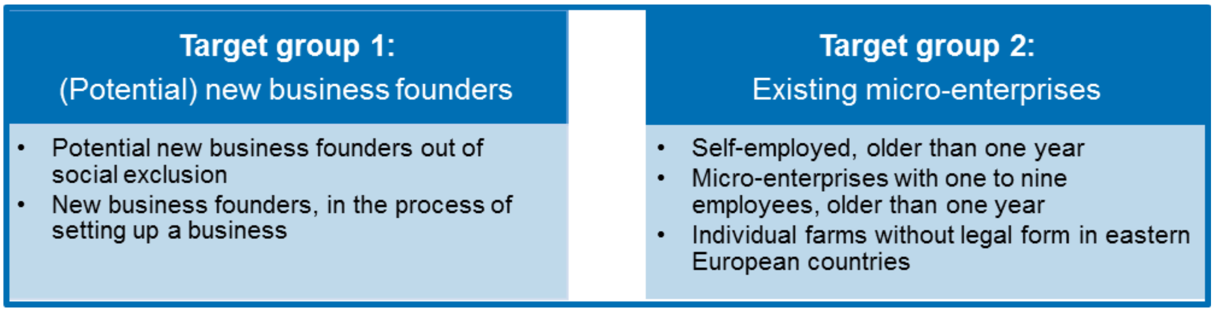
Figure 10: Top-down assessment of financing gap for microcredit



Step 1. Assessment of the total size of target groups

We followed the approach of EIF's Research & Market Analysis in their *GAFMA* ([229]), where a general distinction is made between two main target client groups for business microcredit (Figure 11).

Figure 11: Target groups for business microcredit



For the calculation of the financing gap, we used the formal gap without informal businesses, quantified using the most recent European Social Survey data on the number of informally self-employed persons ([230]). However, we will mention informal businesses in the context of information due to be analysed when developing (other) required policy measures.

As calculations of the size of the client groups in target group 1 (potential and new business founders) and informal businesses in target group 2 are based on some proxy measures (especially regarding the number of informal businesses), the estimations should be regarded as indicative. However, while it was relatively straightforward in EU countries to access the data needed for the calculations of target group populations, it was a challenge to find relevant data for non-EU countries. Therefore, the results presented in Table 23 and Graph 56 below should be regarded as underestimations for non-EU countries (refer to Chapter 1).

The total size of the target population for business microcredit in the EU Member States is estimated at 30.7 million enterprises, not considering informal businesses. When informal businesses are added, the total target group population is 69.3 million.

Excluding informal businesses, the two largest target groups are the self-employed (13.2 million) and micro-enterprises with 1-9 employees (9.5 million). Taken together, these groups make up almost 23 million enterprises with fewer than 10 employees. This number combines with another 8 million potential and new businesses, as well as individual farms.

of non-bank MFIs.

([229]) Kraemer-Eis, H., Lang, F. (2014): Guidelines for SME Access to Finance Market Assessments (GAFMA).

([230]) Based on calculations done by Hazans (2011): Informal workers across Europe. The self-employed persons without workers who work as professionals are considered formally self-employed. Other self-employed persons (i.e. all non-professional self-employed operating solely or as employers with five or fewer workers) are considered informally self-employed.

Table 21: Total size of the target market for business microcredit

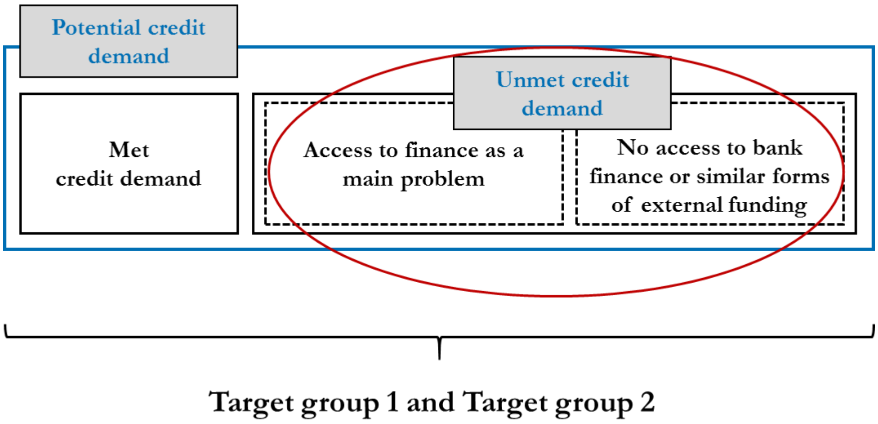
Target group	Number in EU Member States
Potential new business founders escaping from social exclusion	2 667 564
New business founders	4 319 759
Self-employed	13 209 310
Existing micro-enterprises	9 507 773
Individual farms	1 026 740
Total	**30 731 146**
Informal businesses	*38 535 287*

Focusing on specific Member States, the largest number of potential business founders and new business founders is in France (0.9 million), followed by Germany and Romania (0.7 million each) and Italy (0.6 million). The largest numbers of self-employed persons are in Italy (2.2 million) and France (2.1 million), while the number of micro-enterprises stands out in the UK (1.7 million). Poland has a high number of individual farms (0.3 million). Please see Annex 2 for details of country-level assessments.

Step 2. Assessment of the unmet credit demand within target groups (number of loan applications)

The overall gap at national level is obtained by aggregating across the above target segments and firm sizes.

Figure 12: Overview of unmet demand calculation



The share of individuals and/or enterprises in these target groups that see access to finance as their main problem and/or have no access to bank loans or similar formalised forms of external funding ([231]) represents the market potential for business microcredit products. It is important to acknowledge that these estimations are indicative preliminary figures, since a detailed analysis could not be undertaken at country level due to lack of national data and the desk review approach.

The top-down assessment of total constrained demand for business microcredit in EU Member States indicates a total annual potential of 2.5 million loan applications ([232]). The calculation of total potential applications includes individual farms for eastern Europe only ([233]) and does not take informal businesses into account ([234]).

([231]) For a more robust approximation, the share of individuals/enterprises within the target groups that have actual financial needs under a certain threshold (e.g. EUR 25 000) should also be taken into account. Unfortunately, no comparable survey data on the financial needs of new business founders and existing micro-enterprises is available for EU countries. Instead, this issue is addressed in the step for calculating total market value at national level.

([232]) This estimation falls within the range of the results based on 2012 data. The estimate from the framework of the ex-ante assessment for the EaSI financial instruments was 1.2 million potential loans (not including existing businesses), while the evaluation of Jasmine TA provided an estimate of 5.1 million potential loans for EU Member States.

([233]) This selection reflects feedback from interviews with MFIs, which indicated that individual farms are a relevant target group for eastern European MFIs only.

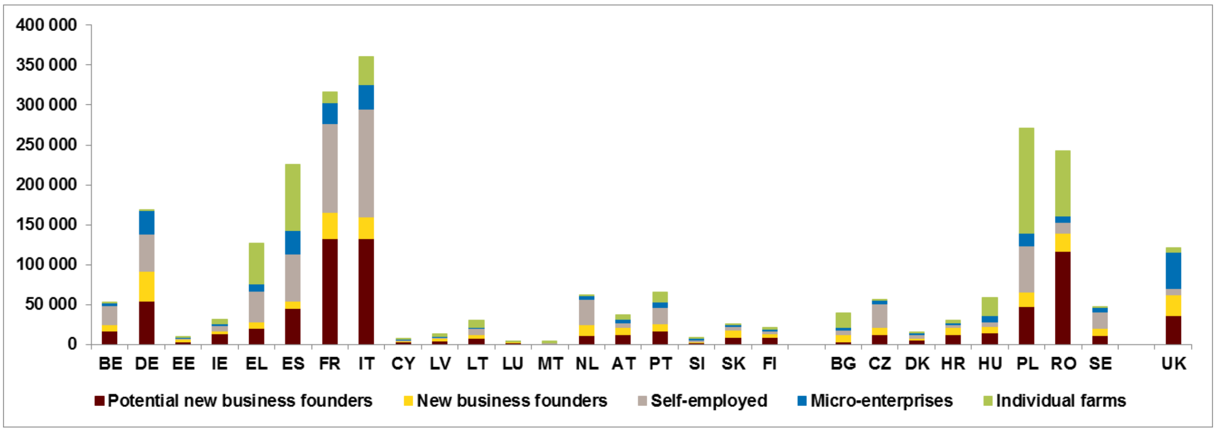
([234]) The statistical data available on this target group is somewhat sketchy and, as results based on the European Social

Table 22: Size of the unmet demand – Number of applications for business microcredit

Target group	Applications in EU Member States
Potential new business founders escaping from social exclusion	751 378
New business founders	297 458
Self-employed	653 148
Micro-enterprises (1-9 employees)	253 541
Individual farms	492 835
Total	**2 448 360**
Informal businesses	*3 082 823*

Graph 55 shows the population size of each target group and the size of the unmet demand within each group. The countries with the largest estimated numbers of new (and potential new) business founders are France (165 000) and Italy (160 000), followed by Romania (138 000). The highest number of self-employed persons is found in Italy (130 000), while the UK ranks highest for micro-enterprises (45 000) and Poland for individual farms (132 000). See Annex 2 for the details of country-level estimations.

Graph 55: Unmet credit demand, 2017 (number of microbusinesses)



Step 3. Assessment of the value of the unmet business microcredit demand

This step estimates the value of the unmet business microcredit demand by multiplying the calculated volume of demand (i.e. number of unmet applications for business microcredit) by target-group-specific average loan amounts, where loan amount estimates are approximated using results from the latest EMN-MFC overview survey ([235]). Different loan averages are applied for eastern and for western Europe, except for the target group of individual farms, as these are only included for eastern Europe. Using this approach, the total volume of annual potential demand for the EU Member States is estimated at EUR 14.1 billion excluding informal businesses and EUR 28.2 billion when informal businesses are included.

Survey are overestimates (as the survey disproportionately represents the target population), the estimates for informal businesses is shown for information purposes but is not included in subsequent calculations.

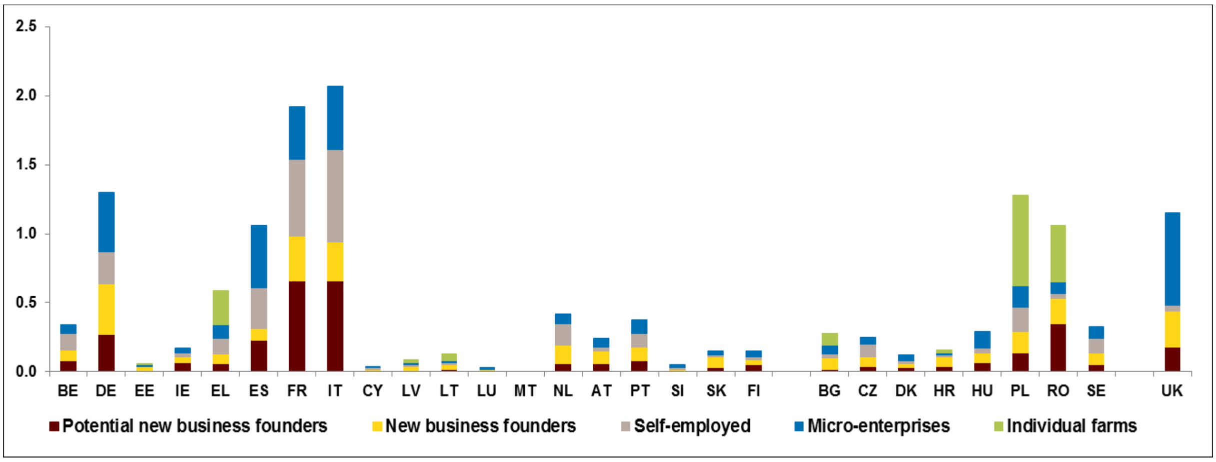
([235]) The data collected via the EMN-MFC overview survey does not allow a breakdown of average volumes of business loans by target groups. The average volume of reported business loans in the 28 EU Member States for all target groups was EUR 5 325 in 2015. Taking into account the different levels of market outreach in the different target groups, the average loan volume used for the calculation of the annual non-bank MFI market was EUR 5 201.

Table 23: Estimates of the total value of annual unmet demand (billion EUR)

Target group	Value in EU Member States
Potential new business founders escaping from social exclusion	3.29
New business founders	2.80
Self-employed	2.95
Micro-enterprises (1-9 employees)	3.56
Individual farms (for eastern Europe only)	1.51
Total	**14.11**
Informal businesses	*14.08*

The highest estimated value of microcredit demand is for Italy (EUR 2.1 billion), followed by France (EUR 1.9 billion), Germany, Poland (both EUR 1.3 billon) and the UK, Romania and Spain (EUR1.1 billion each); additional country-level information is shown in Graph 56 below and in Annex 2. These numbers represent the total unmet or constrained demand for microcredits in the EU. Depending on the target group, this constrained demand could, in principle, be met by actors from the banking sector, as well as from the non-banking sector (including alternative finance providers like P2P platforms or grey market lenders).

Graph 56: Unmet credit demand (billion EUR)



Final step. Calculation of the financing gap

To calculate the financing gap, supply-side data were taken from the EMN-MFC overview survey, the EIF guarantee leverage and the CGAP Funder Survey ([236]).

([236]) Calculated using the EMN-MFC overview survey for 2016-2017 and the EIF guarantee leverage (EaSI country portfolio since the start of the EaSI Guarantee in 2016, as of December 2018). The latter does not include Albania, Bulgaria, Montenegro, North Macedonia, Romania, Serbia or Turkey; for these countries, data from the CGAP Funder Survey (2017) by Tomilova/Dokle was used, as there is a constant trend. For the countries where the EMN-MFC overview survey, EIF and CGAP overlap, we have corrected the overlap and taken the highest volume among the three sources.

Table 24: Estimates of the total value of annual gap for microloans (EUR)

Country Cluster/countries	Constrained demand	Supply	Financing gap
Mature	**North-western Europe, Iceland**		
Denmark	120 000 000	-	120 000 000
Finland	150 000 000	-	150 000 000
Iceland	25 501 200	-	25 501 200
Sweden	330 000 000	76 600 000	253 400 000
Austria	240 000 000	2 900 000	237 100 000
Belgium	340 000 000	17 200 000	322 800 000
France	1 920 000 000	266 322 895	1 653 677 105
Germany	1 300 000 000	200 000	1 299 800 000
Luxembourg	30 000 000	700 000	29 300 000
Netherlands	420 000 000	74 000 000	346 000 000
Ireland	170 000 000	15 700 000	154 300 000
UK	1 150 000 000	15 927 741	1 134 072 259
Subtotal (12 countries)	**6 195 501 200**	**469 550 636**	**5 725 950 564**
Intermediate mature	**Southern Europe, Malta**		
Cyprus	40 000 000	-	40 000 000
Greece	590 000 000	11 900 000	578 100 000
Italy	2 070 000 000	38 300 000	2 031 700 000
Malta	-	-	-
Portugal	380 000 000	6 520 000	373 480 000
Spain	1 060 000 000	255 705 660	804 294 340
Subtotal (6 countries)	**4 140 000 000**	**312 425 660**	**3 827 574 340**
Immature	**Balkans, central Europe**		
Bulgaria	280 000 000	60 908 092	219 091 908
Croatia	160 000 000	-	160 000 000
Czechia	250 000 000	41 100 000	208 900 000
Estonia	60 000 000	12 800 000	47 200 000
Hungary	290 000 000	6 715 819	283 284 181
Latvia	90 000 000	1 800 000	88 200 000
Lithuania	130 000 000	20 191 870	109 808 130
Poland	1 280 000 000	23 300 000	1 256 700 000
Romania	1 060 000 000	197 367 053	862 632 947
Slovakia	150 000 000	69 155 350	80 844 650
Slovenia	50 000 000	12 800 000	37 200 000
Subtotal (11 countries)	**3 800 000 000**	**446 138 183**	**3 353 861 817**
Total EU	**14 110 000 000**	**1 228 114 479**	**12 881 885 521**
Total EU + EFTA (Iceland)	**14 135 501 200**	**1 228 114 479**	**12 907 386 721**
Intermediate mature	**Turkey**		7 181 436 157
Turkey	10 647 408 000	1 324 288 172	9 323 119 828
Subtotal IPA (1 country)	**10 647 408 000**	**1 324 288 172**	**9 323 119 828**
Immature	**Balkans**		
Albania	34 114 667	46 937 895	(12 823 229)
Montenegro	196 023 733	26 295 079	169 728 654
North Macedonia	543 353 867	14 683 504	528 670 363
Serbia	1 250 813 067	228 322 109	1 022 490 958
Subtotal IPA (4 countries)	**2 024 305 333**	**316 238 587**	**1 708 066 746**
Total IPA	**12 671 713 333**	**1 640 526 759**	**11 031 186 574**
Total (34 countries)	**26 807 214 533**	**2 868 641 239**	**23 938 573 295**

Note: Sums are rounded.

The total estimated financing gap for EU Member States and Iceland is EUR 12.9 billion (as of 2019), implying a need for increased supply of microfinance products for micro-enterprises and vulnerable populations. For the EU candidate countries, the estimated financing gap is EUR 11.0 billion (2019).

5.3. Non-financial services market gap for final beneficiaries

The estimation of the gap for non-financial services is based on the shares of enterprises in each target group that has an unmet demand for microcredit, as presented earlier (Step 2). The gap is calculated by multiplying the number of microcredits by the share of non-financial services users within each target group. The results show that **unmet demand for non-financial services for EU Member States is estimated at 1.2 million clients** (without taking into account informal businesses).

Table 25: Demand gap of non-financial services among potential microcredit clients

Target group	Clients in EU Member States
Potential new business founders escaping from social exclusion	601 102
New business founders	148 729
Self-employed	326 574
Micro-enterprises (1-9 employees)	50 708
Individual farms	98 291
Total	**1 225 404**
Informal businesses	*2 466 258*

5.4. Projected financing gap until 2027

The future development of the demand for microcredit will be influenced by economic growth and inflation.

As described in Chapter 3, the EU demand side is expected to grow annually at a rate of 1.5-2.5% (constant prices) over the period 2020-2027. There is stronger growth expected for demand in non-EU countries, with an annual average growth of 3-4.5% (constant prices). Two scenarios will be used for all countries: a normal growth scenario and a strong growth scenario.

The outlook for the supply side of finance to micro-enterprises is more difficult to assess. A complex range of factors determine the development of supply, including financial market developments and future policy and regulatory changes. In the longer term, attention needs to be given to ongoing consolidation of banking markets, digitalisation and new fintech entrants.

For estimation purposes, the growth assumptions in Table 26 have been used.

Table 26: Assumptions for projection of the financing gap

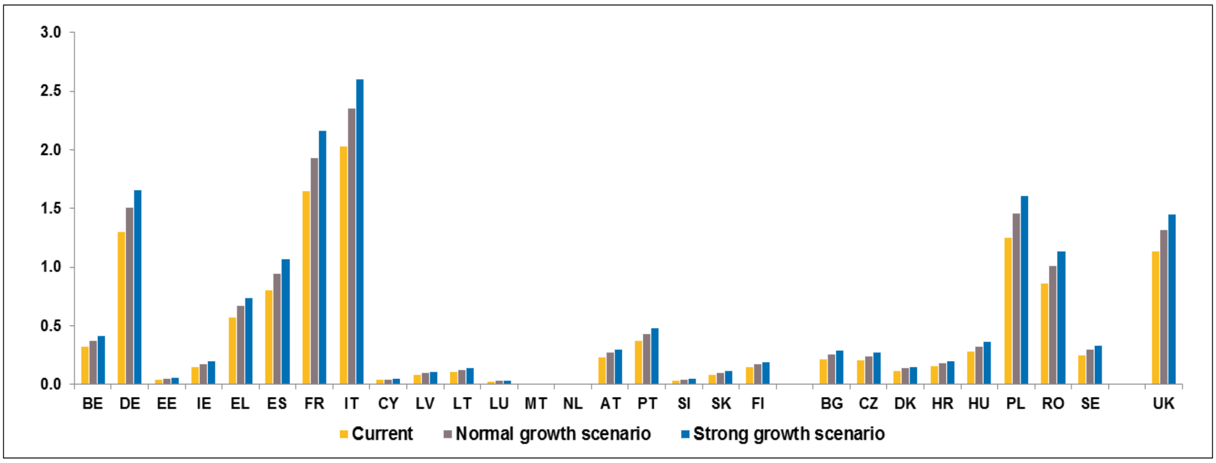
Strong GDP growth	Demand	Supply
EU growth	2.5% per annum	1.0% per annum
Non-EU growth	4.5% per annum	1.5% per annum
Normal GDP growth	**Demand**	**Supply**
EU growth	1.5% per annum	1.0% per annum
Non-EU growth	3.0% per annum	1.5% per annum

Forecasts suggest that, regardless of how optimistic the adopted scenario, this gap will increase faster than the overall EU funding gap. This is mainly because GDP growth in the accession countries will likely be higher than the EU average. **The funding gap is estimated at EUR 12.9 billion, which corresponds to 92.3% of the constrained demand.** The EU and EFTA region (consisting of EU Member States and Iceland, which ratified the EaSI programme) accounts for 53.9% of the gap across the whole EaSI programme region.

Based on prices and economic growth recorded in 2019, forecasts suggest that the gap will grow to between EUR 15.0 billion (normal GDP growth scenario by 2027) and EUR 16.7 billion (strong GDP growth scenario by 2027). This is because the demand for microfinance is growing faster than the supply available from financial institutions.

For the EU candidate countries and the EFTA country Iceland, the estimated financing gap is EUR 11.1 billion (2019). Forecasts suggest that, regardless of how optimistic the adopted scenario, this gap will increase faster than the overall EU financing gap. This is mainly because GDP growth in the accession countries will likely be higher than the EU average.

Graph 57: Financing gap and scenarios for 2027 (billion EUR)



Source: Eurostat, European Commission ECB SAFE surveys, GEM, EMN-MFC overview survey, EIF, CGAP Funder Survey, European Commission Spring 2019 forecast, European Commission Global 2050 report and calculations made by the authors

Graph 57 above shows the current and projected (to 2027) market gaps for each Member State.

5.5. Conclusions

1. **The extent of market failures resulting in the mismatch between demand and supply varies across country groups:** The most severe failures can be found in the immature markets in central and eastern Europe. Lack of information and information asymmetry is highest in this region. Moreover, capacity gaps at the entrepreneurial level are highest in this cluster of countries. In the mature and intermediate-mature western European markets, capacity gaps at the beneficiary and microfinance-provider levels result in weak financial performance, slow institutional development and low investment readiness. For the whole EaSI programme area, there are clear capacity gaps arising in relation to the digitalisation trends. Therefore, specific attention (financial instruments) and measures (information and capacity building) could be dedicated towards this group of countries.
2. **Financing gap:** In terms of unmet potential demand, the total annual market gap for finance (EU and non-EU) is estimated at EUR 23.9 billion (excluding informal businesses). The estimate for EU Member States is EUR 12.9 billion, and for the five less mature EU candidate countries, the gap is estimated at EUR 11.0 billion.
3. **Financing gap projections:** Potential demand is expected to increase as a result of economic growth and inflation. Supply of finance is expected to grow at more modest rates due to rising inflationary pressure (currently inflation is historically very low) and consequential increasing nominal interest rates. In addition, further regulatory changes might negatively affect the credit availability and funding costs of MFIs. Overall, funding costs for banks are expected to rise. Demand is expected to grow faster than supply, resulting in an increasing annual financing gap. This is estimated to reach EUR 16.7 billion in 2027 under a strong growth scenario (+29%) or EUR 15.0 billion under 'normal growth' assumptions (+16%). Consequently, candidate countries will represent a larger share of the annual market gap than EU Member States.
4. **Non-financial services gap:** The potential demand for non-financial services for the EU this gap is estimated at 1.2 million clients (excluding informal businesses, on an annual basis). This gap is expected to grow in the next 10 years, having a similar trend to the financing gap.

6. CURRENT FINANCIAL INSTRUMENTS IN THE EUROPEAN UNION

6.1. Introduction

This chapter will provide insights into the modalities for accessing financial instruments. It will then analyse whether they adjust to the investment needs identified in the market gap analysis. It will provide an overview and describe best practice/lessons learned from the main EU-level financial instruments (past and present) targeting microfinance and present the financial instruments currently used and those applied in the past at EU level, as well as other financial instruments targeting European microfinance providers.

If the supply offered through currently available financial instruments in the EU is compared to the unmet demand for microfinance, only 8.7% of demand is met. The EU-funded financial instruments take the lion's share of the supply side but, for certain regions, financial instruments managed by other funding providers are relevant. The relevant financial instruments and their characteristics and gaps will be outlined, identifying potential for improvement in the period 2021-2027.

6.2. Overview of European Union-funded financial instruments

Historically, the **EU initiatives started with the implementation of financial instruments** ([237]) **in 1994**. Financial instruments offer an innovative approach to financing that can contribute to effective and efficient delivery of the ESIF, including EaSI, objectives and specific priorities. Until 2006 the use of financial instruments was rather limited, but their relative importance increased during the 2007-2013 programming period, when they represented around 5% of total European Regional Development Fund (ERDF) resources; their importance has continued to increase during the 2014-2020 programming period.

6.2.1. Programming period 2007-2013

In the 2007-2013 period, there was a major expansion of financial instruments in terms of number, variety, scope and amounts paid out. Some of the most important financial instruments related to financial inclusion policies at EU level during this period were as follows.

- **2010-2013: Progress Microfinance** launched in 2010 to provide access to finance to persons who would otherwise have difficulty getting a loan to start or develop their own businesses. The facility provides guarantees and funded instruments to microfinance intermediaries. The EUR 203 million funding for the initiative came from the European Commission and the EIB. According to the European Commission report on the implementation of this financial instrument, by December 2013, more than 20 000 entrepreneurs had benefited from loans and guarantees under the facility, worth a total of EUR 182 million.
- **2007-2013 Competitiveness and Innovation Framework Programme (CIP) Microcredit Guarantee Window:** The 2007-2013 CIP offered possibilities for microcredit guarantees through financial instruments managed by the EIF. The CIP SME Guarantee Facility had four main business lines ('windows'), with one specifically dedicated to microcredit. Under the CIP Microcredit Guarantee Window, the EIF provided loan guarantees to microcredit organisations (financial intermediaries), granting loans of up to EUR 25 000 to micro-enterprises (those with up to nine employees). Micro-enterprises could find details of financial intermediaries that offered loans under the Microcredit Guarantee Window on the single portal of EU finance. Good practice examples for the use of this tool can be found in the following institutions: First-Step, Ireland; Microbank, Spain; Kreditanstalt für Wiederaufbau (KfW), Germany; and Belgium Participatiefonds/Fonds de Participation, Belgique.
- **Jeremie (Joint European Resources for Micro to Medium Enterprises):** Jeremie is a joint initiative developed by the European Commission DG Regio (for regional policy), in cooperation with the EIB Group and other financial institutions, to enhance cohesion across the EU. During the 2007-2013 programming period, Jeremie offered Member States, through their national or regional MAs, the opportunity to use part of their EU Structural Funds to finance SMEs in a more efficient and sustainable way. Jeremie's financial resources have been deployed through selected financial intermediaries across the EU, which have provided loans, equity and guarantees to

([237]) Financial instruments are 'Union measures of financial support provided on a complementary basis from the budget in order to address one or more policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants' (European Commission, 2018d: Financial regulation applicable to the general budget of the Union, Art. 2(29)). This does not include repayable grants (Ibid, Art 130(1)).

SMEs. To continue to support SMEs and MAs, EIF is proposing to extend existing Jeremie agreements.

6.2.2. Programming period 2014-2020

The Europe 2020 strategy for growth and jobs, covering the 2014-2020 programming period, called for a stronger role for financial instruments. The European Council subsequently gave a mandate to the European Commission to negotiate for a significant increase in overall EU support under ESIF to leverage-based financial instruments, in particular for SMEs. The **Investment Plan for Europe** also sets out an increase in the use of **ESIF financial instruments to almost double the level of the 2007-2013 programming period**.

The two main programmes targeting microfinance are EaSI and funding from the European Social Fund (ESF).

EU Programme for Employment and Social Innovation

The **EaSI programme** is an EU financing instrument that promotes a high level of quality and sustainable employment, guarantees adequate and decent social protection, combats social exclusion and poverty, and improves working conditions.

EaSI is managed directly by the European Commission and has a budget of EUR 919 million, split between three axes:

- modernisation of employment and social policies with the PROGRESS axis (61% of the total budget);
- job mobility with the EURES axis (18% of the total budget);
- **access to microfinance and social entrepreneurship with the Microfinance and Social Entrepreneurship axis (21% of the total budget)**. This is divided in two thematic sections:
  - **microcredit and microloans for vulnerable groups and micro-enterprises**;
  - social entrepreneurship.

The objectives of the Microfinance and Social Entrepreneurship axis are to:

- **increase access to, and availability of, microfinance for vulnerable groups who want to set up or develop their business, and micro-enterprises**;
- **build up the institutional capacity of microfinance providers**;
- support the development of social enterprises, particularly by facilitating access to finance.

In addition to EU Member States, other countries eligible to participate in the programme are Albania, Iceland, Montenegro, North Macedonia, Serbia and Turkey.

The EU is the most important provider for its Member States of financial instruments targeting micro-enterprises and vulnerable populations. Principally, support is provided through the main financial instrument for microfinance contained in the third axis of the EaSI programme, though it is acknowledged that support to micro-enterprises is also provided in a number of EU Member States through the ESIF (and in some candidate countries through IPA).

