

Designing microfinance operations in the EU

*A manual on how to build and implement
microfinance support programmes using the ESF*

Acknowledgements

This guidebook has been developed by the Thematic group “Access to finance” of the “Community of Practice on Inclusive Entrepreneurship” in the European Social Fund. Compiled by external consultants from the Deutsches Mikrofinanz Institut, Brigitte Maas and Stefanie Lämmermann, it draws on input from ESF Managing Authorities, Intermediate Bodies and microfinance projects in Lithuania, Germany, Italian regions of Calabria – Basilicata - Sardinia and Lombardia, Spain, Latvia, Greece, the Czech Republic and Flanders (Belgium)

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Preface

In 2007 the Managing Authority of Flanders, together with Managing Authorities in Germany, Czech Republic, Spain and , Lithuania decided to set up a Thematic group “Access to Finance” within the “Community of Practice on Inclusive Entrepreneurship” (COPIE) in the European Social Fund (ESF).

The need for this Community and thematic group arose, on the one hand, from the desire to capitalize on the vast experience concerning working on business creation gained in the EQUAL programme, and, on the other hand that despite the high importance and growing recognition of self-employment, microbusiness and microcredit at EU level, national ESF and ERDF bodies are still challenged to include these domains in their National Reform Plans and the associated operational programmes. This manual therefore aims to assist ESF and ERDF Managing Authorities to organize the implementation of a microfinance scheme through financial engineering in the framework of their inclusive entrepreneurship policy.

The Communities of Practice (CoPs) are commonly defined as “groups of people who share a passion for something that they know how to do and who interact regularly to learn how to do it better”. The knowledge gained and shared between 2007 and 2011 by members of the Community from all over the European Union, is presented in this guidebook. It is hoped that Managing Authorities, Intermediate Bodies and other stakeholders involved in the design and implementation of European Social Fund programmes will find it a helpful tool to realize their commitment to make Europe’s people and companies better equipped to face new challenges in order to create a smart, inclusive and sustainable growth in their Region, Member State and Europe.

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List of abbreviations

CIP	Competitiveness and Innovation Framework Programme
COPIE	Community of Practice on Inclusive Entrepreneurship
DMI	Deutsches Mikrofinanz Institut e.V.
EC	European Commission
ECB	European Central Bank
EIF	European Investment Fund
EMN	European Microfinance Network
EPPA	European Parliament Preparatory Action
ERDF	European Regional Development Fund
ESF	European Social Fund
JASMINE	Joint Action to Support Microfinance Institutions in Europe
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LMBL	Mortgage and Land Bank of Latvia
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
OP	Operational Programme
SROI	Social Return on Investment
PSCI	Programme for Social Change and Innovation





1 Introduction

Of all EU businesses, 91.8% are micro¹. This group of businesses is accountable for more than two-thirds of the EU's workforce. Micro- and small enterprises are the engine of the European economy. However, setting up and developing a microbusiness in Europe is still burdensome. People from disadvantaged groups face particular difficulties in establishing a small business or becoming self-employed, and this includes, but is not limited to, (long-term) unemployed and economically inactive people, migrants, young people, lone parents (often women), disabled persons and seniors. Beside high administrative barriers, access to finance is a major problem for them.

Commercial banks are reluctant to lend small amounts because the transaction costs of managing small loans are high and profit margins are low. This discourages banks from making business loans of less than €25,000. Banks also perceive lending small loans to self-employed persons and micro-entrepreneurs as too risky. They use elaborate scoring meth-

ods based on credit histories to assess their lending, and they take collateral to secure it. However people from disadvantaged groups often have neither a business track record nor any collateral. Moreover, the financial crisis and the ensuing economic recession have made debt financing more expensive and difficult to obtain, while regulatory reform, particularly the Basel II regulation, has made access to finance even harder. Banks are gradually withdrawing from the local and mutual economy, partially as a result of stricter banking regulation. Therefore, the European Union has made small enterprises and microcredit a high priority across the European Union's internal, regional, enterprise and employment policies. Improved regulation and better access to finance by small

firms forms part of the 2008 Small Business Act, the Europe 2020 Strategy, the relaunched Single Market Act and the new EU Structural Fund programmes. Moreover, microcredit is being operationalised through the 2007 JASMINE Technical Assistance programme, followed in 2009 by the European Progress Microfinance Facility which provides €200m to European microfinance institutions in the form of loans, guarantees and equity. Lately, financial engineering has been introduced as preferred strategy for the use of the EU Structural Funds by Member States.

