

The role of Microfinance and Entrepreneurship during the **next EU** **budgetary period** **2014-2020**



MFIs in Europe require specific support from the European Institutions enabling their growth and their professionalization



Introduction

Through this paper, the European Microfinance Network (EMN) wants to highlight the potential of self-employment and entrepreneurship as a source for the creation of new jobs in Europe in the context of the current economic crisis. This job creation potential requires a conducive environment for new entrepreneurs, enabling access to knowledge, materials and finance. However, access to finance for entrepreneurs launching new activities has in fact worsened since the beginning of the crisis.

In parallel, Microfinance providers (MFIs), which are active in supporting and financing new entrepreneurs who are not served by the formal banking sector and belong to vulnerable and high-risk groups, currently have a limited capacity to meet growing demand for financing and coaching services from new entrepreneurs: In 2011, the MFIs covered by the EMN's "Overview of the Microcredit Sector in the European Union" disbursed a total of 204,080 microloans with a total volume 1,047 million EUR. Thirty-eight percent of all microloans were disbursed to women; 12% were disbursed to ethnic minorities or immigrants; clients below the poverty line represented 13%; and, 17% of microloans loans were issued to persons living in rural areas.

Despite support from the European Commission in recent years to the Microfinance sector through several programmes (CIP, EPPA, JEREMIE, JASMINE, EPMF, etc.), there is still a clear need to invest in the capacity building and refinancing of MFIs in Europe over a sustained period of time, allowing them to improve their institutional capacities and providing them with access to sustainable funding sources.

EMN supports the Microfinance and Social Entrepreneurship Axis included in the New EU programme for Employment and Social Innovation (EaSI) by contributing to the creation of a sustainable microfinance sector in Europe and ensuring a sustainable sources of funding for new entrepreneurs from vulnerable groups and microenterprises in the EU. Furthermore, the proposed instruments address the need to build up the institutional capacity of Microfinance providers and create a sustainable source of funding for Microfinance Providers and Social Enterprises in Europe during the 2014-20 period.


Finally, EMN wants to highlight the importance of Microfinance and Social Entrepreneurship within this programme, in terms of building a sustainable microfinance sector in Europe, creating an accessible source of finance for new entrepreneurs from vulnerable groups and creating new jobs through entrepreneurship and self-employment in Europe at a time when they are most needed.

EMN Position

Despite the growth in demand, the Microcredit sector in Europe has a limited capacity to reach a large number of clients and offer microloans in significant volumes. To address this capacity issue, MFIs in Europe require specific support from the European Institutions enabling their growth and their professionalization. This, in turn, will allow them to increase the supply of micro loans and serve the growing number of clients.

Much has been achieved and learnt already, and EMN wants to be part of the extraordinary additional effort required to fight the current economic crisis in two ways:

- By presenting the following to the EU authorities:
 - MFIs operating in developed markets today experience the most difficult business context in the world (interest rate ceilings, demand which is expensive to reach and serve, need to provide non financial services, need to fight over-indebtedness by providing financial education, etc.).
 - Operating a sustainable MFI may turn into an impossible target if new EU legislation becomes too strict.
 - Many kinds of economic support have been provided, whereas microcredit has proven to be the most economical and effective measure with undisputed social performance.
 - Barriers to microfinance and entrepreneurship impede the creation and entry into the formal sector of many microenterprises, slow down their development, increase the cost of Business Development Services (BDS) and make it very difficult to reach sustainability.
- By suggesting to EU authorities focused and effective measures, coordinated amongst various DGs and offered by a single window:
 - Targeted services to the underserved: families and businesses
 - that can substantially aid the widespread effects of microcredit on self-employment and entrepreneurship
 - which help close the structural gap of sustainability of western European MFIs, who have historically relied on their own resources to address social issues such as financial exclusion and education.



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The approval of the new EaSI Program for the 2014-20 period is good news for the sector and, as recently announced, it will:

- Extend the support given to microcredit providers under the current EPMF;
- Provide funding for capacity building of microfinance institutions; and,
- Support the development of the social investment market and facilitate access to finance for social enterprises, i.e. businesses whose primary purpose is social, rather than to maximize profit distribution to private owners or shareholders.

The total proposed budget for the microfinance and social entrepreneurship axis is around €171.15 M for the period 2014-20. Access to microfinance would receive €77.75 M that could result in €400 to €450 M of microloans. Institutional capacity building would receive almost €8 million and €85 million would be dedicated to support social entrepreneurship.

The approved EaSI program addresses the need to scale up the institutional capacity of Microfinance providers and establish a sustainable source of funding for Microfinance Providers and Social Enterprises in Europe during the 2014-20 period. Nevertheless, EMN wants to highlight the following issues regarding the future development of the sector during the period covered by the next EU budget 2014-20:

Social impact indicators should carry equal weight as financial indicators in the assessment criteria

1) SOCIAL IMPACT

- MFIs work on the principle of social impact, so to ensure that public sector support stays linked to the mission of microfinance, we recommend that social impact indicators should carry equal weight as financial indicators in the assessment criteria.

2) FUNDING

- Microfinance organizations remain undercapitalized due to insufficient financing of their balance sheets. Currently, only debt instruments and limited investment tools exist which cannot support many European MFIs. Growing MFIs will need various social investment, patient capital and quasi investment tools that currently do not exist.
- Existing programs managed by EIF that plan to provide financial support should have more straightforward conditions.
- Social performance analysis should be part of the selection criteria of all public funding tools used to support MFIs.
- The application process should be proportionate and simplified as much as possible.
- It is unlikely that MFIs will achieve sustainability within 2 years. As such, existing risk sharing mechanisms such as the EPMF guarantee would need to be for at least 5 years rather than 2 years.

3) BUSINESS DEVELOPMENT SERVICES (BDS)

- The provision of economic support for BDS, focused on the selection, mentoring and coaching of entrepreneurs is a priority. MFIs do provide some of these expensive non- financial services in order to reduce the default rate and sustain the growth of supported businesses. Current structural funds are focused on supporting employment rather than entrepreneurship and a link to microfinance is rarely made.

4) CONDITIONS FOR GETTING SUPPORT

- All MFIs and/or microcredit projects looking to access EU support mechanisms will have to be assessed on their compliance with the Code of Good Conduct, as developed by the DG REGIO.

Finally, as a more generic point, the EMN strongly believes that better uptake, understanding and impact of public support will be facilitated by a single window – or access point. With many different EU departments seeing the link between successful microfinance and their own objectives, the danger of a complex funding landscape will increase. We believe the EMN can offer a valuable role to help co-ordinate the communication and adaptation of the various facilities to its members and the wider microfinance community across the EU.



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