The instruments that deliver the EaSI programme targeting microfinance correspond to the following:

EaSI Guarantee Instrument: The European Commission has selected the EIF as its entrusted entity to implement the EaSI Guarantee Instrument. It enables microfinance providers and social enterprise investors to reach out to entrepreneurs that they would not otherwise have been able to finance, due to risk considerations.

EaSI Capacity Building: The European Commission has selected the EIF as its entrusted entity to implement the EaSI Capacity Building Investments Window, which aims to build up the institutional capacity of selected financial intermediaries that have not yet reached sustainability or that need risk capital to sustain their growth and development. It covers equity and, in exceptional cases, loans.

EaSI BDS Pilot for refugees and migrants: The objective of this pilot is to provide partial coverage for non-financial services costs incurred by existing EIF financial intermediaries when providing services for migrants and refugees. Final recipients (migrants/refugees) either operate or wish to establish a business (legal entity), which should have as a shareholder, director, member of the board or other corporate body, or other legal representative, a person(s) qualifying as a refugee and/or a migrant. Non-financial services may be in the form of coaching, mentoring or training to an eligible final recipient, for which providing intermediaries will be eligible to a lump sum payment of EUR 400 under the EaSI Microfinance Guarantee.

EaSI Funded Instruments to implement debt finance: This upcoming funded instrument aims to provide MFIs with debt finance for providing microloans (up to EUR 25 000) to micro-borrowers (vulnerable persons) and micro-enterprises in both start-up and development phases, with fewer than 10 employees and whose annual turnover and/or assets are less than EUR 2 million.

EaSI Technical Assistance: The European Commission (DG EMPL) directly manages the non-financial advisory services for financial institutions targeting microfinance and for the implementation of the Code. The budget for financial institutions amounts to EUR 7.5 million.

European Social Fund

Microfinance providers, alongside other social financial intermediaries (i.e. social, ethical, alternative, civic and sustainable banks and other financial intermediaries focusing on the social sector), play an important role in the implementation of financial instruments under the ESF.

ESF financial instruments can be an efficient and innovative delivery mechanism to meet the EU Member States' investment priorities and thematic objectives (TOs) outlined in the ESF operational programmes (OPs). Consequently, social financial intermediaries are increasingly involved in deploying national or regional financial instruments under the ESF that provide loans, guarantees, equity or quasi-equity. Under the ESF, one of the relevant areas in which social financial intermediaries may provide added value is microfinance.

Nonetheless, despite EU-level acknowledgement of the importance and growing recognition of self-employment, microbusiness and microcredit, national ESF and ERDF bodies have only very marginally taken up these issues in their National Reform Programmes and associated OPs.

For MAs to provide for ESF-supported microfinance projects effectively and efficiently, there are some conditions and requirements that should be put in place ([238]):

1. adequate collaboration mechanisms for involved ministries and departments;
2. regulatory frameworks adapted to micro-entrepreneurship and self-employment, and incentives to become an entrepreneur;
3. simplified procedures and organisational arrangements that seek to reduce the complexity of microfinance schemes;
4. arrangements to combine loans with BDS that support project recipients;
5. arrangements for monitoring and evaluation, including appropriate financial and social performance indicators.

However, financial sustainability may be unobtainable given the groups of disadvantaged persons that microfinance providers seek to reach. The effort needed to support these groups, both before and after loan disbursal, may imply that costs are just too substantial to achieve financial sustainability, and continuous public subsidies may be required to offset the costs of financial advice and loan follow-up, as well as the provision of non-financial services. The ESF could be very useful in this regard.

Financial instruments used under multiple European Union programmes

- Horizon 2020
- The Competitiveness of Enterprises and Small and Medium-sized Enterprises programme
- The Creative Europe programme

In addition, the EFSI, while not itself a financial instrument, is used to increase the scope of support under several EU financial instruments, especially those for SMEs.

([238]) Maas, B., Lämmermann, S. (2012): Designing microfinance operations in the EU.

6.3. State of affairs of European Union-funded financial instruments

Table 27: Main European Union financial instruments in the programming period 2014-2020

Type of fund	Value (EUR)	No of micro-enterprises/ providers	Type of financial instrument	Countries
At EU level (12/2019)				
EaSI Guarantee Instrument	176.2 million signed amount (projected leverage of loan portfolio 2 billion)	Projected to reach 246 107 micro-enterprises 68 providers (39 banks, 21 MFIs/ NBFIs, 8 others)	Guarantee	28 (23 EU Member States and 5 IPA countries)
EaSI Capacity Building	12.5 million signed amount	5 providers (1 holding, 4 MFIs)*	Equity, sub-debt	EaSI region, RO
EaSI BDS Pilot for refugees and migrants	1 million committed amount	Not yet started	Grant	EaSI region
EaSI Funded Instrument	200 million committed amount	10 applications (since October 2019)	Loan	EaSI region
At national level (2014-2018)				
ERDF/Cohesion Fund (CF)	Overall 21.5 billion committed (not disclosed for micro-enterprises)	83 002 enterprises (of which 51 343 are micro-enterprises)	Loan: 9 469 micro-enterprises Guarantee: 40 010 micro-enterprises Equity: 962 micro-enterprises Other ([239]): 902 micro-enterprises	24 Member States
ESF/Youth Employment Initiative	0.8 billion committed (not disclosed for micro-enterprises)	1 535 enterprises (of which 1 389 are micro-enterprises)	Loan: 1 389 micro-enterprises	BG, DE, HU, IT, LT and PL
European Agricultural Fund for Rural Development	0.5 billion committed (not disclosed for micro-enterprises/farms)	281 enterprises (of which 209 are micro-enterprises)	Loan: 125 micro-enterprises Guarantees: 84 micro-enterprises	EE, FR, HR and RO

Source: EIF (2019); European Commission (2018c)
*Note: * As of June 2019.*

EaSI financial instruments

At the end of 2019, the EaSI Guarantee Instrument ([240]) catered for 68 financial institutions, with over EUR 176 million in guarantees for microfinance in 28 countries.

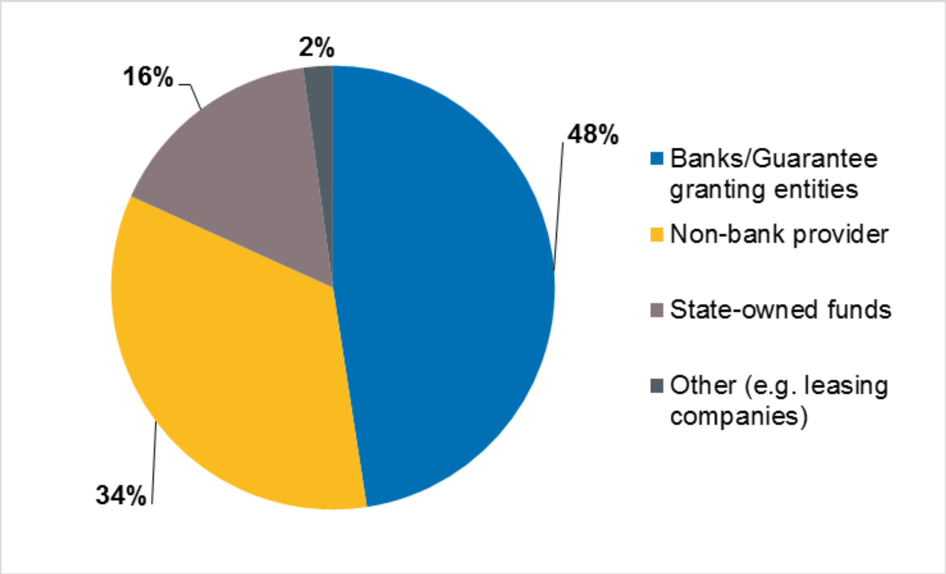
The list of signatures to the EaSI Guarantee Instrument ([241]) indicates that non-bank providers are in need of risk-sharing instruments; banks have signed roughly half of the total volume of guarantees (almost EUR 84 million), followed by non-bank providers (36%), state-owned funds (6%) and others (e.g. leasing companies) (3%), as shown in Graph 58. The average size of total guarantees signed by each institution is approximately EUR 2.6 million (see Annex 1 for the averages across EaSI programme countries).

The expected volumes resulting from the provision of the EaSI Guarantee Instrument will allow providers to build up a loan portfolio of EUR 2 billion targeting 246 107 micro-enterprises and members of vulnerable populations. Thus, the projected leverage for the financial intermediaries that

([239]) 'Other' relates to interest rate subsidies, guarantee fee subsidies and equivalent measures.
([240]) EIF (2020c): Supporting document_Report – Semi-annual – EaSI GFI – 31.12.2019.
([241]) Ibid.

contracted the EaSI Guarantee Instrument will be 11.2 ([242]). About half of the guarantees target bank providers and guarantee-granting entities and – to a lesser extent (34%) – non-bank providers. Only 13% of the outstanding guarantees are less than EUR 1 million (with 3% below EUR 0.5 million). Of the providers, 24% are Tier 2 providers, and only one Tier 3 provider – the Greenfield MFI Microlux from Luxembourg, where the EIF is a shareholder – benefits from a guarantee agreement.

Graph 58: Employment and Social Innovation Guarantee Instrument allocation, by legal type, 31 December 2019 (%)



Note: Based on 68 financial intermediaries.

In 2017, the European Commission contracted a mid-term evaluation of the EaSI programme for the period 2014-2016 ([243]). The evaluation showed that a large part of the funding (coverage) provided by the guarantee instrument was allocated to countries with more developed markets. The report recommended a greater focus on underdeveloped markets and more emphasis on capacity-building activities for strengthening the financial intermediaries.

Recent data provided by the EIF show that country coverage has changed significantly since that evaluation ([244]). However, as demonstrated by comparison of the distribution of the financing gap (needs) across the countries, amounts and types of provider covered by the EaSI guarantees, the EaSI programme is still not optimally geared towards countries and providers with the highest needs. This is partly caused by the open-call mechanism used, which has resulted in a lack of applications from some countries. The streamlining of application requirements for banks and non-bank providers likewise makes it challenging for smaller Tier 2 and Tier 3 non-bank providers to apply. The fixed cap of the guarantee instrument is not well geared towards differences in risk profiles among the covered portfolio (for different vulnerable groups of clients).

The current design of the EaSI Guarantee Instrument has made it difficult to enter into contracts with innovative providers (such as platforms) and fintech providers. Typical challenges include: (a) different types of fintech business models that need different legal treatment on the contractual side; (b) higher risk profiles of fintechs because of relatively recently established and small-sized firms; and (c) 'flexibility' of loan portfolios – due to the evolving options of the market, MCPs may choose to transfer their portfolios to a third-party provider (e.g. external lending platform), which makes it difficult for the financial instrument provider to track the portfolio and to keep it, for example, under a guarantee agreement.

The *EaSI Capacity Building Investments Window* offers support for building up the institutional capacity of bank and non-bank providers, as well as funds/vehicles targeting microfinance directly or indirectly. As of December 2019, there had been 22 applications and 11 contracts signed for EUR 21.3 million (of which EUR 12.5 million targeted microfinance) ([245]). The support materialises

([242]) Data for the EaSI Guarantee Instrument are based on transactions until 31.12.2019 (source EIF) and from the latest vintage leverage calculations by EIF.

([243]) European Commission (2019g): Mid-term evaluation of the EU programme for employment and social innovation - EaSI.

([244]) Data for the EaSI guarantee instrument are based on transactions until 31 December 2019 (EIF, 2020c: Supporting document_Report – Semi-annual – EaSI GFI – 31.12.2019).

([245]) EIF (2020a): EaSI Capacity Building Investments Window (CBIW). Implementation status as at December 2019.

principally through subordinated loans, with very limited support through equity. This financial instrument is relatively innovative, as it is not linked to the origin of loans but targets investments for other purposes to strengthen the performance of the institutions ([246]). A bottleneck occurs because standardisation (in terms of subordinated loan or equity products for microfinance providers) is difficult to achieve for this instrument. Making more use of grants for capacity building could simplify the transactions. Another challenge is that there is no accompanying TA available to ensure the success of rather large investments. In particular, Tier 2 and Tier 3 non-bank providers that have not yet reached financial sustainability need guidance on how to allocate the funds with due care and achieve a positive long-term effect on their institutions. According to the latest information on the EIF, the overall amount is already committed and EUR 100 million is needed for the future ([247]).

The *EaSI BDS Pilot for refugees and migrants*, supporting refugee entrepreneurs, is just starting. It targets the support of already existing EIF financial intermediaries, with a grant of EUR 400 for each provision of BDS to refugee entrepreneurs, to cover a portion of their operational costs. This mechanism could in the future provide an avenue for supporting other vulnerable populations through provision of non-financial services.

The *EaSI Funded Instrument* became operational in the fourth quarter of 2019. The need for it was quite urgent, as most non-bank providers report that the greatest need is for debt finance. According to the latest results provided by the EMN-MFC overview survey, 64% of non-bank providers require funding of debt finance, with the need coming to EUR 237 million per annum ([248]). So far, there are 10 applications, most of which are for senior loans, while the rest is for subordinated loans (one third of the value requested). The first financing agreements will be signed mid-2020.

The *EaSI Technical Assistance programme* is in its third phase (ongoing). Since its inception in 2015, it has provided assessments, Code evaluations, and tailored and/or Code training to more than 80 non-bank and small bank providers from 21 countries, strengthening institutional capacity and their preparedness for compliance with the Code. It has also undertaken a number of activities, such as workshops, study visits, P2P training and the dissemination of good practice. In 2019, the EaSI programme started to implement investment readiness trainings to prepare non-bank providers to access funding from the EIF and other investors.

However, the EaSI instruments do not foresee the use of direct leverage of private funds with debt (or equity) finance – bond issuance mechanisms; venture investors; crowdfunding; impact investors, etc. – which is currently almost absent. This is a remarkable situation given that most MFIs report that the greatest need is for debt finance.

European Regional Development Fund/Cohesion Fund

Over the 2014-2020 period, Member States planned to commit almost EUR 21 billion from the ERDF and CF to financial instruments ([249]). At the end of 2018, the total programme contributions committed to financial instruments by the 24 Member States making use of them was already surpassing the goal, at EUR 22.1 billion (EUR 13.3 billion at the end of 2016), of which, EUR 16.9 billion was from the ESIF. Although the volume of programme resources delivered through financial instruments by the end of 2018 had exceeded that for the entire 2007-2013 period, the total number of planned or operational financial instruments reported at the end of 2018 was 686, compared to 1 058 for 2007-2013, indicating that there has been a consolidation and rationalisation of financial instruments during the 2014-2020 period.

In terms of TOs, at the end of 2018, the largest share of funding continued to be allocated for supporting SMEs under TO3 ('enhancing the competitiveness of SMEs' – 56.2%), followed by TO4 ('low-carbon economy', mainly in energy efficiency and renewable energy – 15.5%) and TO1 ('investments in innovation and R&D' – 15.4%). This allocation confirms the trends outlined in Chapter 2. However, until 2018, financial instruments targeted 52 761 micro-enterprises, mostly with

([246]) These refer to: (a) investing in organisational development and expansion, including branch expansion, scaling up or building up of IT infrastructures (e.g. mobile banking) and investment in human resources, such as recruitment and training of staff; (b) strengthening operational and institutional capabilities, aiming to contribute to the sustainability of financial intermediaries, including Greenfield MFIs (this includes, among other things, investments in working capital and in improving the strategic/governance capabilities of the financial intermediary in order to maintain a balanced business, financial sustainability and social performance focus); (c) developing institutional capacity to increase the indebtedness capacity of financial intermediaries while supporting them to retain a balanced socio-commercial orientation, as stated in the open call for expressions of interest.

([247]) This is in line with data provided from the latest EMN-MFC overview survey, which identifies a need for EUR 23 million of equity per annum (Diriker, D., Landoni, P., Benaglio, N., 2018: Microfinance in Europe).

([248]) Diriker, D., Landoni, P., Benaglio, N. (2018): Microfinance in Europe.

([249]) European Commission (2018c): Financial instruments under the European Structural and Investment Funds.

guarantee instruments (refer to Table 27 above) ([250]).

European Social Fund/Youth Employment Initiative

Under the ESIF **ESF-funded programmes** (2014-2020), only a very small number of dedicated financial instruments are available for vulnerable groups (such as people with disabilities, unemployed people, refugees and migrants) or micro-enterprises with difficulties accessing finance, providing those groups with only limited access to microcredits or non-financial assistance. Funding is provided to a very limited number of micro-enterprises or vulnerable groups, and non-financial services are provided to just a couple of thousand micro-enterprises, the ESF support being more important for providing non-financial services to micro-entrepreneurs and vulnerable populations ([251]).

By the end of 2018, eight EU Member States had created several financial instruments with ESF and Youth Employment Initiative funds. Most Mas have developed loan or microloan schemes; exceptions are a German financial instrument, which is reported as an equity scheme, and an Italian multi-product scheme. All these financial instruments were created either under TO8 ('promoting sustainable and quality employment and supporting labour mobility') or TO9 ('promoting social inclusion, combating poverty and any discrimination'). The reporting on the type of final recipients supported by financial instruments became mandatory for the 2014-2020 programming period.

As shown in Table 28 below, financial instruments supported 1 389 micro-enterprises through loans. Most of the support to SMEs (82%) is accounted for by Lithuania (556), followed by Poland (462) and Germany (247), whereas Italy mostly provided loans for individuals (773) and fewer to SMEs.

Table 28: Number and type of final recipients supported by product, European Social Fund/Youth Employment Initiative, 2018

Product	SMEs	Micro-enterprises (included in the SMES)	Individuals	Other	Total
Loans	1 535	1 389	773	-	**2 308**

Source: European Commission (2019s)

European Agricultural Fund for Rural Development

Under the European Agricultural Fund for Rural Development programme, financial instruments are estimated to disburse around EUR 492 million in contributions, representing a threefold increase on the 2007-2013 period. Only 209 micro-enterprises received support from this programme.

As the existing EU support operated through (larger) financial intermediaries (e.g. EIF of the EIB Group) or through MAs (ERDF, ESIF, ESF), the combination of the EIB Group requirements and the ESIF programming cycle implies larger transactions (EIF) or disbursements (ESIF) and lengthy funding procedures.

([250]) European Commission (2018c): Financial instruments under the European Structural and Investment Funds. Loans for 3 704 micro-enterprises, guarantees for 31 919, equity for 483 and other (interest rate subsidies, guarantee fee subsidies) for 39. The report does not specify any values.

([251]) European Commission (2019s): Financial instruments under the European Structural and Investment Funds. A recent publication provides an insight into different ESF programmes in Belgium, Bulgaria, Italy, Poland and Spain, and underlines the importance of the provision of non-financial services by ESF-funded programmes (EMN, 2019a: Five case studies between the relationship of microfinance and the European Social Fund (ESF)). However, more recent reports claim that there are 3.3 million SMEs for non-financial services, 3.1 million of which are in France (European Commission, 2019f: Final ESF Synthesis Report of Annual Implementation Reports 2017).

6.4. Other financial instruments in the European Union

There are a large number of other multilateral funding institutions, also called 'multilaterals', such as EIB/EIF. In addition, bilateral DFIs, impact investors/microfinance investment vehicles (MIVs) and ethical banks have investment portfolios that cover all or part of the EaSI programme region. Nineteen of the most relevant multilateral funders are shown below.

Box 3: Overview on international funding institutions targeting microfinance in Europe

Multilaterals: 2 (EBRD, UK; IFC/WB Group, US)

DFI: 3 (Deutsche Investitions- und Entwicklungsgesellschaft (DEG)/KfW Group, DE; FMO, NL; Proparco, FR)

MIV/impact investor, large: 2 (Responsibility Investments, CH; European Fund for Southeast Europe (EFSE), LU/DE)

MIV/impact investor, medium: 4 (Symbiotics, CH; Developing World Markets (DWM), US; BlueOrchard, CH; Triple Jump, NL)

Multilaterals focused on Europe: *1 (Council of Europe Development Bank (CEB), FR)*

MIV/impact investor focused on Europe, small: *1 (Inpulse/CoopEst, BE)*

Private equity fund focused on Europe, small: *1 (Helenos Fund, BE)*

European ethical bank with microfinance investment portfolios: *3* (Triodos Bank, NL; GLS Bank, DE; *Banca Etica, IT – the latter focusing on Europe)*

International banking groups with small microfinance investment portfolios: *2 (Erste Group AG, AU, focusing on Europe; BNP Paribas, FR, with a partial focus on Europe)*

Table 29 outlines the main characteristics of the other financial instruments in the EU ([252]).

Although a number of these **international funding institutions** are active in providing financial instruments through bank and non-bank providers in Europe, only a couple of the 19 funding providers have a focus in several regions of Europe. Most of them provide funding in south-eastern Europe ([253]) to more commercially oriented microfinance sectors, for banks and mostly Tier 1 MFIs, albeit with uncollateralised lending and sometimes longer loan terms. According to the latest available figures, these funding institutions provided EUR 529 million – mostly debt finance – to six countries ([254]). The focus of international lenders on commercial banks means that finance for micro-enterprises with more risky profiles is not well catered for in most of the EU Member States.

([252]) Annex 8 provides more detailed information for these instruments, including information on less relevant funders, as well as some instruments for SMEs/mid-caps.

([253]) For the EU Member States Bulgaria and Romania and the candidate countries Albania, Montenegro, North Macedonia and Serbia.

([254]) Tomilova, O., Dokle, E. (2019): CGAP Funder Survey 2017: Trends in international funding for financial inclusion. Extracted from the database.

Table 29: Overview on other financial instruments targeting microfinance in Europe

Funder types	Target market	Target institutions	Financial instruments	Conditions	EaSI countries
Multilaterals (EBRD, UK; IFC/WB Group, US)	MSMEs, agriculture, gender finance, digital finance (IFC)	Public and private banks, Tier 1 MFIs, leasing and factoring companies, fintechs (IFC)	Senior loan, first loss guarantee of 10%, equity (minority stake, board seat), sub-debt, bonds and other fixed-income instruments	Market conditions, local currency or EUR/USD, amount > 1 million, longer duration, unsecured senior loan/TA package for participating financial institutions (PFIs) and (limited) BDS for clients	BG, RO, AL, ME, MK, RS, TR
Multilaterals focusing on Europe (CEB, FR)	MSMEs, jobseekers, displaced persons, refugees and migrants, vulnerable population (in 2017: SMEs)	Public and private banks, Tier 1 and Tier 2 MFIs; leasing companies; public funds	Loans, sometimes guarantees, sometimes interest rate subsidies; TA, grant contributions	Unsecured flexible loans, medium- and long-term, favourable interest rates, tranches; large amounts in 2017	Leasing: BG, CZ, PL, RO, SL Banks: CZ, ES, HR, PL, TR MFIs: NL Public Funds: ES, ME Refugees: DE, FR
DFIs (DEG/KfW Group, DE; FMO, NL; Proparco, FR)	Micro/SME finance or dedicated programme	Private banks, leasing and factoring companies, fintechs and Tier 1 MFIs	Senior loans Equity: minority stake and clear exit strategy Mezzanine: form between equity capital and third-party capital, subordinated security, risk-commensurate return	Unsecured loans, fixed or variable market-oriented interests, EUR or USD, medium-long term, reduced TA package (with own contribution)	BG, RO, AL, ME, MK, RS, TR
MIV/Impact investors, large (Responsibility Investments, CH; EFSE, LU/DE)	MSEs and private households, MSMEs, agricultural value chain	MSME finance institutions (banks/NBFIs) with total assets > USD 20 million and a three-year track record with successful business models	Debt, limited equity (minority stake), debt securities	Unsecured loans, market interest rates, USD or EUR, short- and medium-term loans	BG, RO, AL, ME, MK, RS, TR
MIV/impact investors, medium (Symbiotics, CH; DWM, US; BlueOrchard, CH; Triple Jump, NL)	Low- and middle-income households and MSMEs in emerging and frontier markets. Agricultural finance/foster job creation, employment and entrepreneurship	Majority of activity in micro/SME finance or dedicated programme; three-year track record; commercially sustainable financials and business plan	Certificates of deposits, short-term loans and promissory notes, term loans, guarantee agreements, subordinated debt	Unsecured loans, market interest rates, USD or EUR, term of one to eight years	South-eastern Europe

Funder types	Target market	Target institutions	Financial instruments	Conditions	EaSI countries
MIV/Impact investors focusing on Europe, small (Inpulse/CoopEst, BE)	Social inclusion	Socially oriented financial intermediaries	Loans; sub-debt qualifying as quasi-equity; other tailor-made solutions	Unsecured loans; up to five years	Central and south-eastern Europe (all countries, EU and non-EU)
Private equity fund focusing on Europe – small (Helenos Fund, BE)	Micro and social enterprises; improve access to tailored financial services for entrepreneurs to create jobs and improve their well-being	Promising Greenfield early-stage, developing MFIs, small- and medium-sized financial institutions	Equity and sub-debt	Fund for five years	EaSI programme countries, Kosovo, Moldova, Switzerland
European ethical banks with microfinance investment portfolios (Triodos Bank, NL; GLS Bank, DE; Banca Etica, IT)	Financial access to people and small entrepreneurs in developing countries; financial inclusion, including SMEs; Banca Etica focus on Italy	MFIs that provide basic products and strong social impact	Senior loans; Triodos – sub-debt, equity; Banca Etica – guarantee fund and crowdfunding	Unsecured loans, market interest rates, USD or EUR, term of one to four years	Balkans, IT, PL, RO
International banking groups with small microfinance portfolios (Erste Group AG, AU, focusing on Europe; BNP Paribas, FR, with a partial focus on Europe)	Promote financial and social integration for beneficiaries (existing micro-enterprises) with loan amounts of EUR 2 000-20 000 (BNP)	MFIs Umbrella fund for microfinance Invest in microfinance funds and facilities	Loans or equity (Erste Group AG – up to 10% shares in companies and MFIs)	Issue premium for investors: 3%	BNP: BE, FR, IT, LU, PL, UK

6.5. Gap assessment

6.5.1. Instruments available to European Union Member States

The two main funding facilities for microfinance for the EU Member States are:

1. The EaSI Guarantee Instrument targeting microfinance. The EIF manages the most relevant financial instruments for microfinance, followed by other very small initiatives, as outlined in Section 6.4. Of the total volume of guarantees (EUR 176 million), half went to banks and 36% to non-bank providers. Only 13% of the outstanding guarantees are less than EUR 1 million (with 3% below EUR 0.5 million). The average size of total guarantees signed by each institution is approximately EUR 2.6 million.
2. The ESIF (ERDF) is available to 24 Member States, not all of which use financial instruments under their OPs. Most ESIF instruments are used for SMEs, although not for micro-enterprises specifically.

As described earlier, a few financial instruments were developed under ESF during the 2014-2020 programming period.

Currently, as made clear in Chapter 4, the greatest needs of microfinance providers relate to debt finance and guarantees. Looking forward, in view of the expected long-term financing gap (see Chapter 5), providers will increasingly require equity and mezzanine capital (i.e. subordinated loans) to ensure their growth potential (leverage). As most of the European non-bank providers cannot mobilise deposits, requirements for borrowings (debt) will continue.

Under the above assessment, there are several gaps in the EU funding instruments.

- **Lack of direct support to micro-enterprises from EU budgets.** Existing support is operated through (larger) financial intermediaries (e.g. EIF by the EIB) or through MAs (ESIF, ERDF). The combination of the EIB requirements and the ESIF programming cycle implies a focus on large transactions (EIB) or disbursements (ERDF) and lengthy funding procedures.
- **Lack of support to Tier 2 and Tier 3 MFIs, as most financial instruments focus on banks or Tier 1 MFIs.**
- **Lack of debt, mezzanine and equity finance support at concessional financial conditions and for small to medium-sized loan amounts.** Except for the EIF and decentralised financial instruments, most funding is provided at market conditions, albeit allowing for uncollateralised lending and longer terms, and minimum amounts are typically rather high (e.g. EUR 0.5 million to EUR 1 million). Moreover, increasing needs for debt and equity funding are not met by bond issuance or new equity instruments.
- **Limited use of the available variety of financial instruments.** The EIF (EaSI programme) mainly uses guarantees and advisory support. The use of direct leverage of private funds with debt (or equity) finance (bond issuance mechanisms, venture investors, crowdfunding, impact investors, etc.) is almost absent. This is a remarkable situation, given that most microfinance providers report that the largest need is in debt finance (see Chapter 4).
- **A very small number of dedicated financial instruments developed under ESF** (2014-2020) for vulnerable groups.
- **Lack of direct EU support to innovative finance relevant for micro-enterprises** (e.g. fintech, crowdfunding platforms, impact investors) or to promote digital literacy of enterprises.

6.5.2. Instruments available in south-eastern Europe and Turkey

Particularly in south-eastern Europe (Albania, Bulgaria, Montenegro, North Macedonia, Romania, Serbia) and Turkey, there is strong support from international lenders to provide funding to more commercially oriented microfinance sectors operating at commercial conditions, albeit with uncollateralised lending and sometimes longer loan terms. Moreover, a number of private funds are active in the candidate countries, although these funds often serve SMEs with a reasonable risk profile, implying that vulnerable groups with higher risk profiles are not well served. The focus of international lenders on commercial banks means that finance for Tier 2 and Tier 3 MFIs (financing micro-enterprises with riskier profiles) is not well catered for. Under IPA, very limited use is made of financial instruments, although the Turkey SME Guarantee Facility is an exception, and financial instruments for micro-enterprises and vulnerable groups have barely been developed within the 2014-2020 IPA programming period.

Thus, the following gaps are relevant for non-EU countries:

- Lack of support for Tier 2 and Tier 3 MFIs and non-commercial bank MFIs;
- No direct EU funding for micro-enterprises (vulnerable target groups);
- Limited development of financial instruments as part of IPA OPs in candidate countries, and an almost total absence for micro-enterprises or vulnerable groups.

6.6. Future European Union instruments

This section describes some anticipated EU financial instruments and expected developments including the ESIF, IPA and the EU Sustainable Investment Plan.

InvestEU

The InvestEU programme will combine under one umbrella 13 EU financial instruments currently available to support investment in the EU, namely EFSI, EaSI and some smaller instruments, such as PF4EE and NCFF. The InvestEU programme consists of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU portal. InvestEU will run between 2021 and 2027, building on the Juncker Plan's European EFSI by providing an EU budget guarantee to support investment and access to finance across the EU. With an initial fund of EUR 38 billion, the InvestEU Fund will trigger up to EUR 650 billion in investments. The InvestEU Fund will support four policy areas: (i) sustainable infrastructure; (ii) research, innovation and digitalisation; (iii) SMEs; and (iv) social investment and skills. EaSI will come under ESF+, which targets social investment and skills. To have all the advantages of a 'one-stop shop', InvestEU will also be flexible; specifically, it will be able to react to market changes and policy priorities that change over time. The policy area of social investment and skills, with a proposed guarantee coverage of up to EUR 4 billion ([255]), also targets financial instruments for microfinance, whereas the ESF+ will cover grants and advisory support for microfinance.

EU Cohesion Policies: Financial instruments, European Structural Funds and the Instrument for Pre-Accession Assistance

In many EU countries, the use of financial instruments increased during the 2014-2020 programming period, especially within ESIF (CF-/ERDF- and ESF-funded) OPs related to competitiveness and SMEs. Over this period, Member States have planned to commit almost EUR 21 billion from the ERDF and CF to financial instruments. Financial instruments are less developed under IPA. Some countries, such as Turkey, have financial instruments funded by IPA (e.g. a guarantee fund for SMEs), but most candidate countries do not yet have much experience with financial instruments under IPA.

As part of its proposals for the EU budget for 2021-2027, the European Commission is proposing to modernise the Cohesion Policy, the EU's main investment policy and one of its most concrete expressions of solidarity. The policy's proposals anticipate that funds will increasingly shift towards combating climate change (low-carbon economy), fighting youth unemployment and the integration of migrants.

For the new ESIF and IPA programming period (2021-2027), the trend of promoting financial instruments and blending grants with other instruments is expected to continue. While western European countries already have a range of financial instruments funded by the ESIF that target SMEs and innovation, central European countries only began to have these during the current programming period. The expectation is that the funding amounts and the number of financial instruments funded by ESIF programmes will increase further in central Europe.

Regarding IPA, some Balkan countries have gained experience with managing these EU funds and most probably will also be allowed to start developing financial instruments as part of their OPs for 2021-2027. For Turkey, the continuation of IPA, together with IPA-funded financial instruments for SMEs or micro-enterprises, is more uncertain given the political situation and limited progress in terms of the closure of negotiation chapters.

European Green Deal: European Union Sustainable Investment Plan

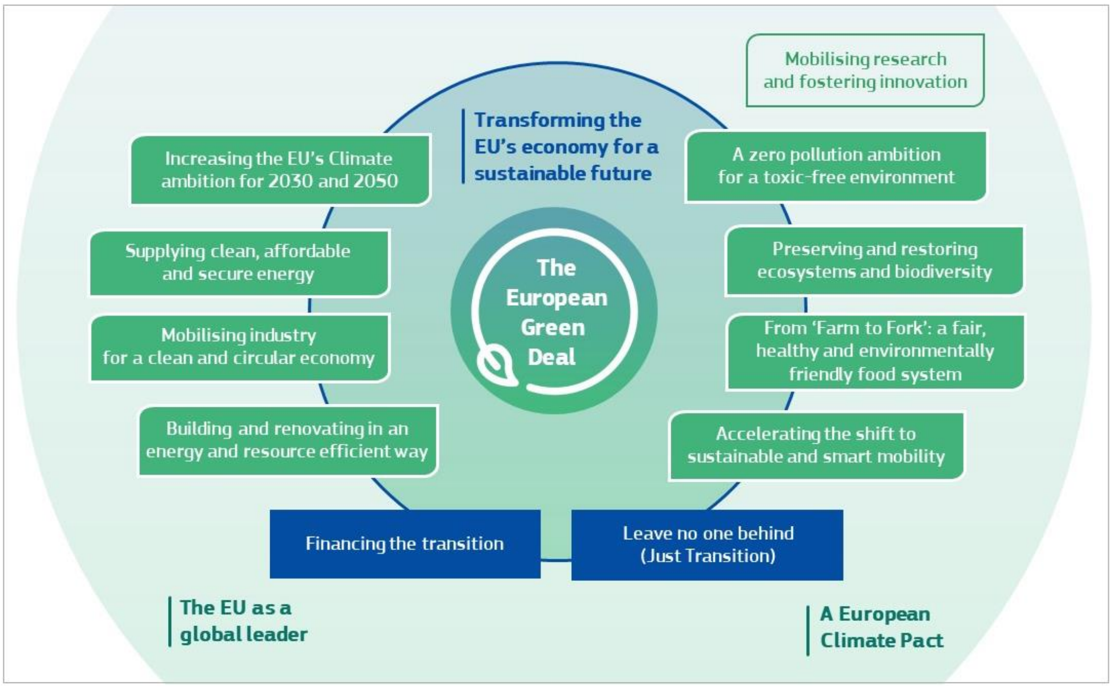
In December 2019, the new Commission presented the European Green Deal, setting the ambitious goal to prioritise Europe's transition to a sustainable economy and to become the first climate-neutral bloc in the world by 2050 ([256]). This objective requires significant investment efforts across all sectors.

([255]) European Commission's 2018 Proposal for the InvestEU programme.

([256]) European Commission (2020a and 2020b). This latest development surpasses the European Commission's earlier plans to fight climate change. In 2018, the European Commission presented its long-term strategy to mitigate climate change in line with the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement. As part of the efforts

The European Green Deal holistically addresses the challenges relating to the transition to climate neutrality, as per Figure 13 below.

Figure 13: The European Green Deal



Source: Reproduced from European Commission (2020a)

The Sustainable Europe Investment Plan (SEIP), also called the European Green Deal Investment Plan (EGDIP), is the investment pillar of the European Green Deal. It anticipates mobilising at least an additional EUR 1 trillion in sustainable investments over the next decade. To ensure a just and fair transition to a carbon-free economy, the Just Transition Mechanism included in the EGDIP specifically targets those regions that will be most affected by the transition. Here, InvestEU will make contributions, especially to support (laid-off) workers and inhabitants of these regions.

In order to make Europe's growth more sustainable and inclusive, the European Commission has proposed mainstreaming sustainability for all EU policies, including an allocation of 25% of the next long-term budget and at least 30% of InvestEU to fight climate change ([257]).

The European Green Deal is highly relevant for microfinance in Europe, as it also affects economic activities of micro-enterprises and vulnerable groups. These beneficiaries require knowledge and funds to implement sustainable ways of doing business or to make the transition to renewable energy. It is especially important to support micro-enterprises and vulnerable groups in the regions that will benefit from the Just Transition Mechanism because, for example, the phasing out of fossil fuels or decarbonisation (e.g. closing coal mines) will lead to higher unemployment and exclusion. For example, programmes that help laid-off workers to establish a micro-enterprise or to become self-employed will create employment and ensure inclusive and sustainable growth ([258]).

required by developed countries as a group, by 2050, the EU aimed to cut its greenhouse emissions by 80-95% compared to 1990 levels. This aim is now 100%, according to the ambitious European Green Deal.

([257]) European Commission (2020a and 2020b).

([258]) Please refer to the successful programme by the World Bank that has integrated a microcredit scheme into their Mine Closure and Rehabilitation Project in Romania (World Bank 2007).

6.7. Conclusions

From the previous subsections, some important conclusions emerge for the European countries that have benefited from the EaSI programme targeting microfinance.

1. Evidence shows that financial instruments deployed by the EU have been effective in supporting **vulnerable groups. Current trends point out the need for increased investments needs in this sector targeting the transition to a sustainable economy** in the upcoming MFF 2021-2027.
2. The **western European microfinance market attracts very little attention from other international, non-EU funders** (e.g. multilaterals, DFIs, MIVs and impact investors). As a result, for western Europe, financial instruments for all types of beneficiaries are important.
3. Within the EU, the European Commission provides the most relevant financial instruments targeting microfinance (i.e. EaSI guarantees) through the EIB Group, which provides larger amounts alongside some much smaller initiatives. Decentralised financial instruments funded through the ESIF are much less relevant compared to the 2007-2013 programming period. As of early 2020, **there are important gaps in: direct debt finance for micro-enterprises covering smaller transactions; support for more innovative financing platforms (e.g. crowdfunding, impact investors etc.); and efforts to reduce digital illiteracy among micro-enterprises.**
4. In south-eastern Europe, international lenders mainly provide funding to the more commercially oriented microfinance providers. In addition, a very limited number of financial instruments (mainly for SMEs) have been established as part of the IPA programmes (2014-2020). **This implies that Tier 2 and Tier 3 MFIs, together with higher-risk micro-enterprises (vulnerable groups), are not well served. This may represent a huge market gap in the longer term.**
5. Except for the EIF and decentralised financial instruments, most funding is provided according to market terms and conditions. Although allowing for uncollateralised lending and longer terms, the minimum amounts are typically rather high (e.g. EUR 0.5 million to EUR 1 million). With small exceptions in some EU Member States, **most financial instruments target banks and Tier 1 MFIs, which implies serious gaps in the funding for Tier 2 and Tier 3 MFIs.**
6. In comparison to the IPA countries eligible for the EaSI programme, **EU Member States (together with Iceland, the only EFTA country eligible for the EaSI programme) account for more than half (53%) of constrained demand among EaSI target groups but receive only 43% of the total funding.**
7. **Limited use is made of the variety of instruments available.** The EIF (EaSI programme) mainly uses guarantees and capacity building, and there is an almost total absence of direct leverage of private funds with debt/equity finance (venture investors, crowdfunding, impact investors, etc.). This is surprising given that most MFIs report that their greatest need is for debt finance (see the supply-side analysis in Chapter 4).
8. **The European Green Deal affects economic activities of micro-enterprises and vulnerable groups.** There is a gap in knowledge and funding for these target groups. For regions that will benefit from the Just Transition Mechanism, this support is especially important as it will help, for example, laid-off workers to establish a micro-enterprise or to become self-employed, thus creating employment and ensuring inclusive and sustainable growth.

7. MICROFINANCE WITHIN THE MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027

For the new budget and programming period, the analysis reveals a widening financing gap but strong potential to enhance the role of microfinance and MFIs in the EU Member States, promoting growth, employment and inclusion. The lack of market funding and the need to support the growth and strengthening of the financial institutions targeting microfinance highlights the need to further increase funding and other support measures for the MFF 2021-2027.

This chapter outlines the recommended courses of action, how these actions link to the UN SDGs and the value attached to each of the delivery options recommended.

7.1. Recommendations

The analysis reveals that, over the programming period 2014-2020, EU action has supported the growth of microfinance as an effective tool for supporting social inclusion. Microfinance represents a growing market. For the upcoming budget and programming period (2021-2027) there will be a widening financing gap coexisting with a strong potential to enhance the role of microfinance and of microfinance providers in the EU Member States, as a means of promoting growth, employment and inclusion. The lack of market funding and the need to support the growth and strengthening of the financial institutions targeting microfinance highlights the need to further increase funding and other support measures for the MFF 2021-2027.

The report also shows that there is a strong case for EU public intervention. Failures in the markets for microfinance are persistent across the EU, and the need for microfinance and non-financial support are especially large for non-bank providers and micro-enterprises in southern and eastern European countries. Further, there is a wide variety in legal frameworks for microfinance between Member States, especially in relation to the functioning of non-bank providers.

For the new programming period 2021-2027, EU financial instruments will be managed under the InvestEU programme, replacing EFSI. InvestEU will bring under one umbrella EFSI, EaSI and 12 other EU financial instruments currently supporting investment in the EU. The related EU budgetary guarantee will have the volume of EUR 38 billion, of which EUR 4 billion will target the policy area ‘Social investment and Skills’, including microfinance. Other InvestEU priorities include support for a carbon-neutral Europe under the Climate Action Plan, as well as gender equality.

The next subsection outlines the specific recommended courses of action for the new programming period, segregated in five large clusters as follows (please refer also to Table 30).

7.1.1. Harmonisation of legislative frameworks for microfinance in Europe

The case for EU public intervention is important regarding **harmonisation of legislative frameworks in EU Member States for microfinance provision**. The EU could more extensively analyse the differences in national legal frameworks and discuss the potential for standardising regulations regarding non-bank providers with the EU Member States. Notably, the Code provides a harmonising ‘soft regulation’ where national regulation still prevails.

Therefore, there is scope to explore establishing a policy dialogue with the relevant actors and regulatory bodies in countries where only banks can provide loans (such as Germany, Greece and Serbia) or in those where, despite regulatory efforts, non-bank providers still struggle to provide loans or set up MFIs (such as Cyprus and Portugal) to provide a level playing field and harmonising, as appropriate, the legislative framework across Europe in line with the EU single market rules.

7.1.2. Continuation of the existing financial instruments by aligning them better with the changing needs of the market

In order to counterbalance the increasing financing gap, **centralised financial instruments for microfinance should continue, but with increased resources compared to 2014-2020.**

The analysis has revealed that there is currently no difference in conditions for financial instruments according to whether a provider targets micro-enterprises or vulnerable groups. In addition, the same procedures and conditions for accessing financial instruments apply for smaller Tier 2 and Tier 3 providers and for innovative fintechs ([259]). These conditions thus exclude those providers that opt for small transactions with higher risk profiles, more recently established providers (with a short track record) and innovative lending platforms.

([259]) There are some examples of EIB Group support to lending platforms, such as Lendix in France (EIB, 2017: Crowdlending) and, indirectly, in Jordan with liwwa through the Badia Impact Fund (EIB, 2019: Arab women chart a new business path).

The first suggestion is to provide existing financial instruments with different conditions depending on the target market and maturity, and size of provider as below (recommendations 1 and 2).

1. Increase the volume of guarantee and funded (debt) instruments targeting existing final beneficiaries (micro-enterprises) at market conditions

The needed funding for the total guarantee and funded (debt) instruments should reach up to EUR 0.84 billion (EUR 0.24 billion for the guarantee instrument; EUR 0.60 billion for the funded instrument). The financial intermediaries would comprise bank and non-bank providers, mostly Tier 1 and Tier 2 providers, funded at market conditions and with lower caps (for the guarantee instrument). The focus should be on target recipients of already established and operational micro-enterprises and self-employed people that pose less risk but increasingly lack funding. Moreover, firmer attention could be given to the EU Member States with most need and the highest expected growth in demand for microfinance (southern and eastern Europe). Given the reported needs in relation to non-bank providers' debt funding, it seems necessary to speed up the implementation of the funding instruments.

2. Provide guarantee instruments and funded (debt) instruments with softer conditions targeting vulnerable customers

From the analysis, it becomes clear that, at the financial intermediary level, not all types of institutions get access to funding or guarantees. This has an impact, with insufficient targeting at the final-beneficiary level – vulnerable groups and farmers, which are riskier – and thus some groups are often entirely excluded from access to finance. Currently:

d) funders find it difficult to enter into transactions with innovative providers (fintech);
e) smaller Tier 2 and Tier 3 providers are overburdened due to uniform appraisal and due diligence procedures in the EIB Group (EIF) and when entering and exiting transactions takes considerable time, regardless of the (very small) values of these transactions;
f) all types of providers (including small and innovative providers) need to support final beneficiaries from vulnerable groups to promote inclusive entrepreneurship.

The added value of targeting the current financial instruments carrying softer conditions responds to the needs of certain providers and client groups, and enables risk coverage conditions, encouraging financial intermediaries to enter into these markets. These changes could help encourage new financial initiatives – such as crowdfunding platforms, impact investors, etc. – to 'leave no one behind' and to have a stronger social impact. Instruments should offer 'softer' conditions when targeting vulnerable groups and smaller or innovative providers that are considered riskier, for example via a higher guarantee cap, a longer loan term or partially priced debt products (below market rates).

Furthermore, in terms of managing these instruments, one possibility would be for the EIB Group or other IFIs to manage delivery options centrally; another route might involve national governments managing these instruments through national promotional banks ([260]). The financial instruments with softer conditions **could have a volume of** EUR 0.60 billion for the funded (debt) instrument and EUR 0.09 billion for loan guarantees.

3. Tailor the financial products for capacity building (e.g. subordinated debt) better to the characteristics of financial intermediaries

Financial instruments (e.g. subordinated debt) that target capacity building for non-bank providers should continue and grow (EUR 0.09 billion), including fintech companies and innovative lending platforms. In certain situations, the current Capacity Building Investment Window provided through the EaSI programme, which offers support through subordinated debt or equity, is very complex or does not respond to the intervention logic (e.g. it does support operational expenditures through repayable subordinated debt). On one hand, there is a need for more tailored subordinated debt that targets (repayable) investments. On the other hand, it is essential for non-bank providers, small commercial banks, fintech companies and lending platforms that are growing, to obtain support through equity and governance strengthening and not to link it directly to capacity-building activities. This support could function through the detachment of the equity investments from the Capacity Building Investment Window into a separate equity instrument (EUR 0.09 billion).

([260]) This recommendation follows the framework of the InvestEU programme. However, because of the challenge of lengthy transactions involving small amounts, there is a need for leaner procedures, especially when it comes to smaller amounts requested by the non-bank providers (less than EUR 500 000). Similar to the outline of the European Green Deal (European Commission 2020a: The European Green Deal), European policymakers should evaluate how to enable the implementation of the inclusive instruments via digital transformation and tools. One scenario could be the establishment of a digital platform attached to InvestEU that provides access to guarantee and debt instruments for up to EUR 500 000.

7.1.3. Development and implementation of new European Union-level financial instruments

4. Create an inclusive guarantee instrument that supports the issuance of social bonds

The EU could also support underserved groups through guarantee instruments (e.g. taking exposure of 50%) that back the issuance of 'social bonds' ([261]) targeting microfinance by larger (Tier 1) non-bank providers and banks. This would provide those providers, which have exhausted other funding sources targeting microfinance, the possibility to set up an alternative vehicle for attracting funds from private and institutional investors specifically interested in supporting microfinance. The development of an EU 'social' taxonomy for the Capital Markets Union would be an important development in that regard. Support would considerably scale up the funding available to vulnerable groups and provide larger non-bank providers and banks with a new funding mechanism.

According to projections and market needs for the period 2021-2027, **new financial instruments in the form of social bond guarantees** would rise to EUR 0.24 billion.

5. Allocate EU resources more proactively in line with the needs of countries

Several countries have a large market gap in terms of financing: Italy (EUR 2.0 billion), France (EUR 1.7 billion), Poland (EUR 1.3 billion), Romania (EUR 0.9 billion) and Spain (EUR 0.8 billion). Some of these countries have a dysfunctional financial sector (Poland and Romania) or face challenges related to unemployment (France, Italy and Spain). For these reasons, it would be important to monitor whether resources are assigned to those countries with a greater need for microfinance and non-financial services for vulnerable groups. There are several options for aligning EU resources more closely with the needs for finance and non-financial support in those countries.

d) One option is to set minimum thresholds for the financial instruments targeting microfinance and require the funding institutions to be more proactive in countries where the stated interest is weaker than expected, but where needs are high and more interest can be anticipated from non-bank providers.

e) A second option is to promote the use of microfinance actively in the ESIF operational programmes (OPs) in the countries with greatest need.

f) A third option is to set up dedicated funds per country for microfinance support, using structural funds.

It would be worth exploring these options further, or considering a combination of options.

Due to the rise of innovative platforms, new financial instruments should function in a way that involves minimal bureaucracy and enables rapid responses, while ensuring full compliance with relevant EU governance and budget management provisions.

7.1.4. Inclusion of microfinance as part of the impact-driven portfolio of other European Union financial instruments

A number of recommendations emerge for adapting current EU instruments (ESIF) to the expected needs of the microfinance market and non-bank providers and to reflect the importance of having an impact on the inclusive growth guided by the United Nations (UN) Sustainable Development Goals (SDGs), as referred to in the final section of this executive summary.

6. Increase the visibility of Cohesion Policy ESIF instruments for support to microfinance institutions and micro-enterprises in lagging regions of southern and eastern Europe

In line with the previous recommendation, there could be greater promotion of the use of Cohesion Policy ESIF instruments for support to non-bank providers and micro-enterprises in lagging regions of southern and eastern Europe. Moreover, there is a need for more advisory support projects for entrepreneurs under ESIF in areas such as financial education and digitalisation. In light of the high levels of youth unemployment and challenges relating to gender equality in southern and central Europe and the Balkans, these projects could target young and female entrepreneurs in particular.

7. Expand funding to meet low-carbon and energy-efficiency aims through reductions in the greenhouse emissions of micro-enterprises

Instruments such as the Private Finance for Energy Efficiency (PF4EE, part of InvestEU, under the LIFE – L'Instrument Financier pour l'Environnement – programme, which is the EU's funding

([261]) 'Social bonds' are any type of bond instrument exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects, including microfinance (International Capital Market Association, 2018: Social Bond Principles).

instrument for the environment and climate action) could expand to include microfinance providers serving micro-enterprises. This could go hand in hand with a renewed focus on lagging regions (Bulgaria, Greece, Hungary, southern Italy, Poland, Portugal and Romania). In this context, it is important to coordinate with other instruments and institutions active in the field of energy efficiency (e.g. the EIB, PF4EE, Directorate-General for Regional and Urban Policy (DG REGIO), ESIF and the European Bank for Reconstruction and Development (EBRD) as the initiator of energy efficiency credit lines in transition countries).

7.1.5. Other related policy measures

Finally, a number of recommendations in this report aim to enhance financial intermediaries targeting microfinance in the EU and step up capacity-building efforts (especially in the EU Member States in southern and eastern Europe).

8. The legal ceiling (maximum amount) for microcredit – currently EUR 25 000, in force since 2003 – is outdated and does not match the EU/Eurostat definition of a micro-enterprise. Thus, the recommendations are: (a) to raise the ceiling for microcredit to between EUR 40 000 and EUR 50 000, reflecting changes in inflation and economic development thus far, but also in anticipation of the economic impact of the upcoming programming period 2021-2027; (b) to adopt the definitions of micro-enterprise and microfinance from the European Social Fund Plus (ESF+) of InvestEU ([262]), namely: *(11) 'microfinance' includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities; (12) 'micro-enterprise' means an enterprise with fewer than 10 employees and an annual turnover or balance sheet below EUR 2 000 000.*
9. As a policy instrument to assist vulnerable groups, 'social inclusion loans' ([263]) that aim to finance the basic needs of education, health, housing and aid job creation could potentially be considered subject to a thorough assessment. However, any recognition of loans for certain personal use needs to come with appropriate safeguards to mitigate the risks – as those are not financing income-generating activities – and prevent over-indebtedness of customers.
10. In acknowledgement of digitalisation and the guidance provided by the UN SDGs, all related programme and project documentation should include the eligibility of fintechs in a broader sense and a chapter explaining the link to the SDGs.

([262]) European Parliament (2018): Impact Assessment: Accompanying the document proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus (ESF+), p. 26.

([263]) Footnote 7 elaborates on the global paradigm shift towards social inclusion within microfinancing.

Table 30: Summary of recommendations for the Multiannual Financial Framework 2021-2027 targeting microfinance

<table>
<tr><th colspan="4">Harmonisation of legislative frameworks for microfinance in Europe
Policy dialogue referring to regulations enabling non-bank providers to provide loans (Cyprus, Germany, Greece, Ireland, Portugal, Serbia)</th></tr>
<tr><th>Continuation of existing financial instruments by aligning them better with the changing needs of the market</th><th>Development and implementation of new EU-level financial instruments</th><th>Inclusion of microfinance as part of the impact-driven portfolio of other EU financial instruments</th><th>Implementation of other related policy measures</th></tr>
<tr><td>1. Increase guarantee and funded debt instruments to counterbalance the increasing financing gap (targeting existing micro-enterprises) at market conditions, with a firmer focus on the EU Member States with most need (southern and eastern Europe) and the highest expected growth in demand for microfinance.</td><td>4. Create a guarantee instrument that supports the issuance of ‘social bonds’ for inclusive entrepreneurship by Tier 1 non-bank providers and banks. This would considerably scale up the funding available to vulnerable groups and provide larger non-bank providers and banks with a new funding mechanism.</td><td>6. Anticipate Cohesion Policy ESIF instruments that provide support to non-bank providers and micro-enterprises in lagging regions (southern and eastern Europe), targeting young and female entrepreneurs.</td><td>8. Adjust the legal ceiling (maximum amount) for microcredit to between EUR 40 000 and EUR 50 000 for the future. Likewise, adopt the definitions of micro-enterprise and microfinance used by the ESF+ and InvestEU.</td></tr>
<tr><td>2. Continue with financial instruments (guarantee and funded debt instruments) with softer conditions as an incentive to target vulnerable groups and smaller or innovative non-bank providers; create a stronger social impact; and explore new initiatives and technologies in order to ‘leave no one behind’.</td><td>5. Allocate EU resources more proactively, in line with the needs of countries (France, Italy, Poland, Romania and Spain). Proposed options are thresholds, ESIF or dedicated microfinance funds.</td><td>7. Expand funding to meet low-carbon and energy-efficiency aims through reductions in the greenhouse emissions of micro-enterprises (ESIF – via PF4EE – and the EBRD).</td><td>9. Evaluate the acknowledgement of ‘social inclusion loans’, which seek to finance the basic needs of education, health, housing and job creation under the EaSI programme for microfinance.</td></tr>
<tr><td>3. Expand capacity building for non-bank providers and detach equity investments by setting up a separate investment window for equity.</td><td></td><td></td><td>10. Include in all related programme and project documentation the eligibility of fintechs in a broader sense and a chapter explaining the link to the SDGs.</td></tr>
</table>

7.2. Implementation of the Sustainable Development Goals

The market analysis and subsequent recommendations for delivery options within the new MFF 2021-2027 will respond to the implementation of the UN Sustainable Development Agenda by 2030 ([264]).

As a frontrunner, the EU committed to the achievement of the Sustainable Development Agenda and its 17 SDGs (see Figure 1), together with its Member States. Taking responsibility at the EU level is important, as the SDGs establish priorities and targets. EU policies agreed at the EU level need to be implemented by all EU Member States addressing the achievement of the SDGs. This means that, particularly for the centrally managed EU support targeting microfinance, the financial instruments and policies need to relate to the fulfilment of the SDGs.

Figure 14: Overview of the Sustainable Development Goals

Source: Reproduced from United Nations (2019b)

The recommended course of action encompasses financial instruments targeting microfinance.

The 17 UN SDGs leave some room for interpretation. In addition, the 232 indicators for the global monitoring of SDG progress as defined by the UN primarily provide a framework for the country-level SDG plans. These are also monitored at EU level ([265]).

Recognising the significance of implementing the SDG framework as a whole (i.e. the environmental, social and economic dimensions of sustainable development), the financial instruments for microfinance in Europe will most likely address over half of the SDGs.

Therefore, the SDGs identified in Table 2 for the financial instruments targeting microfinance need to be further analysed in view of the UN's 2030 Agenda for Sustainable Development, for their positive contribution to sustainable development along the impact chain.

The implementation of the SDGs and their associated indicators should serve as a 'compass' for investment decisions (for guarantee, funded, capacity-building, subordinated debt and equity instruments) and any monitoring/reporting during any investment period. Furthermore, they should reflect the contribution to the SDGs that should be included in an impact report. Table 31 contains a summary of the nine SDGs ([266]) assigned to the proposed financial instruments targeting microfinance.

([264]) Four years ago, the UN General Assembly formally adopted the universal, integrated and transformative 2030 Agenda for Sustainable Development, together with a set of 17 SDGs and 169 associated targets.

([265]) Sustainable Development Solutions Network (SDSN), Institute for European Environmental Policy (IEEP) (2019): The 2019 Europe Sustainable Development Report.

([266]) These refer to SDG 1 – No poverty, SDG 2 – Zero hunger, SDG 4 – Quality education, SDG 5 – Gender equality, SDG 7 – Affordable and clean energy, SDG 8 – Decent work and economic growth, SDG 10 – Reduced inequalities, SDG 13 – Climate action and SDG 17 – Partnerships for the goals. Refer to the main report for the suggested indicators for measuring the implementation.

Table 31: Sustainable Development Goals connected to the recommended delivery options targeting microfinance in 2021-2027

Topics	**Final beneficiaries**	1 NO POVERTY	2 ZERO HUNGER	4 QUALITY EDUCATION	5 GENDER EQUALITY	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS
Description of goal	–	End poverty in all its forms everywhere	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Achieve gender equality and empower all women and girls	Ensure access to affordable, reliable, sustainable and clean energy	Promote sustained, inclusive and sustainable growth, full and productive employment and decent work for all	Reduce inequalities	Take urgent action to combat climate change and its impacts	Strengthen the means of implementation and revitalise the global partnership for sustainable development
Financial instruments targeting microfinance	Micro-enterprises and vulnerable groups	✓	✓	✓	✓	✓	✓	✓	✓	✓
EU policy highlight (267)	na	European Pillar of Social Rights	Common Agricultural Policy	European Pillar of Social Rights	European Commission strategic engagement for gender equality 2016-2019	European Energy Union	Juncker Plan/EFSI	European Pillar of Social Rights/EU Cohesion Policy	EU Covenant of Mayors for Climate and Energy	EU External Investment Plan (EIP) and European Fund for Sustainable Development (EFSD)

Note: na = not applicable.

(267) European Commission (2019h): Reflection Paper.

7.3. Projection of financial needs

For the upcoming MFF 2021-2027, the proposed budget for the financial instruments for microfinance is EUR 1.95 billion, targeting 0.7 million micro-enterprises and members of vulnerable populations that generate or sustain 1.3 million jobs ([268]), with overall funding available of EUR 7.39 billion ([269]). Table 32 includes the recommended delivery options presented by those to be offered at market conditions and those with softer conditions focusing on more vulnerable groups, smaller and innovative microfinance providers.

Financial instruments for microfinance (EUR 1.02 billion) at market conditions. Provision of financial instruments to private sector banks and larger non-bank providers targeting established micro-enterprises is needed because of the large financial gap. This would create an impact due to the large funding volumes of these financial intermediaries. The recommendation is that the EIF, as an experienced fund manager, continues managing the financial instruments, including the more complex funding operations of capacity building and the new equity fund. However, a review towards the finalisation of the funding (2023) periods will highlight whether the measures should continue on the same basis or be organised under a different mode.

Table 32: Overview of delivery options for the Multiannual Financial Framework 2021-2027 targeting microfinance

Programme	Total delivery options	Guarantee instrument	Funded instrument	Sub-debt	Equity	Loan portfolio	No of micro-enterprises	SDGs
	Delivery options					Impact		
Financial instruments for microfinance (market conditions)	**1.02**	0.24	0.60	0.09	0.09	3.23	276 495	1, 2, 4, 5, 7, 8, 10, 13, 17
Financial instruments for microfinance (softer conditions)	**0.93**	0.33*	0.60	0.00	0.00	4.16	439 448	
Total	**1.95**	**0.57**	**1.20**	**0.09**	**0.09**	**7.39**	**715 943**	**–**
Share	*100%*	*29%*	*61%*	*5%*	*5%*	na	na	–

*Notes: Amounts are in billion EUR. * For the guarantee, the portion covering ‘social bonds’ is EUR 0.24 billion. Totals are rounded. na = not applicable.*

Financial instruments (EUR 0.93 billion) targeting vulnerable populations and smaller as well as innovative providers with softer conditions. These instruments address poverty and the financial inclusion of vulnerable members of society, including people with disabilities, unemployed people, young and elderly people, women, immigrants, refugees and minorities. On the other hand, smaller providers that typically cater for the most vulnerable groups and new innovative providers, such as fintechs and lending platforms, face challenges in accessing any kind of financial instruments (from both the EU and IFIs). The proposed delivery options refer to guarantees and funded instruments, which will allow providers to create a loan portfolio with more advantageous/flexible conditions, as an incentive to cater for these providers and clients. It will also include a guarantee for social bonds that can be issued by banks and Tier 1 MFIs to fund these target groups in line with the trend of impact investing and to grow their portfolios quickly.

The recommended delivery options targeting microfinance are important for achieving the EU’s policy objectives of social inclusion and promotion of entrepreneurship and employment creation, as well as contributing to the transition to a sustainable Europe.

([268]) According to EIF (2016): Evaluating the impact of European microfinance, some research results from Spain and France indicate between 1.81 and 2.6 jobs per microloan. For the purpose of the report, we adopt 1.81 jobs per microloan.

([269]) The estimations are based on the envisaged leverage of the EIF guarantee portfolio, the EaSI Technical Assistance programme for microfinance results, the funding needs expressed by the microfinance providers of the latest EMN-MFC overview survey and the average amounts required by the different target groups. For further details, see the main report.

ANNEXES

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A.I. Statistical annexes

Annex 1: Data sets referring to country level numbers for Chapter 4: Supply

Number of MFIs per country, 2017

Country	Number of MFIs (270)
Euro-area Member States (EA-19 MS)	
Belgium	5
Germany	27
Estonia	3
Ireland	4
Greece	6
Spain	23
France	12
Italy	84
Cyprus	n/a (271)
Latvia	3
Lithuania	3
Luxembourg	1
Malta	1
Netherlands	2
Austria	2
Portugal	2
Slovenia	1
Slovakia	5
Finland	1
Non-euro-area Member States (Non-euro MS)	
Bulgaria	26
Czechia	3
Denmark	1
Croatia	2
Hungary	17
Poland	66
Romania	45
Sweden	7
UK	36
EFTA and IPA countries (EFTA/IPA)	
Iceland (EFTA) (272)	n/a
Albania	7
Montenegro	5
North Macedonia	5
Serbia	5
Turkey	3
Total	**416**

Source: Database of EMN
Note: The MFIs displayed here are only those from the EaSI programme region; including other countries, the number rises to about 450 MFIs.

(270) 'MFIs' refers to 'microfinance institutions' and 'microfinance providers'.
(271) n/a indicates that no data for the respective country is available.
(272) Iceland is the only EFTA country in this group; won't be included throughout the subsequent statistics.

Microloan portfolio indicators (borrowers, portfolio)

Country	No of MFIs	Number of active borrowers			No of MFIs	Value of the gross microloan portfolio outstanding, EUR			No of MFIs	Number of women borrowers		
		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017
EA-19 MS												
Belgium	3	3 798	0	3 798	3	26 797 781	0	26 797 781	2	1 162	0	1 162
Germany	6	1 239	5	1 244	5	15 518 035	250 000	15 768 035	5	421	1	422
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	1 092	0	1 092	1	8 211 000	0	8 211 000	1	284	0	284
Greece	2	482	1 641	2 123	2	3 860 255	1 864 288	5 724 543	2	116	417	533
Spain	9	58 619	243 531	302 150	6	450 780 185	1 014 941 716	1 465 721 901	8	28 108	65 783	93 891
France	5	106 418	26 220	132 638	5	538 478 441	44 333 030	582 811 471	5	42 642	13 868	56 510
Italy	14	3 001	8 112	11 113	14	36 885 433	31 035 217	67 920 650	11	943	4 435	5 378
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	1	1 306	0	1 306	0	0	0	0	0	0	0	0
Luxembourg	1	30	0	30	1	332 000	0	332 000	1	10	0	10
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	1	4 344	0	4 344	1	47 005 643	0	47 005 643	1	1 434	0	1 434
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	1	982	0	982	1	12 385 000	0	12 385 000	0	0	0	0
Slovenia	1	1 188	0	1 188	0	0	0	0	0	0	0	0
Slovakia	2	9 821	0	9 821	1	70 290 479	0	70 290 479	1	0	0	0
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Country	No of MFIs	Number of active borrowers			No of MFIs	Value of the gross microloan portfolio outstanding, EUR			No of MFIs	Number of women borrowers		
		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017
Non-euro MS												
Bulgaria	4	1 163	287	1 450	5	4 993 542	1 576 761	6 570 303	4	593	159	752
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	12	3 481	0	3 481	12	44 088 980	0	44 088 980	10	1 118	0	1 118
Poland	6	4 150	0	4 150	6	47 172 899	0	47 172 899	5	1 288	0	1 288
Romania	28	7 207	70 669	77 876	28	40 297 866	77 847 546	118 145 412	28	760	37 370	38 130
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	14	2 418	31 964	34 382	13	25 802 284	22 488 231	48 290 514	11	763	22 672	23 435
EFTA/IPA												
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	10 667	1 861	12 528	2	28 902 332	2 745 259	31 647 592	2	2 452	662	3 114
Monte-negro	2	3 955	20 720	24 675	2	7 070 081	42 514 942	49 585 023	2	2 276	9 220	11 496
North Mace-donia	2	6 397	3 481	9 878	2	18 022 074	10 949 425	28 971 499	2	2 776	1 224	4 000
Serbia	1	0	17 462	17 462	1	0	16 102 663	16 102 663	1	0	8 207	8 207
Turkey	2	319	39 494	39 813	2	59 979	10 528 066	10 588 045	1	319	0	319
Total	**120**	**232 077**	**465 447**	**697 524**	**113**	**1 426 954 289**	**1 277 177 145**	**2 704 131 433**	**103**	**87 464**	**164 019**	**251 483**

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. product, service not offered).

Microloan portfolio indicators (disbursements)

Country	No of MFIs	Number of microloans disbursed			No of MFIs	Value of microloans disbursed, EUR			No of MFIs	Average size of microloans disbursed, EUR	
		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017
EA-19 MS											
Belgium	2	1 164	0	1 164	3	13 612 189	0	13 612 189	3	11 694	0
Germany	6	381	2	383	6	6 357 960	250 000	6 607 960	6	16 688	0
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	366	0	366	1	4 863 000	0	4 863 000	1	13 287	0
Greece	2	778	60	838	2	4 587 355	474 183	5 061 538	2	5 896	7 903
Spain	8	21 636	126 287	147 923	8	255 705 660	648 846 303	904 551 963	8	11 819	5 138
France	5	36 263	10 544	46 807	5	266 322 895	30 321 510	296 644 405	5	7 344	2 876
Italy	14	1 010	3 217	4 227	15	17 955 711	19 959 484	37 915 195	15	17 778	6 204
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	1	1 306	0	1 306	1	20 191 870	0	20 191 870	1	15 461	0
Luxem-bourg	1	28	0	28	1	332 000	0	332 000	1	11 857	0
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nether-lands	1	1 702	0	1 702	1	23 675 766	0	23 675 766	1	13 911	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	0	0	0	0	1	6 520 000	0	6 520 000	1	0	0
Slovenia	1	451	0	451	0	0	0	0	0	0	0
Slovakia	2	5 779	0	5 779	2	69 155 350	0	69 155 350	2	11 967	0
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Country	No of MFIs	Number of microloans disbursed			No of MFIs	Value of microloans disbursed, EUR			No of MFIs	Average size of microloans disbursed, EUR	
		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017	Total 2017		Business microloans 2017	Personal microloans 2017
Non-euro MS											
Bulgaria	5	735	411	1 146	5	3 169 008	1 498 979	4 667 986	5	4 312	3 647
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	10	524	0	524	10	6 715 819	0	6 715 819	10	12 816	0
Poland	5	636	0	636	5	8 308 019	0	8 308 019	5	13 063	0
Romania	28	3 423	59 151	62 574	28	25 544 627	61 553 491	87 098 118	28	7 463	1 041
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	15	1 074	34 145	35 219	15	15 927 741	19 141 641	35 069 382	15	14 830	561
EFTA/IPA											
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	5 328	2 842	8 170	2	18 062 429	4 245 995	22 308 425	2	3 390	1 494
Monte-negro	2	2 540	15 896	18 436	2	5 757 070	41 641 422	47 398 492	2	2 267	2 620
North Mace-donia	2	3 404	1 871	5 275	2	11 438 212	6 700 033	18 138 245	2	3 360	3 581
Serbia	1	0	12 921	12 921	1	0	17 152 832	17 152 832	1	0	1 328
Turkey	1	608	0	608	1	189 821	0	189 821	1	312	n/a
Total	**115**	**89 136**	**267 347**	**356 483**	**117**	**784 392 501**	**851 785 873**	**1 636 178 374**	**117**	**4 111**	**2 666**

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. product, service not offered).

Microcredit clients (target groups, type of enterprises)

Country	No of MFIs	Target groups, %							No of MFIs	Type of enterprises served, %			
		Rural population	Unemployed people /welfare recipients	Women	Ethnic minorities	Immi-grants/ refugees	Youth (18-25 years old)	Disabled people		Self-employed	Micro-enterprises up to 5 employees	Micro-enterprises with 5-9 employees	Small-sized enterprises
EA-19 MS													
Belgium	2	0	50	50	0	50	50	0	2	100	50	100	50
Germany	3	0	67	100	0	100	33	33	3	100	100	67	33
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	100	100	100	0	0	0	0	1	100	100	100	0
Greece	2	50	50	50	0	0	50	0	0	0	0	0	0
Spain	7	29	43	71	0	43	29	0	6	100	67	67	17
France	5	0	100	40	0	0	20	20	3	100	100	33	33
Italy	13	23	54	85	15	54	54	0	11	73	73	27	9
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	1	0	100	0	0	0	100	100	1	0	0	0	100
Luxem-bourg	1	0	100	100	0	100	0	0	1	100	100	100	0
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nether-lands	1	0	100	100	0	0	0	0	1	100	100	100	100
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	1	0	100	100	100	0	0	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0	0	0	0	0	0	0	0
Slovakia	2	50	0	50	0	0	50	50	1	100	100	100	100
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Country	No of MFIs	Target groups, %							No of MFIs	Type of enterprises served, %			
		Rural population	Unemployed people /welfare recipients	Women	Ethnic minorities	Immi-grants/ refugees	Youth (18-25 years old)	Disabled people		Self-employed	Micro-enterprises up to 5 employees	Micro-enterprises with 5-9 employees	Small-sized enterprises
Non-euro MS													
Bulgaria	4	75	25	75	50	0	25	0	5	60	40	40	40
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	11	91	18	82	9	0	55	0	10	90	100	100	60
Poland	4	50	25	75	0	0	0	0	2	100	100	100	100
Romania	28	93	36	93	0	0	54	0	16	100	13	19	13
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	9	11	44	89	67	0	0	22	4	75	100	75	50
EFTA/IPA													
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	100	0	100	0	0	0	0	2	100	100	50	100
Monte-negro	2	100	0	50	0	0	0	0	2	100	0	0	0
North Macedonia	2	100	0	100	100	0	0	0	2	100	100	50	50
Serbia	1	100	0	100	100	0	0	0	0	0	0	0	0
Turkey	1	0	0	100	0	0	0	0	0	0	0	0	0
Total	**103**								**73**				

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. product, service not offered). The percentage refers to the share of MFIs per each category, i.e. 100% refers to the fact that all MFIs of a certain country target women or serve self-employed.

Microcredit clients (age of business, non-financial services)

Country	No of MFIs	Age of businesses served, %					No of MFIs	Number of clients reached by non-financial services		
		Zero (potential entrepreneurs in the process of setting up their business)	Less than one year old	Between one and three years old	Between three and five years old	More than five years old		Recipients that are also active borrowers 2017	Recipients that are not also active borrowers 2017	Total number of recipients 2017
EA-19 MS										
Belgium	2	50	100	50	100	100	1	700	500	1 200
Germany	3	67	100	100	100	100	4	135	657	792
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	0	100	100	100	100	1	1	1	2
Greece	0	0	0	0	0	0	1	61	0	61
Spain	6	83	83	50	33	17	7	1 209	637	1 846
France	3	67	67	67	67	33	3	35 282	61 464	96 746
Italy	11	45	73	73	45	18	11	9 741	1 746	11 487
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	1	0	100	0	0	0	0	0	0	0
Luxem-bourg	1	100	100	100	0	0	1	30	50	80
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nether-lands	1	0	100	100	100	100	1	800	2 250	3 050
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	0	0	0	0	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0	0	0	0	0
Slovakia	2	50	50	100	100	50	1	20	189	209
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-euro MS										
Bulgaria	3	67	67	67	67	67	3	569	236	805
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Country	No of MFIs	Age of businesses served, %					No of MFIs	Number of clients reached by non-financial services		
		Zero (potential entrepreneurs in the process of setting up their business)	Less than one year old	Between one and three years old	Between three and five years old	More than five years old		Recipients that are also active borrowers 2017	Recipients that are not also active borrowers 2017	Total number of recipients 2017
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	10	50	90	80	80	70	10	1 523	1 614	3 137
Poland	2	50	100	100	100	100	3	977	1 581	2 558
Romania	5	60	60	80	60	60	23	64 941	24 576	89 517
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	5	80	100	80	60	40	10	7 978	6 828	14 806
EFTA/IPA										
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	50	50	0	0	0	2	11 655	3 791	15 446
Monte-negro	0	0	0	0	0	0	0	0	0	0
North Macedonia	2	0	50	100	100	100	n/a	n/a	n/a	n/a
Serbia	0	0	0	0	0	0	1	17 462	0	17 462
Turkey	0	0	0	0	0	0	2	37 907	125 661	163 568
Total	**60**						**85**	**190 991**	**231 781**	**422 772**

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply.

Portfolio quality indicators

Country	PAR30				Write-off ratio				No of MFIs	Provision expense ratio, 2017, %
	No of MFIs	Business microloans, 2017, %	No of MFIs	Personal microloans, 2017, %	No of MFIs	Business microloans, 2017, %	No of MFIs	Personal microloans, 2017, %		
EA-19 MS										
Belgium	2	1.4	0	0	2	4.7	0	0	2	12.4
Germany	1	3.2	0	0	2	2.0	0	0	2	1.6
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	15.0	0	0	1	14.9	0	0	1	15.5
Greece	1	13.6	1	16.2	1	2.5	1	2.5	1	24.8
Spain	5	26.5	2	26.4	2	12.3	2	26.3	2	2.1
France	2	4.3	3	13.1	3	5.3	3	1.3	2	2.3
Italy	4	27.2	4	17.0	3	2.1	4	4.1	5	13.3
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	0	0	0	0	0	0	0	0	0	0
Luxem-bourg	1	9.5	0	0	0	0	0	0	1	1.6
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nether-lands	1	9.2	0	0	1	11.7	0	0	1	5.4
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	0	0	0	0	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0	0	0	0	0
Slovakia	0	0	0	0	0	0	0	0	0	0
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Country	PAR30				Write-off ratio				No of MFIs	Provision expense ratio, 2017, %
	No of MFIs	Business microloans, 2017, %	No of MFIs	Personal microloans, 2017, %	No of MFIs	Business microloans, 2017, %	No of MFIs	Personal microloans, 2017, %		
Non-euro MS										
Bulgaria	2	3.5	4	6.3	2	9.0	3	11.3	4	4.5
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	10	18.0	0	0	1	20.4	0	0	5	13.3
Poland	3	14.7	0	0	1	0.1	0	0	1	0.4
Romania	3	9.5	24	19.8	0	0	3	0.3	6	0.9
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	5	35.1	3	21.5	4	12.8	2	10.6	5	18.6
EFTA/IPA										
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	2.6	2	3.0	2	2.9	2	4.0	2	2.6
Monte-negro	2	1.6	1	1.5	2	0.7	1	0.4	2	0.9
North Macedonia	2	4.0	2	3.0	2	0.8	2	0.8	2	1.2
Serbia	0	0	1	1.2	0	0	1	0.5	1	1.3
Turkey	0	0	0	0	0	0	0	0	0	0
Total	47	13.2	47	13.1	29	5.1	24	4.5	45	6.1

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. product, service not offered).

Financial situation (turnover, average annual percentage rate, lending interest rate)

Country	No of MFIs	Average size in terms of turnover, EUR	Average annual percentage rate (APR)		Lending interest rate, 2017, % (273)
			Business microloans, 2017, %	Personal microloans, 2017, %	
EA-19 MS					
Belgium	3	4 537 396	6.4	0	1.62
Germany	6	1 101 327	6.1	3.0	2.45
Estonia	n/a	n/a	n/a	n/a	n/a
Ireland	1	4 863 000	7.0	0	4.28
Greece	2	2 530 769	12.0	14.3	4.69
Spain	8	113 068 995	5.7	6.8	2.15
France	5	59 328 881	7.8	6.2	1.75
Italy	15	2 527 680	5.1	4.3	1.99
Cyprus	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a
Lithuania	1	20 191 870	3.0	0	2.72
Luxembourg	1	332 000	11.0	0	1.70
Malta	n/a	n/a	n/a	n/a	4.89
Netherlands	1	23 675 766	11.2	0	2.63
Austria	n/a	n/a	n/a	n/a	n/a
Portugal	1	6 520 000	0	0	2.87
Slovenia	0	0	1.1	0	2.38
Slovakia	2	34 577 675	7.2	9.4	2.60
Finland	n/a	n/a	n/a	n/a	n/a
Non-euro MS					
Bulgaria	5	933 597	15.9	17.0	5.44
Czechia	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a
Hungary	10	671 582	4.3	n/a	1.48
Poland	5	1 661 604	4.1	0	0
Romania	28	3 110 647	17.2	16.5	5.56
Sweden	n/a	n/a	n/a	n/a	n/a
UK	15	2 337 959	13.0	38.4	0
EFTA/IPA					
Iceland	n/a	n/a	n/a	n/a	n/a
Albania	2	11 154 212	23.5	25.5	6.59
Montenegro	2	23 699 246	20.3	24.3	6.81
North Macedonia	2	9 069 122	13.5	14.1	6.61
Serbia	1	17 152 832	0	24.7	5.03
Turkey	1	189 821	17.0	0	0
Total	**127**	**14 050 282**			

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. no offered).

(273) ECB for euro-area Member States in 2018: euro-denominated loans up to EUR 1 million; floating rate or initial rate fixation of up to one year to EA non-financial corporations (percentages per annum, rates on new business). Non-euro-area countries 2017: World Bank/IMF lending interest rate for Bulgaria, Czechia, Hungary and Romania; national/central bank information for Croatia and Poland; OECD information on SME loans for Denmark, Sweden and the UK.

Financial situation (profitability, operational efficiency)

Country	No of MFIs	ROE, %		ROA, %		OSS, %	
		2017	2016	2017	2016	2017	2016
EA-19 MS							
Belgium	3	−83.0	−122.7	−8.6	−12.9	46.7	47.4
Germany	6	6.7	10.7	9.1	16.0	117.2	110.2
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	1	18.0	31.6	9.3	13.5	0	0
Greece	2	0	10.5	0	1.5	0	13.0
Spain	10	27.6	8.3	20.2	2.9	198.5	206.4
France	6	1.3	−1.0	0.4	−0.7	73.0	62.5
Italy	17	−1.5	−1.1	−0.6	−1.2	7.9	7.5
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	1	0	0	0	0	0	0
Luxembourg	1	−23.8	−29.3	−18.0	−26.6	21.2	n/a
Malta	1	0	0	0	0	0	0
Netherlands	1	3.0	6.6	1.2	3.2	106.8	103.0
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	1	0	0	0	0	0	0
Slovenia	1	0	0	0	0	0	0
Slovakia	2	5.0	6.3	4.9	6.2	45.0	81.1
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-euro MS							
Bulgaria	5	0.1	−0.8	−2.5	−2.9	121.7	191.1
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	12	5.3	7.2	1.5	1.5	16.4	23.8
Poland	9	1.5	2.6	0.5	1.0	141.3	141.8
Romania	31	10.2	10.2	2.1	2.4	94.2	112.3
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	17	−91.5	−147.2	−0.3	−1.7	28.7	28.2
EFTA/IPA							
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	3	14.9	7.9	6.5	1.7	0	0
Montenegro	3	14.5	11.4	6.7	4.4	38.0	33.8
North Macedonia	2	5.1	4.5	1.9	1.9	61.2	62.2
Serbia	1	2.8	7.8	0.6	0.5	3.9	0
Turkey	2	0	0	0	0	0	0
Total	**156**	**4.9**	**2.7**	**2.5**	**1.8**	**59.2**	**62.0**

Source: Database from EMN-MFC overview survey 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates the MFIs did not respond to the respective question or that the question does not apply (e.g. no products/services offered).

Financial situation: Average of additional funding needs by value and country

Country	No of MFIs	Average additional funding needed	Borrowings (debt)	Equity	Guarantees	Grants/subsidies	Other
EA-19 MS							
Belgium	2	7 500 000	5 000 000	3 000 000	2 000 000	1 500 000	-
Germany	1	50 000	0	0	0	0	50 000
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	0	0	0	0	0	0	0
Greece	0	0	0	0	0	0	0
Spain	2	192 182 686	160 992 697	39 790 334	0	0	22 589 644
France	2	39 500 000	30 000 000	0	8 000 000	3 000 000	0
Italy	7	5 135 714	3 875 000	2 587 500	0	50 000	10 000 000
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	1	50 000 000	50 000 000	0	0	0	0
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	0	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0	0
Slovakia	1	4 080 000	2 000 000	0	2 000 000	80 000	0
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-euro MS							
Bulgaria	4	635 290	472 952	255 650	0	63 912	132 938
Czechia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	7	5 303 111	4 551 606	1 933 426	6 444 752	1 425 901	2 416 782
Poland	4	11 383 768	12 369 324	287 288		4 069 907	

Country	No of MFIs	Average additional funding needed	Borrowings (debt)	Equity	Guarantees	Grants/subsidies	Other
Romania	7	4 499 899	7 750 000	2 750 000	8 000 000	0	499 858
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	5	9 636 735	8 265 425	5 635 517	0	422 664	16 906 552
EFTA/IPA							
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Albania	2	16 126 790	9 129 706	4 603 975	0	0	4 786 216
Montenegro	1	900 000	900 000	0	0	0	0
North Macedonia	2	987 551	975 102	1 000 000	0	0	0
Serbia	1	16 919	16 919	0	0	0	0
Turkey	0	0	0	0	0	0	0
Total	**49**	**15 683 101**	**17 879 353**	**5 130 678**	**5 206 393**	**1 312 286**	**4 423 653**

Source: Database from EMN-MFC overview surveys 2016-2017
Note: No data available for Estonia, Cyprus, Latvia, Malta, Austria, Finland, Czechia, Denmark, Croatia, Sweden, Iceland (as indicated by n/a). '0' indicates that MFIs from the respective country chose not to reply to this question or that the MFI did not mention any funding needs for the respective category.

Annex 2: Data sets referring to country level numbers for Chapters 3 and 5: Demand

Target group population by country, numbers

Country	Potential new business founders	New business founders	Self-employed	Micro-enterprises	Individual farms	*Informal businesses* (274)
EA-19 MS						
Belgium	54 573	109 930	435 173	152 328	260	*615 608*
Germany	203 034	521 646	1 174 233	1 083 336	440	*5 450 301*
Estonia	9 675	33 055	26 221	43 648	2 610	*53 396*
Ireland	37 189	45 898	124 658	86 338	11 930	*419 341*
Greece	64 765	73 534	336 697	368 704	105 870	*1 806 171*
Spain	176 266	235 368	1 490 851	1 115 112	173 070	*4 267 331*
France	435 922	431 303	2 106 915	952 257	27 850	*2 963 472*
Italy	348 663	298 067	2 244 123	1 145 464	72 580	*7 464 636*
Cyprus	9 124	14 755	15 224	28 014	3 550	*84 456*
Latvia	17 493	40 695	31 575	57 219	6 640	*45 310*
Lithuania	31 375	38 137	91 169	52 947	19 030	*78 775*
Luxembourg	4 606	8 760	10 572	14 374	20	*0*
Malta	1 667	5 350	17 615	10 460	3 100	*0*
Netherlands	52 968	211 662	811 748	172 596	30	*1 013 747*
Austria	40 376	117 672	183 940	154 948	12 700	*582 477*
Portugal	70 587	104 818	422 555	250 336	26 770	*923 291*
Slovenia	11 562	23 237	63 811	57 427	450	*98 415*
Slovakia	26 030	80 650	285 811	103 265	700	*415 850*
Finland	19 400	49 581	139 663	109 897	2 880	*349 374*
Non-euro MS						
Bulgaria	20 905	40 116	139 990	138 549	37 590	*310 125*
Czechia	39 473	120 339	730 079	179 911	630	*742 861*
Denmark	16 744	38 151	85 976	88 504	570	*276 902*
Croatia	38 646	55 642	40 468	81 370	8 540	*0*
Hungary	85 825	104 744	148 838	298 604	47 780	*405 881*
Poland	163 530	398 007	1 102 848	565 543	275 070	*4 308 860*
Romania	438 825	266 198	304 544	285 917	171 560	*772 410*
Sweden	35 144	120 975	439 918	226 470	2 180	*444 268*
UK	213 198	731 471	204 095	1 684 235	12 340	*4 642 028*
EFTA/IPA						
Iceland	0	2 256	8 153	13 753	0	*18 450*
Albania	0	19 897	0	90 430	0	*346 288*
Montenegro	0	4 221	0	22 589	7 870	*73 461*
North Macedonia	48 872	14 649	0	50 077	0	*254 951*
Serbia	126 614	46 964	0	78 049	0	*817 366*
Turkey	2 041 460	545 992	0	1 002 780	0	*9 502 425*
Total	**4 884 510**	**4 953 738**	**13 217 463**	**10 765 451**	**1 034 610**	***49 548 227***

(274) This column is included for information only; these data are only used for policy recommendations. The calculation is explained in Chapter 2.

Potential market size for business microcredit by country, numbers

Country	Potential new business founders	New business founders	Self-employed	Micro-enterprises	Individual farms	*Informal businesses*
EA-19 MS						
Belgium	16 645	8 135	23 209	4 062	125	*49 249*
Germany	54 413	37 037	46 969	28 889	211	*436 024*
Estonia	2 690	4 099	874	1 164	1 253	*4 272*
Ireland	13 351	3 580	6 648	2 302	5 726	*33 547*
Greece	19 689	8 530	38 159	9 832	50 818	*144 494*
Spain	45 124	8 473	59 634	29 736	83 074	*341 387*
France	132 956	31 916	112 369	25 394	13 368	*237 078*
Italy	132 492	27 720	134 647	30 546	34 838	*597 171*
Cyprus	2 783	1 092	1 319	747	1 704	*6 756*
Latvia	3 726	3 256	1 684	1 526	3 187	*3 625*
Lithuania	7 624	4 195	7 901	1 412	9 134	*6 302*
Luxembourg	1 783	710	352	383	10	*0*
Malta	508	396	939	279	1 488	*0*
Netherlands	11 176	13 123	32 470	4 603	14	*81 100*
Austria	12 315	8 708	6 131	4 132	6 096	*46 598*
Portugal	16 306	9 853	19 719	6 676	12 850	*73 863*
Slovenia	2 151	999	2 552	1 531	216	*7 873*
Slovakia	8 460	9 759	3 811	2 754	336	*33 268*
Finland	9 234	3 570	3 724	2 931	1 382	*27 950*
Non-euro MS						
Bulgaria	3 533	8 304	5 600	3 695	18 043	*24 810*
Czechia	12 039	8 905	29 203	4 798	302	*59 429*
Denmark	5 107	2 823	4 585	2 360	274	*22 152*
Croatia	12 251	9 014	2 968	2 170	4 099	*0*
Hungary	14 848	7 332	5 954	7 963	22 934	*32 470*
Poland	46 770	18 308	58 819	15 081	132 034	*344 709*
Romania	116 727	22 094	14 212	7 624	82 349	*61 793*
Sweden	10 649	9 194	20 530	6 039	1 046	*35 541*
UK	36 030	26 333	8 164	44 913	5 923	*371 362*
EFTA/IPA						
Iceland	0	2 337	435	367	0	*1 476*
Albania	0	716	0	2 411	0	*27 703*
Montenegro	0	21 257	0	602	3 778	*5 877*
North Macedonia	19 123	59 123	0	1 335	0	*20 396*
Serbia	30 767	142 584	0	2 081	0	*65 389*
Turkey	496 075	1 111 639	0	26 741	0	*760 194*
Total	**1 297 343**	**1 635 114**	**653 583**	**287 079**	**496 613**	***3 963 858***

Value of unmet demand for business microcredit by country, billion EUR

Country	Potential new business founders	New business founders	Self-employed	Micro-enterprises	Individual farms	*Informal businesses*
EA-19 MS						
Belgium	0.08	0.08	0.12	0.06	0.00	*0.25*
Germany	0.27	0.37	0.23	0.43	0.00	*2.18*
Estonia	0.01	0.03	0.00	0.01	0.01	*0.01*
Ireland	0.07	0.04	0.03	0.03	0.00	*0.17*
Greece	0.06	0.07	0.11	0.10	0.25	*0.43*
Spain	0.23	0.08	0.30	0.45	0.00	*1.71*
France	0.66	0.32	0.56	0.38	0.00	*1.19*
Italy	0.66	0.28	0.67	0.46	0.00	*2.99*
Cyprus	0.01	0.01	0.01	0.01	0.00	*0.03*
Latvia	0.01	0.03	0.01	0.02	0.02	*0.01*
Lithuania	0.02	0.03	0.02	0.01	0.05	*0.02*
Luxembourg	0.01	0.01	0.00	0.01	0.00	*0.00*
Malta	0.00	0.00	0.00	0.00	0.00	*0.00*
Netherlands	0.06	0.13	0.16	0.07	0.00	*0.41*
Austria	0.06	0.09	0.03	0.06	0.00	*0.23*
Portugal	0.08	0.10	0.10	0.10	0.00	*0.37*
Slovenia	0.01	0.01	0.01	0.02	0.00	*0.02*
Slovakia	0.03	0.08	0.01	0.03	0.00	*0.10*
Finland	0.05	0.04	0.02	0.04	0.00	*0.14*
Non-euro MS						
Bulgaria	0.02	0.08	0.03	0.06	0.09	*0.12*
Czechia	0.04	0.07	0.09	0.05	0.00	*0.18*
Denmark	0.03	0.03	0.02	0.04	0.00	*0.11*
Croatia	0.04	0.07	0.01	0.02	0.02	*0.00*
Hungary	0.07	0.07	0.03	0.12	0.00	*0.16*
Poland	0.14	0.15	0.18	0.15	0.66	*1.03*
Romania	0.35	0.18	0.04	0.08	0.41	*0.19*
Sweden	0.05	0.09	0.10	0.09	0.00	*0.18*
UK	0.18	0.26	0.04	0.67	0.00	*1.86*
EFTA/IPA						
Albania	0.00	0.01	0.00	0.02	0.00	*0.08*
Iceland	0.00	0.02	0.00	0.01	0.00	*0.00*
North Macedonia	0.06	0.47	0.00	0.01	0.00	*0.06*
Montenegro	0.00	0.17	0.00	0.01	0.02	*0.02*
Serbia	0.09	1.14	0.00	0.02	0.00	*0.20*
Turkey	1.49	8.89	0.00	0.27	0.00	*2.28*
Total	**4.93**	**13.50**	**2.95**	**3.90**	**1.53**	***16.73***

Unmet demand for non-financial services among potential microcredit clients, numbers

Country	Potential new business founders	New business founders	Self-employed	Micro-enterprises	Individual farms	*Informal businesses*
EA-19 MS						
Belgium	13 316	4 067	11 605	812	0	*39 399*
Germany	43 530	18 518	23 485	5 778	0	*348 819*
Estonia	2 152	2 049	437	233	251	*3 417*
Ireland	10 681	1 790	3 324	460	0	*26 838*
Greece	15 751	4 265	19 079	1 966	10 164	*115 595*
Spain	36 099	4 237	29 817	5 947	0	*273 109*
France	106 365	15 958	56 184	5 079	0	*189 662*
Italy	105 994	13 860	67 324	6 109	0	*477 737*
Cyprus	2 226	546	660	149	0	*5 405*
Latvia	2 981	1 628	842	305	637	*2 900*
Lithuania	6 099	2 098	3 951	282	1 827	*5 042*
Luxembourg	1 426	355	176	77	0	*n/a*
Malta	407	198	470	56	0	*n/a*
Netherlands	8 941	6 562	16 235	921	0	*64 880*
Austria	9 852	4 354	3 066	826	0	*37 279*
Portugal	13 045	4 926	9 860	1 335	0	*59 091*
Slovenia	1 720	500	1 276	306	43	*6 299*
Slovakia	6 768	4 879	1 905	551	67	*26 614*
Finland	7 387	1 785	1 862	586	0	*22 360*
Non-euro MS						
Bulgaria	2 826	4 152	2 800	739	3 609	*19 848*
Czechia	9 631	4 453	14 602	960	60	*47 543*
Denmark	4 086	1 412	2 293	472	0	*17 722*
Croatia	9 801	4 507	1 484	434	820	*n/a*
Hungary	11 878	3 666	2 977	1 593	4 587	*25 976*
Poland	37 416	9 154	29 409	3 016	26 407	*275 767*
Romania	93 382	11 047	7 106	1 525	16 470	*49 434*
Sweden	8 519	4 597	10 265	1 208	0	*28 433*
UK	28 824	13 166	4 082	8 983	0	*297 090*
EFTA/IPA						
Iceland	0	1 169	217	73	0	*1 181*
Albania	0	358	0	0	0	*22 162*
Montenegro	0	10 628	0	0	756	*4 701*
North Macedonia	15 299	29 562	0	0	0	*16 317*
Serbia	24 614	71 292	0	0	0	*52 311*
Turkey	396 860	555 820	0	5 348	0	*608 155*
Total	**1 037 875**	**817 557**	**326 791**	**56 130**	**99 046**	***3 171 087***

Annex 3: Data sets referring to country level numbers for Chapter 5: Financing gap

Total value of annual financing gap for microloans by country clusters ([275]), EUR, current

Country Cluster/countries	Constrained demand	Supply	Financing gap
Mature	**North-western Europe, Iceland**		
Denmark	120 000 000	-	120 000 000
Finland	150 000 000	-	150 000 000
Iceland	25 501 200	-	25 501 200
Sweden	330 000 000	76 600 000	253 400 000
Austria	240 000 000	2 900 000	237 100 000
Belgium	340 000 000	17 200 000	322 800 000
France	1 920 000 000	266 322 895	1 653 677 105
Germany	1 300 000 000	200 000	1 299 800 000
Luxembourg	30 000 000	700 000	29 300 000
Netherlands	420 000 000	74 000 000	346 000 000
Ireland	170 000 000	15 700 000	154 300 000
UK	1 150 000 000	15 927 741	1 134 072 259
Subtotal (12 countries)	**6 195 501 200**	**469 550 636**	**5 725 950 564**
Intermediate mature	**Southern Europe, Malta**		
Cyprus	40 000 000	-	40 000 000
Greece	590 000 000	11 900 000	578 100 000
Italy	2 070 000 000	38 300 000	2 031 700 000
Malta	-	-	-
Portugal	380 000 000	6 520 000	373 480 000
Spain	1 060 000 000	255 705 660	804 294 340
Subtotal (6 countries)	**4 140 000 000**	**312 425 660**	**3 827 574 340**
Immature	**Balkans, central Europe**		
Bulgaria	280 000 000	60 908 092	219 091 908
Croatia	160 000 000	-	160 000 000
Czechia	250 000 000	41 100 000	208 900 000
Estonia	60 000 000	12 800 000	47 200 000
Hungary	290 000 000	6 715 819	283 284 181
Latvia	90 000 000	1 800 000	88 200 000
Lithuania	130 000 000	20 191 870	109 808 130
Poland	1 280 000 000	23 300 000	1 256 700 000
Romania	1 060 000 000	197 367 053	862 632 947
Slovakia	150 000 000	69 155 350	80 844 650
Slovenia	50 000 000	12 800 000	37 200 000
Subtotal (11 countries)	**3 800 000 000**	**446 138 183**	**3 353 861 817**
Total EU	**14 110 000 000**	**1 228 114 479**	**12 881 885 521**
Total EU + EFTA (Iceland)	**14 135 501 200**	**1 228 114 479**	**12 907 386 721**
Intermediate mature	**Turkey**		7 181 436 157
Turkey	10 647 408 000	1 324 288 172	9 323 119 828
Subtotal IPA (1 country)	**10 647 408 000**	**1 324 288 172**	**9 323 119 828**
Immature	**Balkans**		
Albania	34 114 667	46 937 895	(12 823 229)
Montenegro	196 023 733	26 295 079	169 728 654
North Macedonia	543 353 867	14 683 504	528 670 363
Serbia	1 250 813 067	228 322 109	1 022 490 958
Subtotal IPA (4 countries)	**2 024 305 333**	**316 238 587**	**1 708 066 746**
Total IPA	**12 671 713 333**	**1 640 526 759**	**11 031 186 574**
Total (34 countries)	**26 807 214 533**	**2 868 641 239**	**23 938 573 295**

Note: Sums are rounded.

([275]) The country clusters result from the market failure analysis contained in Chapter 5.

Total value of annual funding gap for microloans by country clusters, EUR, strong growth, 2027

Country Cluster/countries	Constrained demand	Supply	Financing gap
Mature	**North-western Europe, Iceland**		**Strong growth**
Denmark	153 610 145	-	153 610 145
Finland	192 012 682	-	192 012 682
Iceland	32 643 692	-	32 643 692
Sweden	422 427 900	84 614 055	337 813 845
Austria	307 220 291	3 203 404	304 016 886
Belgium	435 228 745	18 999 501	416 229 244
France	2 457 762 325	294 186 162	2 163 576 163
Germany	1 664 109 907	220 924	1 663 888 983
Luxembourg	38 402 536	773 235	37 629 301
Netherlands	537 635 509	81 742 037	455 893 471
Ireland	217 614 373	17 342 567	200 271 805
UK	1 472 097 226	17 594 135	1 454 503 091
Subtotal (12 countries)	**7 930 765 330**	**518 676 022**	**7 412 089 308**
Intermediate mature	**Southern Europe, Malta**		
Cyprus	51 203 382	-	51 203 382
Greece	755 249 881	13 145 003	742 104 878
Italy	2 649 775 006	42 307 027	2 607 467 979
Malta	-	-	-
Portugal	486 432 127	7 202 136	479 229 991
Spain	1 356 889 617	282 458 130	1 074 431 487
Subtotal (6 countries)	**5 299 550 013**	**345 112 297**	**4 954 437 716**
Immature	**Balkans, central Europe**		
Bulgaria	358 423 672	67 280 426	291 143 247
Croatia	204 813 527	-	204 813 527
Czechia	320 021 136	45 399 969	274 621 167
Estonia	76 805 073	14 139 163	62 665 909
Hungary	371 224 518	7 418 442	363 806 076
Latvia	115 207 609	1 988 320	113 219 289
Lithuania	166 410 991	22 304 386	144 106 604
Poland	1 638 508 217	25 737 696	1 612 770 521
Romania	1 356 889 617	218 016 013	1 138 873 604
Slovakia	192 012 682	76 390 530	115 622 152
Slovenia	64 004 227	14 139 163	49 865 064
Subtotal (11 countries)	**4 864 321 268**	**492 814 108**	**4 371 507 160**
Total EU	**18 061 992 919**	**1 356 602 426**	**16 705 390 492**
Total EU + EFTA (Iceland)	**18 094 636 611**	**1 356 602 426**	**16 738 034 184**
Intermediate mature	**Turkey**		9 325 944 876
Turkey	16 535 099 045	1 536 890 488	14 998 208 557
Subtotal IPA (1 country)	**16 535 099 045**	**1 536 890 488**	**14 998 208 557**
Immature	**Balkans**		
Albania	52 979 034	54 473 344	(1 494 310)
Montenegro	304 418 864	30 516 513	273 902 351
North Macedonia	843 811 940	17 040 806	826 771 134
Serbia	1 942 474 445	264 977 128	1 677 497 316
Subtotal IPA (4 countries)	**3 143 684 283**	**367 007 791**	**2 776 676 492**
Total IPA	**19 678 783 328**	**1 903 898 279**	**17 774 885 049**
Total (34 countries)	**37 773 419 938**	**3 260 500 705**	**34 512 919 233**

Note: Sums are rounded.

Total value of annual funding gap for microloans by country clusters, EUR, normal growth, 2027

Country Cluster/countries	Constrained demand	Supply	Financing gap
Mature	**North-western Europe, Iceland**		**Normal growth**
Denmark	139 264 899	-	139 264 899
Finland	174 081 124	-	174 081 124
Iceland	29 595 184	-	29 595 184
Sweden	382 978 472	84 614 055	298 364 417
Austria	278 529 798	3 203 404	275 326 394
Belgium	394 583 881	18 999 501	375 584 380
France	2 228 238 384	294 186 162	1 934 052 222
Germany	1 508 703 073	220 924	1 508 482 148
Luxembourg	34 816 225	773 235	34 042 989
Netherlands	487 427 147	81 742 037	405 685 109
Ireland	197 291 940	17 342 567	179 949 373
UK	1 334 621 949	17 594 135	1 317 027 814
Subtotal (12 countries)	**7 190 132 074**	**518 676 022**	**6 671 456 053**
Intermediate mature	**Southern Europe, Malta**		
Cyprus	46 421 633	-	46 421 633
Greece	684 719 087	13 145 003	671 574 083
Italy	2 402 319 508	42 307 027	2 360 012 480
Malta	-	-	-
Portugal	441 005 514	7 202 136	433 803 377
Spain	1 230 173 275	282 458 130	947 715 145
Subtotal (6 countries)	**4 804 639 016**	**345 112 297**	**4 459 526 719**
Immature	**Balkans, central Europe**		
Bulgaria	324 951 431	67 280 426	257 671 005
Croatia	185 686 532	-	185 686 532
Czechia	290 135 206	45 399 969	244 735 237
Estonia	69 632 450	14 139 163	55 493 286
Hungary	336 556 839	7 418 442	329 138 397
Latvia	104 448 674	1 988 320	102 460 354
Lithuania	150 870 307	22 304 386	128 565 921
Poland	1 485 492 256	25 737 696	1 459 754 561
Romania	1 230 173 275	218 016 013	1 012 157 262
Slovakia	174 081 124	76 390 530	97 690 594
Slovenia	58 027 041	14 139 163	43 887 878
Subtotal (11 countries)	**4 410 055 135**	**492 814 108**	**3 917 241 027**
Total EU	**16 375 231 041**	**1 356 602 426**	**15 018 628 615**
Total EU + EFTA (Iceland)	**16 404 826 225**	**1 356 602 426**	**15 048 223 799**
Intermediate mature	**Turkey**		8 376 767 746
Turkey	14 309 226 009	1 536 890 488	12 772 335 521
Subtotal IPA (1 country)	**14 309 226 009**	**1 536 890 488**	**12 772 335 521**
Immature	**Balkans**		
Albania	45 847 259	54 473 344	(8 626 085)
Montenegro	263 439 506	30 516 513	232 922 993
North Macedonia	730 222 161	17 040 806	713 181 356
Serbia	1 680 988 168	264 977 128	1 416 011 039
Subtotal IPA (4 countries)	**2 720 497 094**	**367 007 791**	**2 353 489 303**
Total IPA	**17 029 723 103**	**1 903 898 279**	**15 125 824 824**
Total (34 countries)	**33 434 549 328**	**3 260 500 705**	**30 174 048 623**

Note: Sums are rounded.

A.II. Other annexes

Annex 4: Migration and forced displacement

Increased migration flows will affect the size and characteristics of vulnerable populations, as well as the challenges they face. In turn, this will influence the development of and overall need for financial services to serve these groups.

Economic opportunities and the prospect of a better life will increasingly entice people to relocate, particularly to cities. In addition, forces such as climate change, conflict or persecution will accelerate people's drive to migrate ([276]).

Between 1990 and 2017, the number of international migrants worldwide rose by over 106 million or 69%; the total number of people living in a country other than their country of birth was estimated at 258 million in 2017, as compared to 152 million in 1990.

In 2017, international migrants accounted for 3.4% of the total global population. However, they are unevenly distributed: while international migrants only constituted 1.8% of the total population in developing regions, they accounted for 11.6% in developed countries. In 2017, over half (51%) of all international migrants in the world were living in only 10 countries, of which 4 are in Europe (Germany, the UK, France and Spain). In 2017, Europe hosted 78 million migrants (compared to 49 million 1990), corresponding to 30% of all international migrants ([277]).

Table A4.1: Total estimated international migrants (millions)

	International migrants *(distribution among regions)*	**UN refugees and asylum seekers** *(distribution among regions)*
Sub-Saharan Africa	22.9 *(9%)*	6.7 *(24%)*
Americas	67.1 *(26%)*	1.5 *(5%)*
Asia-Pacific	45.1 *(17.5%)*	4.4 *(16%)*
Europe	77.9 *(30%)*	7.4 *(26%)*
MENA	45.3 *(17.5%)*	8.3 *(29%)*
Total	258 *(100%)*	28.4 *(100%)*

Source: United Nations Department of Economic and Social Affairs (2017); *UNCHR (2017)*

The number of individuals who were **forcibly displaced** – that is, displaced as a result of conflict, persecution or generalised violence – has reached the highest number on record: in 2017, over 68.5 million people were forced to leave their homes, of which nearly 25.4 million were refugees (over half of whom were under the age of 18), 40 million were internally displaced people and 3.1 million were asylum seekers. Most refugees (68%) come from just five countries: Syria, Afghanistan, South Sudan, Myanmar and Somalia.

According to the United Nations High Commissioner for Refugees (UNHCR), Turkey hosts the largest number of refugees worldwide (around 3.5 million), while Germany ranks sixth, hosting over 970 400 refugees ([278]).

Definitions for migrants, refugees, asylum seekers and internally displaced persons

Migrants: While there is no formal legal definition of an international migrant, most experts agree that an international migrant is someone who changes their country of usual residence, irrespective of the reason for migration or legal status.

Refugees: Refugees are specifically defined and protected in international law. They are persons who are outside their country of origin for reasons of feared persecution, conflict, generalised violence or other circumstances that have seriously disturbed public order and, as a result, require international protection.

Asylum seekers: Individuals who are seeking international protection. In countries with certain procedures, an asylum seeker is someone whose claim to asylum has not yet been finally decided on by the country in which the claim is submitted. Not every asylum seeker will ultimately be recognised as a refugee, but every refugee was initially an asylum seeker.

Internally displaced persons: People or groups of individuals who have been forced to leave their

([276]) CGAP (2018): Empowering poor people to capture opportunities and build resilience through financial services.

([277]) United Nations Department of Economic and Social Affairs (2017): International migration report 2017.

([278]) Office of the United Nations High Commissioner for Refugees (UNHCR) (2017): Global trends.

homes or places of habitual residence – in particular as a result of (or in order to avoid the effects of) armed conflict, situations of generalised violence, violations of human rights, or natural or man-made disasters – and who have not crossed an international border.

Source: United Nations (2019a)

However, for this report, the following definitions apply.

Definitions of migrants, refugees and asylum seekers applied in the EU/EFTA context

Migrant	A person who either: (i) establishes their usual residence in the territory of an EU/EFTA Member State for a period that is, or is expected to be, at least 12 months, having previously been usually resident in another EU/EFTA Member State or a third country; or (ii) having previously been usually resident in the territory of the EU/EFTA Member State, ceases to have their usual residence in the EU/EFTA Member State for a period that is, or is expected to be, at least 12 months ([279]).
Refugee	A third-country national who, owing to a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside their country of nationality and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country. Alternatively, a refugee is a stateless person who, being outside their country of former habitual residence for the same reasons mentioned above, is unable or, owing to such fear, unwilling to return to it, and to whom Article 12 (Exclusion) of Directive 2011/95/EU (Recast Qualification Directive) does not apply ([280]).
Asylum seeker	A third-country national or stateless person who has made an application for protection under the Geneva Refugee Convention and Protocol in respect of which a final decision has not yet been made ([281]).

The following paragraphs focus on the financial needs of refugees, who represent a particularly vulnerable segment of society and have specific needs that can be targeted through microfinance activities. Lessons learnt here might also be applicable for the general migrant population.

Financial needs of refugees

The refugee population differs relatively marginally from nationals on most socioeconomic indicators. Two generalised aspects are outlined below.

- First, refugees have very diverse socioeconomic backgrounds: some are highly educated and held reputed jobs in their home country, while others have few years of schooling, if any.
- Second, most refugees have depleted resources due to loss of property and assets and costs of transport. Therefore, many refugees arrive poorer than they were in their home country and are in a more fragile situation than nationals (e.g. with less money, less social capital, etc.) ([282]).

For refugees to have a better and more dignified future for themselves and their families, they need access to work and employment, identity documents and **financial services**. Their financial needs depend on their **phases of displacement**. During the early phases of arrival and displacement, refugees are more likely to focus on securing necessities such as food, shelter, clothing and medical care. Throughout their integration journey, the need for financial self-sufficiency becomes more prominent and their desires more aligned to those of nationals. There is a constant need to have access to a basic payment account, safe storage of cash and money transfer services (for remittances). The table below illustrates their different financial stress points and needs according to their displacement phase.

([279]) European Commission (2019m): European Migration Network glossary: Migrant.

([280]) European Commission (2019n): European Migration Network glossary: Refugee.

([281]) European Commission (2019l): European Migration Network glossary: Asylum seeker.

([282]) NpM Platform for Inclusive Finance (2018): Finance for refugees.

Table A4.2: Displacement phase and key financial needs

Displacement phase	Financial stress points	Key financial needs
Arrival (6-12 months) *Focus on immediate basic needs relating to shelter, food, health and communication (in order to reconnect with family)*	High cost of journey Being able to send and receive money	**Financial services:** remittance services, survival cash for housing, food and medical services **Non-financial services:** financial education (bank accounts, contracts, financial risks/fraud)
Initial displacement (up to 24 months) *Focus on access to housing, education, learning the language, work or business start-up*	Understand use of bank account/cards Support families still in a fragile context Understand complex contracts Be able to save sufficiently	**Financial services:** savings, remittance services, micro/consumer-credit, health insurance **Non-financial services:** market information (bank account, financial management), job placement, business skills, life skills
Stable/protracted displacement (up to 36 months) *Focus on making an increasingly better living*	Be able to save sufficiently Pay for lawyers, medical expenses Understand welfare payment system	**Financial services:** savings, remittance services, micro/consumer-credit, transactional account, property and health insurance **Non-financial services:** job placement, business training, linkages to market/value chain
Permanence (from 36 months) *Focus on integration/assimilation (i.e. livelihood building) to ensure the best life possible for self and family*	Access credit for business Gather lump sum for larger expenses Support families in fragile contexts	Financial service demands similar to those of nationals

Adapted from: NpM Platform for Inclusive Finance (2018)

Key barriers to financial inclusion

There are several demand- and supply-side barriers that may prevent asylum seekers and refugees from accessing formal financial services, including ([283]):

- refugees often have **little understanding of and trust in the financial system**, leading to a preference for cash-based channels;
- they are **uncertain about their future** (i.e. residence status, integration in the labour market) resulting in economic decisions often made from urgency and necessity;
- they might **lack a valid and recognised proof of identity**, which is key to accessing (financial) services and formally participate in the economy;
- there is **little support for entrepreneurship finance** and self-employment, and requirements are often too complex.

([283]) Dhawan, S. M. (2018): Financial inclusion of Germany's refugees.

Implications for European microfinance providers

In order to overcome the barriers to financial inclusion faced by refugees, European microfinance providers (and other stakeholders) should consider the following recommendations.

- **Better understanding of the specific demand:** Microfinance providers need better access to objective, relevant information and data on the refugee population in their country to determine which segments they might be able to serve. MFIs can conduct feasibility studies to better understand their demand, assess the potential business case, and match it to their respective products and service offering.
- **Clear KYC guidance for microfinance providers:** the need to have a recognised identity document and proof of residence as part of know your customer (KYC) requirements often creates a disincentive both for refugees to approach formal financial institutions and for providers to serve them. What is required is clear and unambiguous KYC guidance for microfinance providers, covering the validity and procedures applicable to refugee identity documents. Therefore, governments need to inform microfinance providers on the documents that are issued to refugees (and other non-nationals), while central banks are required to provide clear guidance to providers around regulations relating to KYC, combating the financing of terrorism and anti-money laundering.
- **Improved financial capability and consumer protection:** as refugees often have little understanding of and trust in the financial system, measures that enhance their financial capabilities and build their self-confidence in managing financial resources are key. This can encompass one-to-one financial coaching and general financial education (even as part of integration and language courses). As the economic and financial contexts of refugees vary greatly, customised advice can be crucial.
- **Improved access to finance for refugee entrepreneurs:** Microfinance providers should review their current risk management measures in order to expand access to finance for refugee entrepreneurs, while still balancing the risk. This could include using alternative data and credit scoring mechanisms that could be based on character assessment, performance in integration courses, and references from refugee associations. Also, alternative mechanisms for credit guarantees, such as group or non-cash guarantees, could be effective (such as joint liability groups), alongside schemes that initially offer small loans for short terms and subsequently adjust the loan size and repayment plan according to repayment performance and entrepreneurial capacities.

Annex 5: Digital transformation in the financial sector

Disruptive technologies force virtually all industries to fundamentally revise their business models. This also applies to the financial industry: a digital transformation is taking place with a variety of non-bank innovators (e.g. fintechs) disrupting the way financial products and services are provided.

The digital transformation is not only about introducing digital channels and then distributing the same portfolio of products and services through them. It involves a profound overhaul of the whole banking sector and the way it operates. Digital technology in finance has initiated a range of different trends that have a massive impact on how financial providers develop and deliver financial services and on how they are experienced by customers.

- **Disaggregation of the value chain:** through technology advancement and exploitation of new business opportunities, there are now fintech players in every single service segment. They focus on designing, building and executing specific parts of the banking value chain, from payments and transactions to investing. The result is an ‘unbundling’ of the full-service model of the universal bank that has typically prevailed in traditional banking.
- **Partnerships and open APIs:** with the proliferation of digital technologies and the entry of new players into the market, traditional financial institutions are increasingly partnering with fintechs in order to avoid being sidelined. Such partnerships can be mutually beneficial: fintechs get to scale their technology and gain access to the capital needed to grow, while financial institutions, on the other hand, receive assistance in their efforts to improve product offerings, increase efficiency and lower costs. At the heart of this changing landscape of financial services lies the concept of open application programming interfaces (open APIs). When financial institutions partner with fintechs, an open API provides a secure connection that allows fintechs to access customer data (with consent) in a controlled way. Open APIs have the potential to significantly reduce the time required for financial institutions to work with external parties.
- **Big data:** as an increasing share of individual behaviour is digitally encoded, the amount of digital (‘big’) data ([284]) generated is growing at an unprecedented pace. For FSPs, this new wealth of data, together with enhanced data analytics (including artificial intelligence), can help deepen existing relationships, acquire new customers, and better manage risk. Leveraging non-traditional or alternative data, such as transaction history or utility bills, is especially relevant for potential customers without a credit history ([285]).
- **Customer focus:** with a new wealth of data, providers are enabled to gather more insights about existing or potential customers and put clients at the centre of their operations. A customer-centric model enables organisations to acquire more customers, improve retention and accelerate customers’ use of services.
- **Products:** from a product point of view, digital technologies are disrupting the way financial services are provided ([286]).
    - **Digital payments:** new consumer functionalities (such as integrated billing) are being built on top of existing payment systems. The emergence of mobile money has massively impacted access to finance in emerging markets.
    - **Digital credit:** new lending platforms together with big data analytics are transforming risk assessment and loan origination. Alternative lending models, such as crowdfunding, help to raise non-traditional sources of capital.
    - **Digital investment/long-term savings:** robo-advisors that provide automated, algorithm-driven solutions for financial planning services are improving accessibility to sophisticated financial management.
    - **Digital insurance:** the emergence of online insurance marketplaces and the reduction of information asymmetry, e.g. through Internet of Things (IoT) technology, will force big changes in the insurance sector.

Differences between emerging and developed economies

The digitalisation trend in the finance sector has taken different shapes across the globe, especially when it comes to differences between emerging and developed economies. In contrast to developed

([284]) Big data is the collection and use of large data sets that can be broadly combined and distributed to identify patterns and expand insights.

([285]) Omidyar Network (2016): Big data, small credit.

([286]) World Economic Forum (2015): The future of financial services.

economies, emerging economies face several challenges ([287]) that have impacted the way digital finance and the financial ecosystem have developed. The following table summarises some core differences between digital finance in emerging and developed economies.

Table A5.1: Digital finance in emerging and developed economies

	Emerging economies	Developed economies
Scope	Leapfrogging conventional financial infrastructure	Disrupting traditional business models
Channels	Mobile channels and improved efficiency as must-have features	Mobile channels and improved efficiency as add-on benefits
New entrants	Telecom companies often key players	Innovative fintechs as partners, suppliers and competitors to existing banks
Relationship to banks	Opportunity for banks to leverage their position	Banks threatened by new entrants

Source: Own illustration

In contrast to developed economies – where existing, *proven* business models are disrupted and unbundled – **leapfrogging trends** can be observed in emerging economies, whereby inferior, less efficient technologies are skipped, and the market moves directly to more advanced technologies. The **mobile phone** is an example of a 'leapfrog' technology: it allowed the fixed-line technology of the 20th century to be skipped over, moving straight to the mobile technology of the 21st century.

This marks another major difference between the two regions: mobile channels and other alternative delivery channels become 'must-have' features for users to access formal financial services in emerging economies. By contrast, in developed economies, mobile channels are a nice add-on for the predominantly banked population that is equipped with debit and credit cards and a wide network of ATMs and branches.

Also, the **players** that are leading the digital transformation process differ in both regions: in developed economies, innovative fintechs are challenging the status quo and disrupting conventional business models. In emerging markets, due to low levels of bank penetration and underdeveloped technology ecosystems, it is not the fintechs but global telecom companies that tend to be the most significant tech players. In some countries, telecom companies have led the digitalisation of the financial industry through the introduction of mobile money products. However, banks have a chance to catch up if they choose to adopt innovations before the telecom firms are able to corner the market.

Opportunities and challenges for MFIs

While new technological developments, financial players and business methods bring tremendous opportunities for customers, providers and the market as a whole, the emerging landscape is also becoming more complex and is putting increasing pressure on traditional providers to 'go digital'.

On the one hand, digital technologies help to reduce operational cost, increase outreach and make products and services more customer friendly.

- MFIs are enabled to **serve many more customers profitably**, with a broader set of products and lower prices. The cost of offering customers digital accounts can be 80 to 90% lower than using physical branches ([288]).
- As individuals and businesses increasingly make payments through digital channels, they **create a data trail** of their receipts and expenditures. This enables providers to better assess their credit risk and underwrite loans and insurance policies for a larger set of borrowers with greater confidence.
- It becomes cost effective to provide the full suite of savings, credit and insurance products even to people on low incomes and to very small businesses. With more data available, providers can better **tailor products according to customers' individual needs**.

([287]) These challenges include low penetration of formal financial services, lower income and financial literacy levels, underdeveloped technology and venture capitalist ecosystems, and a relatively weak delivery infrastructure. Not all of these factors are present to the same degree across emerging countries, but they shape and impact the landscape for the provision of financial services (IFC, 2017): EMCompass.).

([288]) McKinsey Global Institute (2016): Digital finance for all.

On the other hand, technology can bring great risks, especially for traditional players. For example, the latest Banana Skins report (289) has brought to light the wave of new technology sweeping through the financial services market that is seen as possibly the greatest risk to stakeholders in the financial inclusion business (regulators, FSPs, investors and support providers).

- Service providers are afraid that they will **fail to understand and exploit technological opportunities** because of their complexity, high costs of investment and the extent of disruption to their current way of doing business.
- Another major concern is **mission drift in the industry** and the **loss of human touch** triggered by short-term, commercially driven new entrants. This can lead to excessive risk-taking and encouraging over-indebtedness, as some digital credit deployments have already proven.
- The massive amount of data available makes **data integrity** (i.e. maintaining and ensuring accuracy and consistency of data) a huge challenge, particularly in countries with weak legal and regulatory frameworks.
- Stakeholders see reputational and financial risks associated with **system outages and hacking** that are connected with digitalisation.
- **Data protection** is also a challenging topic as a result of both the various regulations in the market and clients' behaviours and often too-transparent lifestyle they lead online.

Implications for European microfinance providers

MFC has taken stock of the situation in its latest case study (290): while all microfinance providers are using digital technologies, most are far away from transforming themselves into digitally driven organisations. Most digital transformation efforts in European microfinance focus on the lending process and the customer interface. Here, the loan application and approval processes are typically the first to be digitised and automated.

However, the true benefits of digitalisation unfold when digital solutions enable efficiency throughout the whole organisation. When it comes to streamlining processes and systems (e.g. migrating to a modern – cloud-based – MIS platform), European microfinance providers only make use of digital technologies to a moderate level. In addition, developing a digital strategy and making strategic choices around digital applications is only applied by a few. Currently, transforming internal organisational processes (such as cross-functional collaboration) and digital funding options (such as crowdfunding platforms) is at an early stage.

In a nutshell, most European microfinance providers have adopted digital solutions as an extension of current operations in order to increase efficiency. However, they still do not reap the full extent of the benefits that technology and automation offer.

(289) Centre for the Study of Financial Innovation (CSFI) (2018): Finance for all.

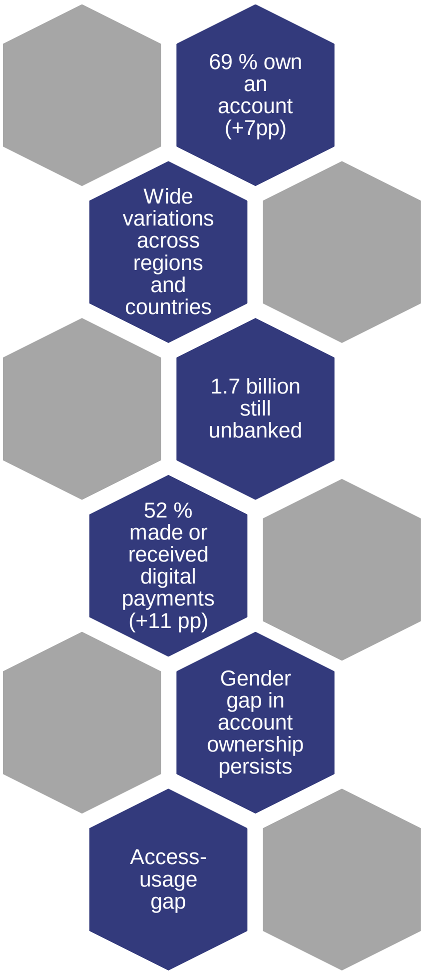
(290) Microfinance Centre (2018): Experimenting with digital solutions.

Annex 6: Financial inclusion stocktaking: Where do we stand today?

The World Bank's Global Findex ([291]) offers the most comprehensive picture of the current status of demand-side financial inclusion on a global, regional and national scale ([292]). The latest report, launched in 2018, stated that although much progress had been made within the previous year, a lot remained to be done.

Between 2014 and 2017, more than **515 million adults worldwide opened an account** at a financial institution or through a mobile money provider. Accordingly, 69% of adults now have an account, up from 62% in 2014 and 51% in 2011. Globally, about 1.7 billion adults remain unbanked (i.e. without an account at a financial institution or through a mobile money provider), down from 2 billion in 2014.

Figure A6.1: Financial inclusion in 2017



Source: World Bank (2018b)

Technology and mobile money massively contributed to the improvement in access. Between 2014 and 2017, the share of adults around the world making or receiving digital payments rose from 41% to 52%; the share of adults in developing countries using digital payments increased from 32% to 44%. Sub-Saharan Africa is by far the global leader in mobile money: just under half (135) of the 276 mobile money services operating worldwide are in the region. The World Bank Figure shows that financial inclusion in 2017 exceeded customer adoption in East Asia (41 deployments) and South Asia (40 deployments), the second and third biggest regions for mobile money in terms of market share.

Financial inclusion displays **wide variation across regions and countries**. While 94% of adults in high-income economies have an account, only 63% of adults in developing economies have one. Half of the 1.7 billion unbanked individuals worldwide live in just seven countries: Bangladesh, China, India, Indonesia, Mexico, Nigeria and Pakistan.

Other **inequalities in account ownership** persist: while 72% of men have an account, this is the case for only 65% of women, maintaining a global gender gap of 7 percentage points observed in 2011 and 2014; the gap rises to 9 percentage points in developing economies.

In addition, the difference in bank account ownership rates between the rich and the poor has not improved: the rate of bank account ownership in the poorest 40% of economies is 13 percentage points below that of the wealthiest 60%. Beyond access to finance, there are also prevailing **access-usage gaps**. For example, over 26% of bank accounts in developing countries have had no activity, whether deposit or withdrawal, in the past 12 months. Similarly, when it comes to digital payments, only 70% of account owners in developing countries make or receive at least one payment per year through a digital device, compared to 97% of account owners in high-income countries. Reasons for this low usage are inadequately designed products, bad customer service and an overall deficient user experience ([293]).

([291]) World Bank (2018b): The Global Findex Database 2017.

([292]) Through surveys of more than 150 000 adults in over 140 economies, it collects demand-side data on financial services to identify how adults save, borrow, make payments and manage their risk.

([293]) World Bank (2018b): The Global Findex Database 2017.

Annex 7: Data set referring to Employment and Social Innovation financial instruments

EaSI guarantees as of 31 December 2019

Country	Selected financial intermediary	Address	Window	Type of support	Budgetary allocation
Albania	FED Invest	Rruga Qemal Stafa, No.70, Kati 2, Njesia Bashkiake 4, 1002 Tirana	Microfinance	Portfolio – Guarantee	EUR 1 200 000
Albania	Fondi Besa Sh.a.	Rruga Brigada VIII Pallati 5, 1001 Tirana	Microfinance	Portfolio – Guarantee	EUR 262 400
Albania	NOA Sh.a.	Rruga Tish Daia, Kompleksi Haxhiu (Kika 2), prane Komunes se Parisit, Pallati nr.2, Kati 1, Njesia Bashkiake 5, 1001 Tirana	Microfinance	Portfolio – Guarantee	EUR 168 000
Austria	Erste Group Bank AG	Am Belvedere 1, 1100 Vienna	Microfinance	Portfolio – Guarantee	EUR 457 500
Belgium	Crédal SC SCRL-FS	Place de l'Université 16, 1348 Louvain-la-Neuve	Microfinance	Portfolio – Guarantee	EUR 600 000
Belgium	MicroStart SCRL	77 rue de Fiennes, 1070 Brussels	Microfinance	Portfolio – Guarantee	EUR 2 064 375
Belgium	MicroStart SCRL	77 rue de Fiennes, 1070 Brussels	Microfinance	Portfolio – Guarantee	EUR 2 880 000
Bulgaria	JOBS Microfinancing Institution EAD	10 Stefan Karadzha, 1000 Sofia	Microfinance	Portfolio – Guarantee	BGN 1 360 000
Croatia	Erste&Steiermarkische Banka dionicko drustvo	Jadranski trg 3A, 51000 Rijeka	Microfinance	Portfolio – Guarantee	EUR 336 000
Croatia	UniCredit Leasing Croatia d.o.o.	Heinzelova 33, 10000 Zagreb	Microfinance	Portfolio – Guarantee	EUR 640 000
Croatia	Zagrebacka banka d.d.	Trg bana Josipa Jelacica 10, 10000 Zagreb	Microfinance	Portfolio – Guarantee	EUR 1 280 000
Czechia	Ceska sporitelna, a.s.	Olbrachtova 1929/62, 14000 Prague 4	Microfinance	Portfolio – Guarantee	CZK 41 800 000
Czechia	Ceska sporitelna, a.s.	Olbrachtova 1929/62, 14000 Prague 4	Microfinance	Portfolio – Guarantee	CZK 102 600 000
Czechia	Ceskoslovenska obchodni banka, a.s.	Radlická 333/150, 150 57 Prague 5	Microfinance	Portfolio – Guarantee	CZK 21 000 000
Czechia	Komercni banka, a.s.	Na Prikope 33, PO Box 839, 114 07 Prague 1	Microfinance	Portfolio – Guarantee	CZK 25 200 000
Czechia	Komercni banka, a.s.	Na Prikope 33, PO Box 839, 114 07 Prague 1	Microfinance	Portfolio – Guarantee	CZK 88 200 000
Czechia	Raiffeisenbank, a.s.	Hvezdova 1716/2b, 14000 Prague Nusle 4	Microfinance	Portfolio – Guarantee	CZK 37 840 000
Estonia	AS LHV Pank	Tartu mnt 2, 10145 Tallinn	Microfinance	Portfolio – Guarantee	EUR 816 000
Estonia	AS LHV Pank	Tartu mnt 2, 10145 Tallinn	Microfinance	Portfolio – Guarantee	EUR 1 700 000
Estonia	Swedbank AS (Estonia)	Liivalaia 8-10, 15040 Tallinn	Microfinance	Portfolio – Guarantee	EUR 1 008 000
Estonia	Swedbank Liising AS	Liivalaia 8-10, 15040 Tallinn	Microfinance	Portfolio – Guarantee	EUR 708 000
Finland	Oma Säästöpankki Oyj	Valtakatu 32, 53100 Lappeenranta	Microfinance	Portfolio – Guarantee	EUR 1 632 000
France	Association pour le droit à l'initiative économique (Adie)	139 Boulevard de Sébastopol, 75002 Paris	Microfinance	Portfolio – Guarantee	EUR 4 372 104.45
France	Association pour le droit à l'initiative économique (Adie)	139 Boulevard de Sébastopol, 75002 Paris	Microfinance	Portfolio – Guarantee	EUR 7 980 000
France	Fédération des Plateformes Initiative France	55 rue des Francs Bourgeois, 75 181 Paris Cedex 04	Microfinance	Portfolio – Guarantee	EUR 525 000
France	Institut de Microfinance Créa-Sol	Villa d'Este, 15 avenue Robert Schumann, 13002 Marseille	Microfinance	Portfolio – Guarantee	EUR 880 000
France	Société Financière de la Nef	Immeuble Woopa 8 avenue des Canuts, Immeuble Woopa, CS60032, 69517 Vaulx-en-Velin	Microfinance	Portfolio – Guarantee	EUR 460 800

Country	Selected financial intermediary	Address	Window	Type of support	Budgetary allocation
Greece	Cooperative Bank Epirus	6 Karapanou & Ioakim Str., 45221 Ioannina	Microfinance	Portfolio – Guarantee	EUR 908 000
Greece	Cooperative Bank of Karditsa	Taliadourou & Kolokotroni Str, 43100 Karditsa	Microfinance	Portfolio – Guarantee	EUR 544 000
Greece	Cooperative Bank of Karditsa	Taliadourou & Kolokotroni Str, 43100 Karditsa	Microfinance	Portfolio – Guarantee	EUR 1 440 000
Greece	Cooperative Bank of Thessaly	61-63 Kondili street, 42132 Trikala	Microfinance	Portfolio – Guarantee	EUR 1 200 000
Greece	Eurobank Ergasias S.A.	8 Othonos Street, 105 57 Athens	Microfinance	Portfolio – Guarantee	EUR 142 560
Greece	Eurobank Ergasias S.A.	8 Othonos Street, 105 57 Athens	Microfinance	Portfolio – Guarantee	EUR 1 520 000
Greece	National Bank of Greece S.A.	Aiolou 86, 102 32 Athens	Microfinance	Portfolio – Guarantee	EUR 4 928 000
Greece	Pancretan Cooperative Bank Ltd	5 Ikarou Avenue & Efesou Street, PO Box 1517, 71110 Heraklion	Microfinance	Portfolio – Guarantee	EUR 1 406 250
Greece	Piraeus Bank S.A.	4 Amerikis Street, 105 64 Athens	Microfinance	Portfolio – Guarantee	EUR 7 600 000
Ireland	Microfinance Ireland	Earlsfort Centre, 10 Earlsfort Terrace, D02 T380 Dublin 2	Microfinance	Portfolio – Guarantee	EUR 1 875 000
Ireland	Microfinance Ireland	Earlsfort Centre, 10 Earlsfort Terrace, D02 T380 Dublin 2	Microfinance	Portfolio – Guarantee	EUR 4 500 000
Italy	Artigiancredito Toscano Consorzio Fidi della Piccola e Media, Impresa Società Cooperativa	Via della Romagna Toscana 6, 50142 Florence	Microfinance	Portfolio – Guarantee	EUR 1 600 000
Italy	Banca Popolare Sant'Angelo	Corso Via Emanuele, 10, 92027 Licata	Microfinance	Portfolio – Guarantee	EUR 1 200 000
Italy	Confidi Terziario Emilia Romagna società cooperative (COFITER)	Via Brini, 45, 40128 Bologna	Microfinance	Portfolio – Guarantee	EUR 324 000
Italy	Confeserfidi Società Consortile a Responsabilità Limita	Via dei Lillà, 22, 97018 Scicli	Microfinance	Portfolio – Guarantee	EUR 252 000
Italy	PerMicro S.p.A.	Via XX Settembre 38, 10121 Turin	Microfinance	Portfolio – Guarantee	EUR 2 240 000
Italy	PerMicro S.p.A.	Via XX Settembre 38, 10121 Turin	Microfinance	Portfolio – Guarantee	EUR 3 045 000
Italy	UniCredit S.p.A.	Piazza Gae Aulenti 3, Tower A, 20154 Milan	Microfinance	Portfolio – Guarantee	EUR 4 800 000
Italy	UniCredit S.p.A.	Piazza Gae Aulenti 3, Tower A, 20154 Milan	Microfinance	Portfolio – Guarantee	EUR 6 912 000
Latvia	JSC Development Finance Institution Altum	Doma laukums 4, 1050 Riga	Microfinance	Portfolio – Guarantee	EUR 1 608 000
Latvia	SE Capitalia	Brivibas street 40-35, 1050 Riga	Microfinance	Portfolio – Guarantee	EUR 800 000
Latvia	Swedbank AS (Latvia)	Balasta dambis 15, 1048 Riga	Microfinance	Portfolio – Guarantee	EUR 720 000
Latvia	Swedbank Lizings SIA	Balasta dambis 15, 1048 Riga	Microfinance	Portfolio – Guarantee	EUR 708 000
Lithuania	Swedbank AB (Lithuania)	Konstitucijos pr. 20A, 03502 Vilnius	Microfinance	Portfolio – Guarantee	EUR 900 000
Lithuania	Swedbank lizingas, UAB	Konstitucijos pr. 20A, 03502 Vilnius	Microfinance	Portfolio – Guarantee	EUR 944 000
Lithuania	Vilnius Factoring Company U.A.B.	Lvovo g. 25, 09320 Vilnius	Microfinance	Portfolio – Guarantee	EUR 800 000
Luxembourg	Microlux	39 rue Glesener, 1631 Luxembourg	Microfinance	Portfolio – Guarantee	EUR 372 000
Montenegro	Crnogorska Komercijalna Banka AD	Moskovska bb, 81000 Podgorica	Microfinance	Portfolio – Guarantee	EUR 416 000
Netherlands	Qredits Microfinanciering Nederland	Wierdensestraat 27, 7607 GE Almelo	Microfinance	Portfolio – Guarantee	EUR 3 975 000
Netherlands	Qredits Microfinanciering Nederland	Wierdensestraat 27, 7607 GE Almelo	Microfinance	Portfolio – Guarantee	EUR 13 200 000
North Macedonia	Sparkasse Bank Makedonija AD Skopje	Makedonija st. 9-11, 1000 Skopje	Microfinance	Portfolio – Guarantee	EUR 168 000
Poland	Bank Polska Kasa Opieki S.A.	ul. Grzybowska 53/57, 00-950 Warsaw	Microfinance	Portfolio – Guarantee	PLN 1 560 000

Country	Selected financial intermediary	Address	Window	Type of support	Budgetary allocation
Poland	Bank Polska Kasa Opieki S.A.	ul. Grzybowska 53/57, 00-950 Warsaw	Microfinance	Portfolio – Guarantee	PLN 3 066 000
Poland	Inicjatywa Mikro	Al. Krasinskiego 11A, 31-111 Krakow	Microfinance	Portfolio – Guarantee	PLN 11 793 750
Poland	Nest Bank S.A. (ex FM Bank)	Domaniewska 39A (Street), 02-672 Warsaw	Microfinance	Portfolio – Guarantee	PLN 5 100 000
Portugal	Banco Comercial Portugues (Millennium BCP)	Praça D. João I, no 28, 4000-295 Porto	Microfinance	Portfolio – Guarantee	EUR 857 250
Romania	BCR SOCIAL FINANCE IFN S.A.	Blvd. Dimitrie Pompei nr. 6C, Sector 2, 020337 Bucharest	Microfinance	Portfolio – Guarantee	RON 4 800 000
Romania	BCR SOCIAL FINANCE IFN S.A.	Blvd. Dimitrie Pompei nr. 6C, Sector 2, 020337 Bucharest	Microfinance	Portfolio – Guarantee	RON 23 040 000
Romania	BT Microfinantare IFN SA	Sos. Bucuresti – Ploiesti, nr. 43, cam 10, Sector 1, 013685 Bucharest	Microfinance	Portfolio – Guarantee	RON 16 000 000
Romania	Idea Bank S.A.	5-7 Boulevard Dimitrie Pompei, 6th Floor, Sector 2, 020335 Bucharest	Microfinance	Portfolio – Guarantee	RON 7 200 000
Romania	Libra Internet Bank S.A.	4-6 Semilunei Street, 020797 Bucharest	Microfinance	Portfolio – Guarantee	RON 5 625 000
Romania	Patria Bank SA	Etajele 1, 2 Si Mansarda, 010131 Bucharest	Microfinance	Portfolio – Guarantee	RON 8 496 000
Romania	Patria Bank SA	Etajele 1, 2 Si Mansarda, 010131 Bucharest	Microfinance	Portfolio – Guarantee	RON 17 936 000
Serbia	Erste Bank a.d. Novi Sad	Bulevar oslobodenja no 5, 21000 Novi Sad	Microfinance	Portfolio – Guarantee	EUR 661 760
Serbia	Opportunity Bank JSC Novi Sad	2A Bulevar Oslobodjenja, 21000 Novi Sad	Microfinance	Portfolio – Guarantee	EUR 1 152 000
Slovakia	OTP Banka Slovensko a.s.	Stúrova 5, 81354 Bratislava	Microfinance	Portfolio – Guarantee	EUR 840 000
Slovakia	Slovenská Sporitel'na a.s.	Tomášikova 48, 832 37 Bratislava	Microfinance	Portfolio – Guarantee	EUR 1 680 000
Slovakia	Tatra Banka A.S.	Hodzovo namestie 3, 850 05 Bratislava 55	Microfinance	Portfolio – Guarantee	EUR 2 520 000
Slovenia	Slovene Enterprise Fund	Ullca Kneza Koclja 22, 2000 Maribor	Microfinance	Portfolio – Guarantee	EUR 1 060 800
Slovenia	Slovene Enterprise Fund	Ullca Kneza Koclja 22, 2000 Maribor	Microfinance	Portfolio – Guarantee	EUR 4 800 000
Spain	Banco Popular Español, S.A.	Calle Velázquez, 34, 28001 Madrid	Microfinance	Portfolio – Guarantee	EUR 288 000
Spain	Caja Laboral Popular Sociedad Cooperativa de Crédito	José María Arizmendiarreta s/n, 20500 Mondragon	Microfinance	Portfolio – Guarantee	EUR 2 025 000
Spain	Caja Laboral Popular Sociedad Cooperativa de Crédito	José María Arizmendiarreta s/n, 20500 Mondragon	Microfinance	Portfolio – Guarantee	EUR 2 610 000
Spain	COLONYA CAIXA POLLENCA	Pl. Major 7 2°, 07460 Pollença	Microfinance	Portfolio – Guarantee	EUR 900 000
Sweden	ALMI Företagspartner AB	Klarabergsviadukten 70, 107 24 Stockholm	Microfinance	Portfolio – Guarantee	SEK 49 500 000
Sweden	ALMI Företagspartner AB	Klarabergsviadukten 70, 107 24 Stockholm	Microfinance	Portfolio – Guarantee	SEK 96 000 000
Sweden	Kreditgarantiföreningen Norr ekonomisk förening	Skolgatan 11, 921 31 Lycksele	Microfinance	Portfolio – Counter Guarantee	SEK 3 024 000
Sweden	Marginalen Bank Bankaktiebolag	Adolf Fredriks Kyrkogata 8, 100 41 Stockholm	Microfinance	Portfolio – Guarantee	SEK 20 000 000
Turkey	Fibabanka A.S.	Emirhan Cd. Barbaros Plaza Is Merkezi No 113 Dikilitas, 34349 Istanbul	Microfinance	Portfolio – Guarantee	EUR 3 200 000
United Kingdom	Fredericks Foundation	39 Guildford Road, Lightwater, Fredericks, Surrey GU18 5SA	Microfinance	Portfolio – Guarantee	GBP 998 800

Source: Extract from EIF (2020b)

Conditions of all EaSI financial instruments

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility
EaSI Guarantee Instrument	Guarantee Microfinance (counter-) guarantee facility	European Commission (EaSI Programme)/ EIF	**Available:** EUR 406 million for microfinance and social enterprise funding **Provided:** 87 portfolio guarantees for EUR 176 million, plus 1 portfolio counter guarantee for EUR 0.3 million (as of December 2019) **Microfinance portfolio (projected leverage):** 246 107 Micro-enterprises (MEs) for EUR 2 billion	To enable selected microcredit providers to expand their outreach to underserved micro-enterprises, facilitating access to finance for target groups who have difficulties in accessing the conventional credit market (for both the start-up and development phases)	**General:** rate (max. 80% of portfolio), cap rate (max. 30%) **Specific:** EUR 142 560 to EUR 9 163 803 (as of May 2019)	**Overall:** June 2015 to September 2023 **Per institution:** 60 months	**Currency:** EUR or other eligible currency of the country **First loss capped portfolio (counter-) guarantee:** coverage for credits (including revolving facilities, portfolio of new debt financing) Covers **microloans** (up to EUR 25 000) to **micro-borrowers** (vulnerable persons) and **micro-enterprises** with fewer than 10 employees and whose annual turnover and/or assets are worth less than EUR 2 million in both the start-up and development phases Free of charge, unconditional guarantee **European Code of Good Conduct for Microcredit Provision:** endorsement (for banks) or sign up and compliance (for all other FIs)	**Type of institutions:** banks, microfinance institutions, credit unions, credit cooperatives, leasing companies, guarantee schemes, guarantee institutions, etc. **Country coverage** ([294])**:** EU Member States, plus Albania, Iceland, Montenegro, North Macedonia, Serbia, Turkey
Business Development Services (BDS) Pilot	Grant for covering costs (set out/amendment of the guarantee agreement with the FI)	European Commission (EaSI Programme)/ EIF	**Available:** EUR 1 million (2019-2020) **Provided:** n/a (not started) **Final recipients:**	To further strengthen the EaSI MF Guarantee selected FIs for the provision of business development services to refugees and migrants and therefore contribute to their financial	**General:** EUR 100 000 (max) per Financial Institution (FI) **Specific:** n/a	**Overall:** January 2019 to December 2020	The objective is to provide **partial coverage for the BDS costs** incurred by intermediaries when providing such services for **migrants** (a person whose country of origin differs from the participating country in which they are residing, evidenced by a relevant residential permit in accordance with the applicable laws of the country) and **refugees** (a person who benefits from	**For EaSI Microfinance (Counter-) Guarantee intermediaries** **Type of institutions:** banks, microfinance institutions, credit unions, credit cooperatives, leasing companies, guarantee schemes, guarantee institutions, etc.

([294]) Other associated countries that have entered into relevant agreements with the EU may be included: eligible EFTA and candidate countries may be added to the participating countries.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility
			n/a (not started)	and social inclusion. An additional aim is to boost entrepreneurship among these vulnerable groups, which are often confronted with a challenging environment when setting up and developing a business in a country other than their country of origin (e.g. language barriers, administrative burden, lack of local knowledge of local legislation, etc.)			international protection/refugee status in the relevant jurisdiction) The **final recipients** (migrants/refugees) are running or wishing to establish a business. If the final recipient is a legal entity, its shareholder, director, member of the board or other corporate body or other legal representative shall qualify as a refugee and/or a migrant and shall be the recipient of BDS. After providing BDS in the form of coaching, mentoring or training to an eligible final recipient, intermediaries under the EaSI Microfinance Guarantee will be eligible for a lump sum of EUR 400.	**Country coverage:** EU Member States, plus Albania, Iceland, Montenegro, North Macedonia, Serbia, Turkey
EaSI Capacity Building Investments Window	Equity investment, subordinated loan, indirect investment in funds that invest in financial institutions	European Commission (EaSI Programme)/ EIF	**Available:** EUR 26 million (indicative for 2016-2023) **Provided:** 11 contracts signed for EUR 21.5 million (of which EUR 12.5 million target microfinance) **Pipeline:** 12 applications	To invest in organisational development and expand or increase indebtedness capacity To build up the institutional capacity of selected financial intermediaries that have not yet reached sustainability or are in need of risk capital to sustain their growth and development	**General:** For equity, a maximum of 30% of an FI's equity For sub-ordinated loans, a maximum of 100% of an FI's equity	**Overall:** Application: December 2016 to September 2023 Implementation: to have started by January 2024 and to have ended by December 2032 **Per institution:** Equity: exit strategy to be identified ex ante (on a case-by-case basis)	**Currency:** EUR or other eligible currency of the country **European Code of Good Conduct for Microcredit Provision:** endorsement (for banks) or sign up and compliance (for all other FIs) EIF may appoint a representative in the relevant governance body in justified cases or after assessment Investments made under such windows are not linked to the origination of a portfolio of loans. However, in order to be eligible for investment, the activity of the applicant should be primarily linked to the relevant EaSI Target Groups	**Type of institutions:** banks, non-bank financial institutions/organisations established on a national, regional or local level, operating in the microfinance market, including Greenfield financial intermediaries in need of seed financing/risk capital; funds/vehicles investing in those intermediaries **Country coverage:** EU Member States, plus Albania, Iceland, Montenegro, North Macedonia, Serbia, Turkey

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility
						Sub-loan: at least five years	All other terms and conditions will be developed after the due diligence of EIF	
EaSI Funded Instrument (October 2019)	Senior loan, subordinated loan	European Commission (EaSI Programme)/ EIF	**Available:** EUR 200 million **Pipeline:** 10 applications	Onlending to micro-enterprises	**General:** a maximum of 100% of an FI's equity	**Overall:** 2019-2023 **Per institution:** long-term (over five years)	To lend microloans (up to EUR 25 000) to micro-borrowers (vulnerable persons) and micro-enterprises with fewer than 10 employees and whose annual turnover and/or assets are worth less than EUR 2 million in both start-up and development phases Unsecured **Price:** TBC	**Type of institutions:** banks, microfinance institutions, credit unions, credit cooperatives, leasing companies, guarantee schemes, guarantee institutions, etc. **Country coverage:** EU Member States, plus Albania, Iceland, Montenegro, North Macedonia, Serbia, Turkey

Annex 8: Detailed funder mapping on international funders targeting microfinance in Europe

Multilaterals

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
EBRD Small Business Initiative	Financing through local financial institutions (debt, equity, mezzanine), co-financing and risk-sharing Direct financing to dynamic, fast-growing SMEs in countries where the EBRD works, that are underserved by the financial sector Lending in over 21 local currencies ([295])	**Bilateral donors:** Albania, Austria, the Central European Initiative, the EU, Italy, Japan, Kazakhstan, Korea, Luxembourg, Sweden, Switzerland, Taiwan Business-EBRD Technical Cooperation Fund, Turkey, the UK and the US Multi-donor funds: EBRD Small Business Impact Fund, EBRD Early Transition Countries Fund, Global Environment Facility, EBRD SEMED Multi-Donor Account ([296])	EUR 1.24 billion is channelled to over 200 000 small businesses each year The EBRD Small Business Impact Fund has channelled EUR 130 million of EBRD finance, reaching about 3 000 SMEs	To help small businesses reach their full potential through access to the right finance and know-how to enable them to improve their compete-tiveness and growth The Small Business Initiative is a strategic initiative integrating the tools that the EBRD offers to support small enterprises	**General EBRD guidelines for loans:** Larger projects: EUR 3 million to EUR 250 million, with an average of EUR 25 million ([297])	**General EBRD guidelines for loans:** Short- to long-term maturities up to 10 years Longer maturities may be considered on an exceptional basis	**General EBRD guidelines for loans:** Fixed rate basis, linked to a floating rate such as LIBOR, or floating rate basis with a cap or a collar The EBRD does not subsidise projects A margin is added to the base rate. The EBRD may also charge fees (commitment fees, front-end commission, prepayment fees, etc.)	**Type of institutions:** local banks, MFIs, leasing companies, private equity funds **Country coverage:** Eastern Europe and Caucasus, Western Balkans, Turkey, European countries that are not eligible for overseas development assistance (ODA – Bulgaria, Croatia, Cyprus, Greece, Romania, Russia), SEMED, Central Asia and Mongolia **Other requirements:** an SME is defined as a business with a turnover of under EUR 50 million (or a balance sheet under EUR 43 million), with between 10 and 250 employees (exceptionally up to 500 employees)	**Direct finance provided in 2018:** Non-ODA countries: EUR 21.1 million Eastern Europe and Caucasus: EUR 56.2 million Turkey: EUR 5 million Western Balkans: EUR 12.5 million

([295]) European Bank for Reconstruction and Development (EBRD) (2019i): Small businesses (SMEs).

([296]) EBRD (2019d): EBRD donor partnerships.

([297]) EBRD (2019k): Loans.

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
EBRD Women in Business Programme – Western Balkans	Senior loans, technical assistance, first-loss cover, BDS for women-led SMEs ([298])	EBRD, EBRD Shareholder Special Fund, governments of Italy (Albania) ([299]), Luxembourg and Sweden/ EBRD ([300])	EUR 50.4 million (March 2018) ([301]) EUR 33.5 million with seven private finance initiatives (PFIs) ([302])	Expand lending to women-led micro and small businesses ('WiB MSMEs'), which continue to experience distinct limitations in access to finance	EUR 2 to 5 million (loans to PFIs for on-lending) ([303])	Overall duration of the programme: six years, from 2014 ([304])	Negotiated on an individual basis	**Type of institutions:** local banks **Country coverage:** Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia **Other requirements:** the loans disbursed by the EBRD have to be on-lent to women entrepreneurs	Serbia: Banca Intesa: up to EUR 5 million ([305]) UniCredit Bank Serbia: EUR 5 million, backed with first-loss risk cover and TA ([306]) Bosnia and Herzegovina: UniCredit Bank Banja Luka: EUR 2 million ([307])
EBRD Albania Agribusiness Support Facility	Credit lines for agribusiness lending/ unfunded risk-sharing facilities for agribusiness loan portfolios, capacity building for PFIs, business advice for agribusinesses	EBRD, government of Albania/ EBRD, GFA Consulting	Up to EUR 100 million (EBRD) Up to EUR 36 million first-loss risk cover (government of Albania) ([308]) ([309])/10 million in senior unsecured loans (NOA Albania, EUR 5	To promote and enhance access to finance for agribusinesses in Albania by addressing the financing gap as one of the main challenges for the sector's development ([310])	EUR 5 million loans, up to EUR 30 million risk-sharing	**2016:** ongoing **Per institution:** TBC	Negotiated on an individual basis	**Type of institutions:** Albanian commercial banks and non-bank microfinance institutions **Country coverage:** Albania **Other requirements:** Clients will primarily be	NOA Albania (up to EUR 5 million senior unsecured loan, complemented by a first-loss risk cover, contributed by the government of Albania, and TA to NOA for capacity building and to NOA's existing and potential clients for advisory services) Fondi Besa (see NOA

([298]) EBRD (2019e): EBRD launches Western Balkans Women in Business programme.
([299]) EBRD (2019r): Women in Business: Get the financing and business advice you need to grow your business: Become part of our international network of women entrepreneurs.
([300]) Ibid.
([301]) EBRD (2018): Women in Business Programme in the Western Balkans, p. 4.
([302]) EBRD (2019): Western Balkans Women in Business Regional Forum in May 2019 in Skopje.
([303]) Ibid, p. 6 f.
([304]) Ibid, p. 30.
([305]) EBRD (2019g): FIF-WB WiBP Loan II-Banca Intesa Beograd.
([306]) UniCredit Bank, EBRD (2019): UniCredit Bank and EBRD support Women in Business with EUR 5 million.
([307]) EBRD (2019e): EBRD launches Western Balkans Women in Business programme.
([308]) EBRD (2019a): Albania Agribusiness Support Facility.
([309]) EBRD (2019b): Albania Agribusiness Support Facility launched with six financial institutions.
([310]) EBRD (2019a): Albania Agribusiness Support Facility.

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
			million and Fondi BESA, EUR 5 million) EUR 80 million in unfunded risk-sharing facility (Procredit Bank Albania EUR 15 million, Raiffeisen Bank Albania, EUR 35 million and Societe Generale Albania, EUR 30 million)					selected from leading commercial banks with extensive outreach in the agribusiness sector and commitment to growing agribusiness Lending must be carried out on a sustainable basis (311)	Albania) ProCredit Bank Albania (unfunded risk-sharing facility of up to EUR 15 million, covering up to 50% of a portfolio of eligible loans to the agribusiness sector)
EBRD Women in Business (WiB) Programme Turkey: Phase I and Phase II	**Phase I:** senior loans, TA, first-loss cover, BDS for women-led SMEs **Phase II:** senior loans, TA, guarantee through Turkish Credit Guarantee Fund (KGF), BDS for women-led SMEs, policy advice	**Phase I:** EU, EBRD and the Republic of Turkey (312) **Phase II:** EU, EBRD	**Phase I:** credit lines of up to EUR 300 million in total to PFIs (EBRD); EU IPA and Turkish Ministry of Labour and Social Security grants of up to EUR 39 million (313) **Phase II:** credit lines of up to EUR 600 million to PFIs (EBRD), up to EUR 240 million	To promote women's participation in businesses by assisting women-owned and women-managed SMEs to access finance, know-how and non-financial BDS	**Phase I:** senior unsecured loans of up to EUR 50 million (315) (316) (317)/ USD 55 million in rated notes issued under the Diversified Payment Rights (DPR) programme (318) (319) **Phase II:** na	**Phase I:** May 2014 to December 2017 **Phase II:** November 2018 to November 2021	Negotiated on an individual basis	**Type of institutions:** local banks **Country coverage:** Turkey **Other requirements:** On-lending funds to women-led private sector companies Share of WiB loans outside Istanbul, Ankara, Izmir: 50% Share of start-ups/first-time borrowers: 30%	**Phase I:** Garanti Bankası: EUR 50 million QNB Finansbank: EUR 100 million Türk Ekonomi Bankası (TEB): EUR 50 million İşbank: EUR 50 million VakıfBank: EUR 50 million (320) **Phase II:** na

(311) Ibid.
(312) EBRD (2019r): Women in Business: Get the financing and business advice you need to grow your business: Become part of our international network of women entrepreneurs.
(313) EBRD (2019m): Turkey WiB Programme.

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
			mobilised by PFIs (314)						
EBRD Women in Business (WiB) Programme Croatia	Senior loans, TA, first-loss cover, BDS for women-led SMEs	TaiwanBusiness-EBRD Technical Cooperation Fund and the EBRD Shareholder Special Fund	**Total funding Provided:** EUR 17 million (321), EBRD investments: EUR 3 million (322), currently two PFIs (323)	To promote women's participation in businesses by assisting women-owned and women-managed SMEs to access finance, know-how and non-financial BDS	**Hrvatska poštanska banka:** loan of up to EUR 2 million; TA and BDS of up to EUR 1.25 million (324) **Raiffeisen Bank Croatia:** loan of at least EUR 5 million (325)	October 2015 to 2019	Negotiated on an individual basis	**Type of institutions:** local banks **Country coverage:** Croatia **Other requirements:** on-lending funds to women-led private sector companies	Hrvatska poštanska banka, Raiffeisen Bank Croatia, Privredna Banka Zagreb
Council of Europe Development Bank – Support to MSMEs (326)	**Principal instrument:** loans **Additional instruments:** guarantees, grants and interest rates	**Donors to CEB:** Over EUR 10 million: the European Commission, the United	In 2018, CEB approved EUR 1.1 billion for MSME financing (327) As at the end of 2018, CEB had	Since 2017, CEB broadened its scope to allow on-lending in social purpose loans for the financial inclusion of	Projects approved for MSME support (2010 to January 2019) ranged between	CEB activities in microfinance started in 2008	There is no information available on specific conditions for individual projects	**Type of institutions:** banks, MFIs, leasing institutions **Country coverage:** Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czechia, Finland, France,	**Examples of approvals for MSME support in 2016-2019:** Bosnia and Herzegovina: MKD Mikrofin D.O.O. Banja Luka, EUR 5 million, MSME support

(315) EBRD (2019q): Turwib-Teb.
(316) EBRD (2019p): TurWiB – Finansbank.
(317) EBRD (2019o): Turkey Women in Business: QNB Finansbank II.
(318) EBRD (2019j): Isbank – WiB Programme – DPR.
(319) EBRD (2019i): Garanti DPR – TurWIB.
(320) EBRD (2019r): Women in Business: Get the financing and business advice you need to grow your business: Become part of our international network of women entrepreneurs.
(314) EBRD (2019n): Turkey Women in Business Programme II.
(321) EBRD (2019c): EBRD continues support for Women in Business in Croatia.
(322) EBRD (2019): Western Balkans Women in Business Regional Forum in May 2019 in Skopje.
(323) ibid.
(324) EBRD (2019f): EBRD provides financial package for Hrvatska poštanska banka.
(325) EBRD (2019h): Financial Intermediary Framework – Croatia Women in Business – Raiffeisen.
(326) All boxes highlighted in grey mark the financial institutions that more specifically target the European microfinance market.
(327) Council of Europe Development Bank (2018): Report of the Governor 2018, p. 8.

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
	subsidies	States of America, Germany and Norway EUR 5 million to EUR 10 million: Italy, Switzerland, Spain and the EIB Up to EUR 5 million: France, Sweden, Slovakia, the Netherlands, Denmark, Finland, Turkey, Luxembourg, the UK, Ireland, Lithuania, Cyprus, Czechia, Hungary, Poland, Albania, Romania, Malta, Holy See, Bosnia and Herzegovina, San Marino, Iceland, Liechtenstein and Bulgaria	approved 16 loans of a total value of EUR 465.5 million ([328]) for microfinance	vulnerable populations – women, migrants, minorities – and to address regional disparities and gender imbalances ([329])	EUR 2.5 million and EUR 300 million ([330])		Framework conditions are available in the [CEB Loan Regulations]	Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Malta, Moldova, Montenegro, Netherlands, North Macedonia, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Turkey **Other requirements:** The CEB will give priority to initiatives driven by governments in this sector via wholesale funding (apex) structures developed with state-owned banks and to those implemented by other financial institutions, such as commercial banks or leasing companies ([331])	Spain: Nuevo Microbank, EUR 100 million, support to MSMEs, integration of refugees, displaced persons and migrants Slovakia: Československá obchodná banka, a.s., EUR 20 million, support to MSMEs Poland: Europejski Fundusz Leasingowy S.A., EUR 50 million, MSMEs, promoting the creation and preservation of viable and seasonal jobs

([328]) Council of Europe Development Bank (2019a): Supporting inclusion in Europe through microfinance, p. 5.

([329]) Ibid, p. 11.

([330]) Obtained by filtering the information available on the CEB's Projects approved by the Council page (Council of Europe Development Bank, 2019c: Projects approved by the Administrative Council).

([331]) Council of Europe Development Bank (2019b): Projects and loans policies and guidelines.

Name	Type of financial instrument	Source of funding/ implement-ting institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
International Finance Corporation (IFC)	Debt (loans, bonds and other fixed income instruments), equity and blended finance, provided in 74 local currencies	Capital markets/IFC	**Annual funding programme:** USD 17 billion (FY 2019) **Estimated amount of active investments in financial institutions:** USD 5.127 million ([332])	Depends on the specific investment, for example, MSME support, agribusiness, etc.	**Range of currently active investments in the financial sector:** USD 1.5 million to USD 400 million ([333])	**Loans:** 7 to 12 years **Equity:** 5 to 10 years	Market conditions (except for term) **Equity:** stake acquired is generally between 5% and 20% of a company	**Type of institutions:** intermediary banks and leasing companies for loans; other financial institutions for on-lending **Country coverage:** must be located in a developing country that is a member of IFC **Other requirements:** Must be in the private sector Must be technically sound Must have good prospects of being profitable Must benefit the local economy Must be environmentally and socially sound, satisfying set environmental and social standards as well as those of the host country	MSMEs/Tier 1 MFIs Bosnia and Herzegovina: MF Banka (senior loan of up to EUR 4 million, four years maturity – including one year's grace period – to support its MSME activities ([334])) Montenegro: Alter Modus (senior loan of up to EUR 4 million for on-lending to SMEs) Romania: Patria Credit (local currency senior loan of up to the equivalent of USD 11 million ([335])) Serbia: ProCredit Bank Serbia (EUR 20 million senior term loan ([336]))

Development Finance Institutions

([332]) Figure obtained by filtering the information available at the IFC project information & data portal as of 2.7.2019 (International Finance Corporation (IFC), 2019a: IFC project information & data portal). It takes into account active investments in financial institutions in the covered countries, as well as supranational investments in the central, eastern, and southern European regions.

([333]) Ibid.

([334]) IFC (2019b): MF Banka SL.

([335]) IFC (2019c): Patria Credit.

([336]) IFC (2019d): ProCredit MSME.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
DEG – Financing for financial institutions	Long-term loans, equity capital, mezzanine finance (in EUR, USD or some local currencies, including TRY)	KfW/DEG	**Portfolio in Europe as at the end of 2018:** EUR 814 million (337) **New commitments in Europe/ Caucasus in 2018:** EUR 245.1 million, of which 10% went to financial institutions (338)	To provide long-term financing to private-sector companies operating in developing and emerging countries MSMEs	**Range of current invest-ments in financial sector in Europe/ Caucasus:** EUR 800 000 to EUR 43 million (339)	**Loan term:** generally four to seven years **Mezzanine finance:** generally 10 years	**Loans:** fixed or variable market-oriented interests **Equity:** with a minority stake and a clear exit strategy **Mezzanine finance:** formed of equity capital and third-party capital, subordinated security, risk-commensurate return Commercial conditions	**Type of institutions:** financial institutions **Country coverage:** Albania, Montenegro, North Macedonia, Serbia, Turkey	**Montenegro:** Lovcen Bank (EUR 800 000, October 2018, EUR 1 million, August 2017) (340)
KfW – Entrepreneur Loans with Special SME Window (program 47)	Low-interest loans with special conditions for SMEs as defined by the EU (fewer than 250 employees, maximum revenue EUR 50 million)	KfW refinances loans granted by the applicant's bank or financial institution	Commitment volume 2018: EUR 2 454 million for 8 775 credit contracts (341)	Financing of medium- and long-term projects, investments, and operating resources	Up to 100% of the investment, with maximum amount EUR 25 million per project If SMEs choose to	Minimum term of two years	Maximum effective rates for SMEs: 1.00-7.69% according to credit rating Commitment fee: 0.15% / month (342)	**Type of institutions:** Companies and independent workers **Country coverage:** Germany/German investments in other countries (foreign subsidiaries or joint ventures)	Medium-sized

(337) KfW DEG (2019b): Portfolio.

(338) KfW DEG (2018): Annual report 2018, pp. 23, 31.

(339) KfW DEG (2019a): Our investments.

(340) Ibid.

(341) KfW (2019a): Förderschwerpunkt Gründung und Unternehmensinvestition – Geschäftssegment Mittelstandsbank.

(342) KfW (2019b): Konditionenübersicht für Endkreditnehmer. Specific conditions can be seen by entering the program number.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
					have 50% of liability shared by bank and KfW, maximum amount of EUR 5 million			**Other requirements:** Be active in the market for at least five years.	
KfW - ERP-Regional-förder-programm (program 72)	Low-interest loans for SMEs in structurally weak regions	KfW refinances loans granted by the applicant's bank or financial institution	Commitment volume 2018: EUR 617 million for 1 761 credit contracts ([343])	Financing of medium- and long-term projects, investments, and operating resources	Up to 100% of the investment, with maximum amount EUR 3 million per project	Minimum term of two years	Max effective rates for SMEs: 1.03-7.64% according to credit rating Commitment fee: 0.15% / month	**Type of institutions:** SMEs and independent professionals **Country coverage:** Structurally weak regions in Germany (Berlin, "new" Länder and other specific regions) **Other requirements:** Be active in the market for at least five years.	Medium-sized
KfW - ERP Kapital für Gründung (program 58)	Low-interest subordinated loans for start-ups and entrepreneurs that meet SME criteria	KfW refinances loans granted by the applicant's bank or financial institution	Commitment volume 2018: EUR 99 million for 480 credit contracts ([344])	Financing of start-ups (including takeover of existing companies), consolidation of young companies	Up to 50% of the investment, with maximum amount of EUR 500 000 per applicant Minimum of 10% own capital required	Credit term 15 years with seven years' grace period	Effective rates: in first three years of credit n/a, from fourth year 2.82-3.07% depending on region.	**Type of institutions:** Individuals who wish to start an SME or consolidate an SME with three years or less of existence **Country coverage:** Germany **Other requirements:** Not applicable to firms in difficulty, companies kept as supplementary to other occupation, or companies in agro or fisheries sectors	Medium-sized

([343]) KfW (2018): Förderreport KfW Bankengruppe, p. 4.

([344]) Ibid, p.4.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
FMO (Netherlands)	Long-term loans, private equity, trade finance, mezzanine and other products for financial institutions In USD, EUR or local currency	FMO ownership: State of the Netherlands (51%), Dutch banks (42%), employers' associations, trade unions and corporate investors (7%) ([345])	Total committed portfolio 2018: EUR 6.6 billion. Of this, EUR 1.5 billion in eastern Europe and Central Asia EUR 2.7 billion from the total portfolio corresponds to investments in financial institutions ([346])	Promoting sustainable development in places where it is needed the most and financing can be hard to obtain ([347])	Range of approved investments in Europe and Central Asia: from EUR 800 000 to EUR 25 million	Typical loan maturity: five to seven years	No specific conditions (e.g. rates) for investments found	**Type of institutions:** Financial institutions **Country coverage:** In Europe and Central Asia: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kyrgyzstan, Kosovo, Moldova, Serbia, Tajikistan, Turkey, Netherlands, Uzbekistan **Other requirements:** At least 70% of FMO investments should go to low-income and lower-middle income countries	General figures for end-2018: 615 000 jobs supported, 19.4 million microloans and 1.3 million SME loans in FMO clients' portfolios ([348]) Albania: Fondi Besa (MFI) EUR 5 million Bosnia and Herzegovina: EKI, Partner, Mikrofin (MFIs) EUR 5 million each Serbia: Komercijalna Banka EUR 20 million Turkey: AK Lease (SMEs), USD 10 million, Sekerbank (SMEs) EUR 20 million part in syndicated loan ([349])
ACTIAM FMO SME Finance Fund (Netherlands)	Debt investments in SME banks	Dutch Development Bank (FMO) Fund manager: ACTIAM Impact Investing	EUR 284 million invested till year-end 2018 ([350]), fully drawn Outstanding SME loan portfolio: EUR 15.9 billion	Financing the capital needs of the local SME sector	No specific information found	10 years	Target net return: Euribor + 3 -6% Management fee: 0.75%	**Type of institutions:** Local financial institutions with a focus on SMEs **Country coverage:** Developing and emerging markets globally **Other requirements:** Screening of environmental and social	In the focus region, fund investment only in Turkey

([345]) FMO (2018a): Annual report 2018, p. 4.
([346]) Ibid, p. 6.
([347]) Ibid, p. 21.
([348]) Ibid, pp. 5, 38.
([349]) FMO (2019): 1 Investments.
([350]) FMO (2018c): Responsibility and impact report 2018: ACTIAM-FMO SME Finance Fund 1, p. 10.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
								performance required for potential investees	
[MASSIF (Netherlands)]	Seed capital, local currency debt and mezzanine structures, direct equity and investment funds Predominantly (80% or portfolio) local currency financing	Fund managed by FMO on behalf of Dutch Ministry of Foreign Affairs	Total committed portfolio: EUR 549 million, in 135 active investments EUR 50 million portfolio in eastern Europe and Central Asia 35% of the total portfolio is invested in financial institutions ([351])	Enhancing financial inclusion for MSMEs that are dis-proportionately affected by a lack of access to financial services	Approved MASSIF investments in Europe and Central Asia range from EUR 40 000 to ca. EUR 9 million	Typical FMO loan maturity: five to seven years (no specific data for MASSIF found)	No specific conditions (e.g. rates) for investments found	**Type of institutions:** Intermediaries that reach out to MSMEs in fragile and low-income countries, rural areas, women-and youth-owned, and base-of-the-pyramid individuals **Country coverage:** In Europe and Central Asia: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kyrgyzstan, Kosovo, Moldova, Serbia, Tajikistan, Turkey, The Netherlands, Uzbekistan	General figures for end 2018: 87 500 micro-entrepreneurs and 1 485 SMEs reached ([352]) Albania: NOA (MFI) EUR 5 million Bosnia and Herzegovina: MF Banka (SMEs) EUR 0.32 million
[Proparco (France)]	Loans (also in local currency), equity and quasi-equity investments, guarantees Operates in 27 local currencies ([353])	AFD (French government, 74% ownership) French financial institutions: 12.5% Other shareholders: international financial institutions (11%), companies (1.7%) ([354])	Proparco total microfinance portfolio: EUR 167 million, 40 projects ([355])	Increasing local financing capacities, and contribute to the financial soundness and stability of actors in the sector	Loans: from EUR 3 million to EUR 100 million	Loans: up to 20 years, including grace period	Equity: minority investments via financial intermediaries, particularly investment funds	**Type of institutions:** Banks, MFIs, funds investing in the microfinance sector **Country coverage:** Africa, Asia, Latin America, Middle East. In the covered region, only relevant investments in Turkey **Other requirements:** No financing to institutions that generate significant profits to the detriment of their clients	Relevant projects: Turkey: Finansbank (EUR 30 million credit line for agricultural SMEs), FinansLeasing (USD 15 million participation in USD 100 million syndicated loan by IFC for financing micro and SMEs)

([351]) FMO (2018b): MASSIF 2018 annual report.

([352]) Ibid.

([353]) Proparco (2019a): Entreprendre en commun.

([354]) Proparco (2019b): Gouvernance.

([355]) Proparco (2019c): Microfinance.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
OeEB (Oesterreichische Entwicklungsbank – Austria)	Long-term loans, equity In EUR or USD	OeEB/Austrian government	Total portfolio of projects to benefit micro and SMEs: EUR 343 million (end-2017) ([356])	Private sector promotion in developing countries.	Generally, max. EUR 25 million per transaction	Up to 15 years, including grace period	Interest close to the market, no interest-rate subsidies	**Type of institutions:** Projects relevant from a development point of view. **Country coverage:** In the covered region, only relevant investments in Serbia	Total figure: at least 71 160 microcredits granted with funds from OeEB ([357]) Serbia: EUR 15 million loan to export credit agency (AOFI). AOFI lists 288 clients, and has granted 210 loans and factoring contracts and 45 guarantees (in total, not only associated to OeEB funds) ([358])

([356]) Oesterreichische Entwicklungsbank (OeEB) (2019): Entwicklungspolitische Effekte.

([357]) Ibid.

([358]) AOFI (2019): About us.

Microfinance investment vehicle/Impact investors – large

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
responsAbility	ResponsAbility Micro and SME finance fund (1) SICAV (Lux) Micro and SME Finance Debt Fund (2) SICAV (Lux) Micro and SME Finance Leaders (3)	Portfolio manager: responsAbility Investments AG, Zurich Custodian: Credit Suisse (Luxembourg)	Data as of May 2019: (1) Fund volume: USD 794 million, 374 investments, 85 countries (4.5% allocated to eastern Europe) ([359]) (2) Fund volume: USD 358 million, 279 investments, 68 countries (5% allocated to eastern Europe) ([360]) (3) Fund volume: USD 267 million, 220 investments, 74 countries (5.5% allocated to eastern Europe) ([361])	(1) Provide limited equity investments in local MSME finance institutions and fixed income investments to the agricultural value chain (2) Focuses on non-listed MSME financial institutions with successful business models (3) Closing funding gaps for local MSME financial institutions Provide investments in short- to medium-term fixed- and variable interest debt securities	General responsAbility investment criteria in financial institutions ([362]) Equity: minority share-holding positions (10-30%), USD 5-25 million Debt: USD 2-40 million	General responsAbility investment criteria in financial institutions: Equity: long term Senior debt: mid- to longer term Short-term debt: 3-12 months	No information on specific conditions found.	**Type of institutions:** Financial institutions with total assets of at least USD 20 million, at least three years' business track **Country coverage:** Worldwide **Other requirements:** Responsible lending practices and adherence to international standards, commercial focus, monthly reporting	Fund impact data as of May 2019: (1) Avg loan disbursed: USD 1 673 MSMEs reached: 474 389 (2) Avg loan disbursed: USD 230 MSMEs reached: 235 996 (3) Avg loan disbursed: USD 228 MSMEs reached: 160 338 No information found on beneficiaries in the covered countries.
European Fund for Southeast Europe	Medium to long-term senior loans, Subordinated	Donor Agencies: EIF and KfW as Trustees for	Total committed funding: USD 967.6 million,	To foster economic development and prosperity	No specific information on loan amounts to	Overall: unlimited Per institution: Maturity of up	Pricing, Repayment, Disbursement are negotiated	**Type of institutions:** Local commercial banks, Specialised microfinance banks, Microcredit	Average sub-loan size: EUR 6 477

([359]) responsAbility (2019b): responsAbility Micro and SME Finance Fund Monthly Report May 2019.
([360]) responsAbility (2019a): responsAbility Micro and SME Finance Debt Fund Monthly report May 2019.
([361]) responsAbility (2019c): responsAbility Micro and SME Finance Leaders Monthly report May 2019.
([362]) responsAbility (2019d): Financial institutions.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
(EFSE)	loans, Term deposits, Subscriptions to bond issues, Co-investments (syndicated loans), Stand-by letters of credit Guarantees, Equity and quasi-equity participations	the European Commission, SDC, BMZ, ADA International, DANIDA, Republic of Albania, Central Bank of Armenia Financial Institutions: KfW, IFC, FMO, EBRD, EIB, OeEB Private Institutional Investors: Hauck & Aufhäuser Fund Services, Crédit Cooperatif, Steyler Ethik Bank, Democracy & Media Foundation, Finance in Motion, Versorgungs-fonds Brandenburg, GLS Bank/ Finance in Motion as Fund Advisor ([363])	outstanding loan volume: EUR 867.3 million ([364])	in the south-east Europe region and in the European Eastern Neighbourhood region through the sustainable provision of additional development finance, notably to micro and small enterprises (MSEs) and private households, via qualified financial institutions ([365])	partner institutions found	to 10 years, 15 years in exceptional cases ([366])	on an individual basis. Partner lending institutions have to report to EFSE on a regular basis ([367]). USD, EUR and local currency	organisations, Other non-bank financial institutions (e.g. leasing companies), Investment companies or funds with a regional orientation **Country coverage:** Albania, Bulgaria, Croatia, Montenegro, North Macedonia, Romania, Serbia, Turkey **Other requirements:** These are based on financial strength, creditworthiness, compliance with the EFSE's business ethics, and strong corporate governance. EFSE partner lending institutions are also required to channel any funding provided by the EFSE exclusively to the EFSE's final target group (Micro and small enterprise loans, Rural loans for micro- and small enterprises located in rural areas or those engaged in agricultural activities, Housing loans to low-income households ([368]).	End of 2017 (no amount available) ([369]), MCPs: Albania: Fondi BESA, NOA, SLC FED Invest Bosnia and Herzegovina: Partner Mikrokreditna, MI-BOSPO, Mikrofin, Microcredit Company EKI, Microcredit Foundation EKI, MF Banka North Macedonia: Mikrokreditna Fondacija Horizonti Montenegro: MFI Alter Modus Romania: Patria Credit Serbia: Opportunity Bank Serbia, ProCredit Bank

([363]) Ibid, p. 7.
([364]) EFSE (European Fund for Southeast Europe) (2018): At a glance.
([365]) EFSE (2019b): Mission.
([366]) EFSE (2019a): Investments.

Microfinance investment vehicle/Impact investors – medium

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
Symbiotics	Private Debt: Certificates of deposits, Short-term loans and promissory notes, Term loan agreements (three to five years), Guarantee agreements, Subordinated debt (370) Listed Bonds	**Symbiotics Sicav - Emerging Impact Bond Fund (EIBF):** Qualified private and institutional investors (from EUR 125 000 onwards)/Symbiotics **Loans for Growth (LfG) Fund:** Symbiotics and UBS, with risk protection from Switzerland (SECO)	**EIBF:** Net assets: USD 11.4 million, Portfolio value: USD 10.2 million (32 investees) **LfG** fund size USD 50 million (371), as of end-2018 financed 38 institutions in 24 countries. Eastern Europe, Central Asia and MENA is the second largest exposure (25%)	**EIBF:** finance businesses and projects which target Low and Middle Income Households (LMIHs) and MSMEs in emerging and frontier markets. **LfG**: Foster job creation, employment and entrepreneur-ship in emerging and frontier markets through SME finance	No specific information found	Maturity ranging from one to eight years (372)	Market rates	**Type of institutions:** Financial institutions/intermediaries **Country coverage:** Eastern Europe **Other requirements:** Majority of activity in micro/SME finance or dedicated programme; Minimum track record of three years; Commercially sustainable financials and business plan; Externally audited accounts; Completion of annual due diligence process; Monthly/quarterly reporting requirements (373)	**LfG** as of end 2018: Average loan amount USD 54 661, 3 131 SMEs financed (374) In the covered countries: Romania (RoCredit and Vitas Romania)
ACTIAM Institutional Microfinance Fund III	Debt and sub-debt capital to MFIs	Fund Manager ACTIAM N.V Investment Manager: Developing World Markets (US)	Target fund size: EUR 300 million NAV as of June 2019: EUR 1 192.50	Contribute to increasing worldwide and responsible development of the inclusive finance industry.	No specific information found	Eight years	No specific information found	**Type of institutions:** MFIs in developing and emerging markets **Country coverage:** Worldwide	54 MFIs in 28 countries. 129 741 end-clients reached. Average loan size: EUR 4 484 SE Europe is eligible region, but (as of end-2018) only Kosovo and Albania had active investments (375)

(367) Ibid.
(368) EFSE (2019a): Investments.
(369) EFSE (2017): Bridging the gap: The EFSE impact report 2017, pp. 60-62.
(370) Symbiotics (2019a): Investment advisory.
(371) Symbiotics (2018): Impact report 2018: SME finance loans for growth, p. 7.
(372) Symbiotics (2019b): Investment advisory: Financing solutions.
(373) Ibid.
(374) Ibid.
(375) ACTIAM (2018): Responsibility and impact report 2018: ACTIAM Institutional Microfinance Fund III.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
BlueOrchard	**BlueOrchard Microfinance Fund:** Only microfinance debt, no equity or FX	**BlueOrchard Microfinance Fund:** Private and institutional investors/ BlueOrchard	**BlueOrchard Microfinance Fund:** Net assets value: USD 1 947 977 768 (316 investments) ([376])	**BlueOrchard Microfinance Fund:** Supports microfinance institutions in expanding their outreach, improving the quality and appropriate-ness of their financial services, and encourage the development of new products such as savings, insurance and payment services.	No specific information found	No specific information found	No specific information found	**Type of institutions:** MFIs in emerging and frontier markets, minimum one to two years of operations **Country coverage** Albania, Bulgaria, Hungary, Montenegro, Poland, Romania, Serbia, Turkey ([377]) **Other requirements:** Self-sufficiency, sound corporate governance, and criteria based on financial ratios ([378])	Bosnia and Herzegovina: Microcredit Company EKI
Triple Jump	**ASN Microcredit Fund (ASN)**: equity, loans, subordinated loans **Triple Jump Innovation Fund (TJIF)**: loans, subordinated loans	Investors in Triple Jump: ASN Beleggingsfondsen, Bank Im Bistum Essen, Cordaid, Habitat for Humanity International, NOTS, Omidyar Network, OPIC, Oxfam Novib	Assets under management 2017: **ASN** EUR 277 million 8% portfolio in eastern Europe **TJIF**: USD 22.5 million 6% of portfolio in eastern Europe	**ASN**: enables private individuals to invest in MFIs by purchasing shares sold by ASN Bank **TJIF**: invests in financial intermediaries that offer rural and agricultural finance, operate in difficult countries and/or offer innovative products	Average exposure per portfolio company (end-2017): **ASN** EUR 2.9 million **TJIF:** EUR 900 000	No specific information found	EUR, USD and local currency	**Type of institutions:** **ASN:** expanding and mature FSPs **TJIF:** lower-end financial intermediaries in developing countries **Country coverage:** Africa, Asia, Europe and Latin America	Triple Jump investment in Bosnia and Herzegovina: Mikrofin ([379]) (not indicated under which fund/instrument is provided)

([376]) BlueOrchard (2019a): BlueOrchard Microfinance Fund Class P shares: Investor update as of 31 October 2019.

([377]) BlueOrchard (2019c): Our impact.

([378]) BlueOrchard (2019b): BlueOrchard financing.

([379]) Triple Jump (2019): Homepage.

Microfinance investment vehicle/Impact investors focusing on Europe – small

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
Inpulse	**CoopEst:** Medium-term and long-term loans; subordinated loans qualifying as quasi-equity ([380]) **CoopMed: only Turkey eligible country, currently no active portfolio**	**CoopEst:** Crédit Coopératif, IDES, MACIF Participations, Soficatra, SEFEA, TISE, IFC, EIF, APS Bank, Crédot Mutuel, CULTURA Bank, Cooperative Federation of Trentino, MAIF Insurance Group, Banca Etica, Sberbank Europe, Caisse Solidaire Nord-Pas de Calais, Up Group, ECOFI Investisse-ments, Merkurbank, SGB-Bank/ CoopEst and Inpulse ([381])	**CoopEst:** Total Investment Capacity: EUR 44.5 million, Portfolio outstanding: EUR 35.2 million (49 loans) ([382])	**CoopEst:** Promoting social and economic development in central and eastern Europe and Caucasus ([383])	**CoopEst:** EUR 300 000 to EUR 3 000 000 ([384])	**CoopEst:** Per institution: Up to five years ([385])	**CoopEst:** No specific information on the conditions found	**CoopEst:** **Type of institutions:** MFIs, cooperative banks and credit unions in growth phase **Country coverage:** Albania, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia **Other requirements:** Socially-oriented, transparent, respecting client protection principles and fair competition institutions.	**CoopEst:** 31 clients, EUR 900 000 commitment per client 123 000 active loans to final beneficiaries

([380]) CoopEst (2019a): Investors.

([381]) CoopEst (2019a): Investors.

([382]) CoopEst (2017): Activity report 2017, p. 17.

([383]) CoopEst (2019b): Mission statement.

([384]) CoopEst (2019c): Offer.

([385]) Ibid.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
CoopEst	Medium-term and long-term loans; subordinated loans qualifying as quasi-equity; other tailor-made solutions	Founders: Crédit Coopératif, IDES, MACIF (France), Soficatra (Belgium), SEFEA (Italy), TICE (Poland) Other investors: EIF, APS Bank, CULTURA Bank, ECOFI Investisse-ments, and others	Outstanding portfolio end-2017: EUR 42 million ([386])	Providing medium and long-term financial facilities to socially-oriented financial intermediaries in central and eastern Europe and Caucasus	EUR 300 000 to EUR 3 million	Up to five years	No specific information found	**Type of institutions:** Financial intermediaries **Country coverage:** Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Kosovo, Latvia, Lithuania, North Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine, Georgia, Armenia, Azerbaijan **Other requirements:** Socially-oriented, transparent, respecting client protection principles and fair competition institutions	Active loans to final beneficiaries (2017): 297 158 Average outstanding loan: EUR 1 438 Portfolio in relevant countries ([387]): Albania (4%), Bosnia and Herzegovina (9%), Bulgaria (4%), North Macedonia (4%), Poland (40%), Serbia (7%), Romania (16%)

([386]) CoopEst (2017): Activity report 2017.

([387]) CoopEst (2019d): Portfolio.

Private Equity Fund focusing on Europe – small

Name	Type of financial instrument	Source of funding/ implementin g institution	Total funding available and provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
Belgian Helenos Fund	Equity and subordinated loans ([388])	EIF, Crédit Coopératif, Adie International, Mirova, BNP Paribas, Prometheus, BRED, France Active and Soficatra (supported by EaSI)/Inpulse as fund manager ([389])	Initial investment capacity of EUR 10.5 million and will expand to EUR 25 million by end 2019 ([390])	Improve access to tailored financial services for entrepreneurs, to create jobs and improve their well-being and support the growth of promising Greenfield, small and medium financial institutions targeting micro and social enterprises	Overall: up to EUR 25 million by the end of 2019, up to 25 beneficiaries ([391])	Overall: five years Per institution: na	No specific information found	**Type of institutions:** Greenfield, early-stage and developing microfinance institutions as well as financial institutions primarily seeking social enterprises (small and medium financial intermediaries targeting microentrepreneurs) **Country coverage:** EU Member States, Albania, Kosovo, Iceland, Montenegro, North Macedonia, Moldova, Norway, Serbia, Switzerland, Turkey ([392]) **Other requirements:** Supports economically sustainable and socially oriented institutions	Denmark: Merkur Andelkasse (EUR 1 million equity) ([393])

([388]) Inpulse (2019b): Our funds.
([389]) EIF (2018): Juncker Plan: New EUR 25 million fund benefits from first capacity building agreement in Europe to support microfinance providers.
([390]) Ibid.
([391]) Ibid.
([392]) Inpulse (2019b): Our funds.
([393]) Inpulse (2019a): News: Helenos first investment: 1M € equity to Merkur, Coop Bank in Denmark.

European ethical banks with microfinance investment portfolios

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and Provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
Triodos Investment Management	**Triodos Microfinance Fund (MF):** Senior debt, Subordinated debt, equity (in USD, EUR or local currency) **Triodos Fair Share Fund (FSF):** debt, subordinated debt, equity; local currency, USD, EUR	**MF:** Institutional Investors **FSF:** Institutional Investors	**MF:** Net assets EUR 371 492 510 Portfolio value: EUR 340 611 831 (97 investments), 20.4% of portfolio in eastern Europe and Central Asia [394] **FSF:** Net assets EUR 360 470 821 Portfolio value: EUR 339 149 366 (98 investments) ([395]) 21.1% of portfolio in eastern Europe and Central Asia	**MF and FSF:** The fund contributes to building a robust, transparent and inclusive financial sector, providing both debt and equity to financial institutions that demonstrate a sustainable approach towards providing financial services to the unbanked, including small and medium-sized enterprises. In this way, inclusive finance bolsters local economies by stimulating entrepreneur-ship and job creation.	No specific information found	No specific information found	**MF:** Funds can be disbursed in USD, EUR and local currencies.	**MF and FSF:** **Type of institutions:** Microfinance institutions and banks ([396]) **Country coverage:** Eastern Europe **Other requirements:** Sustainable approach towards providing financial services to underserved client groups; Sound governance structure, management and business planning; Solid business operations and transparent reporting; Work with/signatory to the Client Protection Principles; Financially/commercially sustainable or plan to be within two years; GLP outstanding of USD 2 500 000 minimum; PAR > 30 days of max. 5%; Externally audited.	Average loan size eastern Europe and Central Asia: EUR 1 810 **MF ([397]):** Bosnia and Herzegovina: Prizma Mikro Serbia: Opportunity Bank Serbia **FSF ([398]):** Bosnia and Herzegovina: Mikrofin, Prizma Mikro Serbia: Opportunity Bank Serbia

([394]) Triodos Investment Management (2018): Triodos Microfinance Fund Annual Report 2018, p. 10.
([395]) Ibid, p. 48ff.
([396]) Triodos Investment Management (2019): What investor type are you?
([397]) Triodos Investment Management (2018): Triodos Microfinance Fund Annual Report 2018, p. 48.
([398]) Ibid, p. 55.

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and Provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
GLS AI Mikrofinanz-fonds	Mainly senior loans; some sub-debt and equity	100% private; retail and institutional investors/ Frankfurt School Financial Services GmbH (399)	Net assets EUR 111.7 million, Investment portfolio: EUR 100.9 million (81 investments with 53 institutions in 31 countries) (400)	Main objective of the Fund is to provide financial access to people and small entrepreneurs in developing countries. It primarily invests in microfinance institutions that – besides offering basic financial products – aim at making a strong social impact.	Senior loans from EUR 300 000 to EUR 4.5 million	Open-ended fund; avg. loan maturity three years	Mainly unsecured loans; market conditions for interest rates (not subsidized) and commercial covenants	Compliance with German MFI definition according to KAGB §222; financial performance (ROA, reliable projections, etc.) social and environmental impact in terms of certain negative and positive criteria	Albania: Fondi Besa, (EUR 4.3 million), NOA (EUR 2 million) Bosnia and Herzegovina: Mikrofin (EUR 4 million) Montenegro: Alter Modus (EUR 2.5 million) Poland: IM Polen (EUR 972 053) Romania: RoCredit (EUR 2 million) Serbia: Opportunity Bank Serbia (EUR 4 million) (401)
Etica Sgr (Member of Banca Etica Group)	Guarantee Fund for Microfinance and Crowdfunding Projects	Investors in Etica Sgr's funds can choose to donate 0.1% of their invested capital to this fund	From 2003 to end-2018: EUR 2.95 million devolved to guarantee loans	Guaranteeing microfinance projects and supporting high social and environmental impact crowdfunding initiatives in Italy	No specific information found	No specific information found	Banca Etica donates 0.1% of the commission income accrued on the funds	**Type of institutions:** Beneficiaries of the loans: people in serious social and economic hardship; people who want to start business activities; social cooperatives that need to recapitalise (402) **Country coverage**: Italy	Number of guaranteed loans since 2003: 596, granted by Banca Etica or partners 84 loans provided in 2018, of which 67% were for entrepreneurial initiatives, and 33% for charitable schemes

(399) GLS Bank (2018b): GLS Alternative Investments: Mikrofinanzfonds, p. 4.
(400) GLS Bank (2018a): Alternative investments, p. 2.
(401) GLS Bank (2018b): GLS Alternative Investments: Mikrofinanzfonds, p. 20.
(402) Etica SGR (2019): Microfinanza.

International Banking Groups w/small microfinance portfolios

Name	Type of financial instrument	Source of funding/ implementing institution	Total funding available and Provided	Objective	Amount (min–max)	Time frame (overall and per institution)	Conditions	Eligibility	Beneficiaries with amounts (optional)
ERSTE Responsible Microfinance	Umbrella fund for microfinance	ERSTE Asset Management	Fund volume: EUR 70.8 million ([403])	Investment in microfinance funds, microfinance facilities, and up to 10% shares in companies and MFIs	No specific information found	Re-commended investment duration: at least two years	Issue premium for investors: 3%	No specific information found	Portfolio by region: Supranational: 67.46% Western Europe: 32.51%
BNP Paribas Microfinance	Direct loans or investments in MFIs	BNP Paribas	All support granted to MFIs in 2015: EUR 213 million	Promote financial and social integration for the beneficiaries	No information found on loan amount to MFIs Loan amount to beneficiaries in developed countries: between EUR 2 000 and EUR 20 000	No specific information found	No specific information found	**Type of institutions:** Existing micro-enterprises, or investment projects. **Country coverage**: France, Italy, Belgium, Luxembourg, Poland, UK, US	Loans granted to MFIs in developed countries (2015): EUR 76 million 255 000 microloan beneficiaries Luxembourg: BNP founded MicroLux by providing 83.3% of its capital

([403]) Erste Asset Management (2019): Erste responsible microfinance.

Annex 9: Indicators to implement the Sustainable Development Goals applicable to delivery options targeting microfinance for 2021-2027

Topics	Final beneficiaries	1 NO POVERTY	2 ZERO HUNGER	4 QUALITY EDUCATION	5 GENDER EQUALITY	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS
Description of goal		**End poverty in all its forms everywhere**	**End hunger, achieve food security and improved nutrition and promote sustainable agriculture**	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**	**Achieve gender equality and empower all women and girls**	**Ensure access to affordable, reliable, sustainable and clean energy**	**Promote sustained, inclusive and sustainable growth, full and productive employment and decent work for all**	**Reduced inequalities**	**Take urgent action to combat climate change and its impacts**	**Strengthen the means of implementation and revitalise the global partnership for sustainable development**
Financial instruments targeting microfinance	Micro-enterprises and vulnerable populations	• -Percentage of vulnerable clients and portfolio • Number of beneficiaries financed • Value of outstanding portfolio • Number of beneficiaries at risk of poverty decreased • Number and volume of outstanding portfolio at providers by type of vulnerable population	• Number of hectares beneficiaries use • Number of providers that offer climate-smart agriculture training	• Percentage of providers offering BDS • Number of beneficiaries trained, by subject, including digital skills • Percentage of young entrepreneur clients (18-35)	• Percentage of women beneficiaries • Percentage of women employees at providers • Percentage of women entrepreneurs by Providers	• Percentage, number and volume of clients and portfolio funding energy efficiency, renewable energy • Percentage of providers with an environmental and social risk management system (ESMS)	• Number of beneficiaries financed • Value of outstanding portfolio • Number of beneficiaries out of unemployment • Number of jobs supported and created	• Percentage, number and volume of vulnerable clients and portfolio, segregated by groups • Number of beneficiaries financed • Value of outstanding portfolio • Number of beneficiaries at risk of poverty decreased • Number and volume of outstanding portfolio at providers by type of vulnerable population	• Number of providers implementing green standards • Number of providers with ESMS	• Percentage, number and volume of migrant/refugee clients and portfolio, segregated by countries
EU policy highlight ([404])	na	European Pillar of Social Rights	Common Agricultural Policy	European Pillar of Social Rights	European Commission strategic engagement for gender equality 2016-19	European Energy Union	Juncker Plan/EFSI	European Pillar of Social Rights/EU Cohesion Policy	EU Covenant of Mayors for Climate and Energy	EU External Investment Plan and EFSD

([404]) European Commission (2019h): Reflection Paper.

Annex 10: Projections of funding for microfinance in the Multiannual Financial Framework 2021-2027 – assumptions

Item	Assumption
Time frame	2021-2027 (seven years)
Assumption for growth	1.5% per annum (same supply-side growth assumption applied to the financing gap)
Base for projections	Funding needs as per EMN-MFC overview survey 2016-2017, unless otherwise indicated
Financial instruments for microfinance at market conditions	For bank and non-bank providers
Guarantees	100% of the annual outstanding guarantee amount for banks and guarantee-granting institutions continue with the assumed growth rate (as no relevant information on banks was available in the EMN-MFC overview survey 2016-2017) 50% of the guarantee amount for non-bank providers (NBFIs, credit unions, NGOs, etc.) needed annually is calculated with the assumed growth rate, as these are also covered by the other inclusive instruments
Funding	Nothing for banks and guarantee-granting institutions due to their multiple opportunities to fundraise 50% of the funding amount needed annually for non-bank providers is calculated with the assumed growth rate, as these are also covered by the other inclusive instruments
Sub-debt	Assumed as part of the Capacity Building Investments Window Nothing for banks and guarantee-granting institutions due to their multiple opportunities to fundraise As there is no needs assessment for sub-debt, we assume that 50% of the required annual equity needs by non-bank providers materialises as sub-debt needs 100% of the sub-debt needed annually for non-bank providers is calculated with the assumed growth rate
Equity	This responds to a set-up of a separate equity investments fund to invest in non-bank providers, including participation in governance (board seat) Nothing for banks and guarantee-granting institutions due to their multiple opportunities to fundraise 50% of the required annual equity needs by non-bank providers materialises as such 100% of the equity needed annually for non-bank providers is calculated with the assumed growth rate, as our assumption is that only an experienced fund manager can cater for this option
Other information (not included in the projection)	
Grants: BDS + Capacity Building	*This responds to the grant funding needed for capacity building (instead of using repayable sub-debt or invested equity, e.g. for working capital needs and for the grant funding supporting BDS activities of the non-bank providers with a grant of EUR 400/vulnerable client that received BDS (similar to the current EaSI Grant for BDS pilot for refugee entrepreneurs)* *50% of the grant amount needed annually for non-bank providers is calculated with the assumed growth rate*

Financial instruments for microfinance with softer conditions	For bank and non-bank providers
Guarantees	Loan portfolio: 50% of the guarantee amount needed annually for non-bank providers is calculated with the assumed growth rate, as these are also covered by the other existing instrument For 'Social Bond': Calculated with ten providers requiring per year avg up to EUR 4 million, calculated with the assumed growth rate
Funding	50% of the funding amount needed annually for non-bank providers is calculated with the assumed growth rate, as these are also covered by the other existing instrument
Sub-debt	Not applicable for an inclusive financial instrument – more client- and product-focused than a fund that is institution focused, such as EaSI
Equity	Not applicable for an inclusive financial instrument – more client- and product-focused than a fund that is institution focused, such as EaSI
Other information (not included in the projection)	
Grants: Advisory Support	*Smaller providers: More holistic TA needs to be provided to smaller non-bank providers and innovative MFIs – assessment needs under the EaSI programme (ongoing framework contracts until mid-2022 and a new framework contract to be signed)* *Innovative providers and targeting vulnerable population: TA for strategic planning, market research, product development and marketing, with more holistic TA needs to be provided*
Grants: BDS + Capacity Building	*Initial start-up amount of EUR 10 million to help 25 000 vulnerable clients to become entrepreneurs or to formalise*

Table A10.1: Impact indicators of delivery options for the Multiannual Financial Framework 2021-2027 targeting microfinance

Programme	Impact	Total	Guarantees		Funding	Sub- Debt	Equity	SDGs
Financial instruments for microfinance (market conditions)	Number of supported final beneficiaries	**133 755**	82 528		51 227	na	na	1, 2, 4, 5, 7, 8, 10, 13, 17
	Volume of Loan Porfolio in billion EUR	**1.56**	0.97		0.60			
	Number of jobs created	**242 096**	149 375		92 721			
Financial instruments for microfinance (softer conditions)	Number of supported final beneficiaries	**439 448**	*Portfolio*	*Bond*	103 987	na	na	1, 2, 4, 5, 7, 8, 10, 13, 17
			168 883	166 579				
	Volume of Loan Porfolio in billion EUR	**2.53**	0.97	0.96	0.60			
	Number of jobs created	**795 402**	305 678	301 507	188 216			
Total MFF 2021-2027	Number of supported final beneficiaries	**573 203**	417 989		155 214	na	na	1, 2, 4, 5, 7, 8, 10, 13, 17
	Volume of Loan Porfolio in billion EUR	**4.10**	2.90		1.20			
	Number of jobs created	**1 037 498**	756 561		280 937			
Total EU budget	***In billion EUR***	***1.80***	***0.33***	***0.24***	***1.20***	***0.09***	***0.09***	

Note: Sums are rounded.

GLOSSARY

active borrower	A natural or legal person who currently has an outstanding loan balance or is primarily responsible for repaying any portion of a gross loan portfolio. Natural or legal persons with multiple loans with a given microcredit provider should be counted as a single borrower.
annual percentage rate (APR)	The annual rate charged for borrowing, expressed as a single percentage that represents the actual yearly cost of funds over the term of a loan. Includes any fees or additional costs associated with the transaction.
average outstanding microloan balance	Gross microloan portfolio outstanding/Number of active borrowers.
debt-to-equity ratio	Total liabilities/Total equity ([405]).
EaSI programme countries	EU Member States, the EFTA country Iceland and the candidate and potential candidate countries Albania, Montenegro, North Macedonia, Serbia and Turkey, eligible for the instrument of pre-accession assistance (IPA).
equity	The money that the owners of a business or financial institution have invested in it.
financial instrument	In an EU context, this is a financial support measure provided from the budget on a complementary basis to address one or more specific policy objectives of the EU. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and where appropriate be combined with grants.
mezzanine capital	Any subordinated debt or preferred equity instrument that represents a claim on a company's assets which is senior only to that of the common shares. Mezzanine financings can be structured either as debt (typically an unsecured and subordinated note) or preferred stock.
microcredit	Loans under EUR 25 000 tailored to the needs of micro-enterprises employing fewer than 10 people or made to unemployed or inactive people who want to go into self-employment but do not have access to traditional banking services ([406]).
micro-enterprise	A self-employed person, individual farm or informal business with one to nine employees and an annual turnover or balance sheet of less than EUR 2 million.
microfinance	The provision of a range of financial services, including credit, savings and insurance and money transfers, made by different service providers and targeted at poor and low-income persons. Microcredit is a specific subset of microfinance products.
microfinance clients	Clients of microfinance providers coming from the vulnerable population and/or micro-enterprises.
microfinance provider or microfinance institution	Financial institutions that provide services to support microfinance; these include specialised units of commercial banks, cooperative banks, non-bank financial institutions (NBFIs), credit unions/cooperatives, fintech companies, guarantee institutions, public support and development banks or funds and NGOs.
non-bank providers or non-bank MFIs	These are financial institutions other than banks that operate in the market as different legal entities with the following main categories: NGOs, NBFIs, and credit unions/financial cooperatives, as well as, to a lesser extent, public funds.

([405]) MixMarket (2019): Sample indicators for quarterly and annual reports.

([406]) European Commission (2007a): A European initiative for the development of microcredit in support of growth and employment, p. 3.

operational self-sufficiency (OSS)	Measures the effectiveness of a financial institution using the following indicator: {[Operating revenue/(Financial expense + Loan loss provision expense + Operating expense)] x 100} (407).
outstanding balance portfolio overdue > 30	Value of all loans outstanding that have one or more instalments of principal overdue by more than 30 days. It includes the entire unpaid principal balance, including both overdue and future instalments, but not accrued interest. It does not include loans that have been restructured or rescheduled (408).
portfolio at risk over 30 days (PAR30)	Ratio measured as follows: [(Outstanding balance portfolio overdue > 30 days/Gross loan portfolio) x 100] (409).
provision expense ratio	Indicator that measures how many expenses have been incurred to cover the credit risk: [(Loan loss provision expense/Average gross loan portfolio) x 100] (410).
quasi-equity	A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi‐equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity.
return on assets (ROA)	Profitability ratio that measures a company's returns against the size of its business (assets) with the following indicator: {[(Net operating income – Taxes)/Average total asset] x 100} (411).
return on equity (ROE)	Profitability ratio that measures a company's returns against the investment made (equity) using the following indicator: {[(Net operating income – Taxes)/Average total equity] x 100} (412).
social bond	Any type of bond instrument exclusively applied to finance or re-finance in part or in full new and/or existing eligible Social Projects, including microfinance.
Tier 1 provider	Size: > USD 50 million in assets. Sustainability: return on assets (RoA) > 0 during one of the last three years and all RoAs > -5%, or positive trend in RoA and all > -5%. Transparency: regulated financial institution or rated financial institution.
Tier 2 provider	Size: USD 5 million to USD 50 million in assets. Sustainability: return on assets (RoA) > 0 during two of the last three years and all RoAs > -5%. Transparency: audited financial statements in the last three years.
Tier 3 provider	No requirements.
subordinated loan/sub-debt	Subordinated debt is any type of loan paid after all other business debts and loans are repaid in the case of borrower default. Borrowers of subordinated debt are usually larger corporations or other business entities such as financial institutions.
vulnerable populations, vulnerable groups	Refugees, migrants, unemployed/welfare recipients, older people, young persons, women, disabled people and/or ethnic minorities.

(407) European Commission (2017c): European code of good conduct for microcredit provision.
(408) Ibid.
(409) MixMarket (2019): Sample indicators for quarterly and annual reports.
(410) Microrate (2014): Technical guide on performance and social indicators for microfinance institutions.
(411) MixMarket (2019): Sample indicators for quarterly and annual reports.
(412) Ibid.

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([413]) Note: for all references that refer to web pages, the year given refers to the year in which the page was accessed, rather than the year in which it was published.

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