¹ A 'micro-enterprise' is defined as 'an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million'. (Annex to Commission Recommendation 2003/361/EC of 6 May 2003). In comparison, 6.9% of businesses are small (fewer than 50 employees), 1.1% are medium (fewer than 250 employees) and 0.2% are large (more than 250 employees) (Eurostat – European Business: Facts & Figures, 2009)

1.1 What is microfinance?

Microfinance is the provision of basic financial services to poor (low-income) people, who traditionally lack access to banking and related services (Consultative Group to Assist the Poor (CGAP) definition). This includes credit, but also, for instance, microsavings, micro-insurance and microleasing. In the EU, the focus is on microcredit. So far, only limited experience with microsavings or microinsurance exists, mainly due to the strict regulation, for instance with regard to deposit-taking².

Microcredit is defined in the EU as loans below €25,000, and addresses two groups:

- *microenterprises*, defined as enterprises employing less than 10 people
- *disadvantaged persons* (unemployed or inactive people, those receiving social assistance, immigrants, etc.) who wish to go into self-employment but do not have access to traditional banking services

Thus, a distinction is generally made between *microenterprise lending* and *inclusion lending*. *Microenterprise lending* targets nearly bankable clients (new and existing enterprises) with loan amounts at the upper end of the €25,000 limit. In contrast, *inclusion lending* is intended for “unbankable clients”, persons who are likely to remain excluded from the banking system in the medium to long term. In fact, especially (long-term) unemployed or economically inactive people who wish to take the first step to earning an independent income often look for less than €5,000. In the same way, people who wish to make a transition from the informal economy or from a low-paid job to self-employment tend to take small financial steps at first.

As the cost of managing small loans is high and as the target groups most often need additional advice and business support services, microfinance programmes in Europe are hardly sustainable. Government support is therefore needed. Experience shows that even if the micro-lending operations per se might be financially sustainable, the pre- and post-loan advice will always rely on subsidies.

1.2 COPIE (Community of Practice for Inclusive Entrepreneurship)

To develop more favourable conditions for the growth of self-employment and microenterprises in the EU, the Community of Practice on Inclusive Entrepreneurship (COPIE) was created in 2007. It is a learning network of ESF Managing Authorities and Implementing Bodies at national and regional level in Europe. COPIE puts a focus on the ESF priority groups: the (long-term) unemployed, economically inactive persons, single parent households, women, migrants and ethnic minorities, young people, seniors and disabled persons.

The focus of COPIE is to describe and exchange good practice on inclusive entrepreneurship among EU Member States, to learn from each other and transfer knowledge and experience to other entrepreneurship support systems, in order to close existing gaps or simply to promote continuous improvement. COPIE has five thematic groups: Strategy and Action Planning, Entrepreneurship Education, Quality Management, Integrated

Business Support and Access to finance (for more information, see Appendix b or go to <http://www.cop-ie.eu/>).

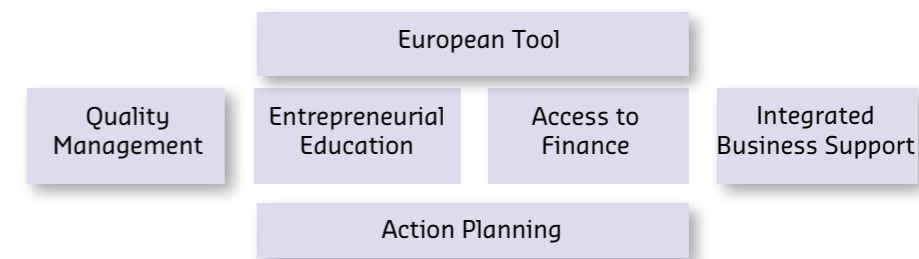
This manual was developed by COPIE’s Access to Finance thematic group.

1.3 Aims of this manual

The COPIE Access to Finance baseline study carried out in 2009 shows that despite the high importance and growing recognition of self-employment, micro-business and microcredit at EU level, national ESF and ERDF bodies have only very marginally taken up these issues in their National Reform Plans³ and the associated operational programmes.

This manual therefore aims to help ESF and ERDF Managing Authorities to organise the implementation of a microfinance scheme through financial engineering in the framework of their inclusive entrepreneurship policy.⁴ The document follows a step-by-step approach through the main decision points in the policy cycle. It also analyses existing microfinance programmes from COPIE partners and other countries/regions and presents examples

Chart 1: Structure COPIE 2



of what worked and works especially well. Examples that have been found to be particularly innovative or can be considered as good practice are highlighted with a light bulb throughout the document. To complement this, information about and links to the current funding programmes are provided where relevant.

² Nevertheless there are successful examples such as the ACAF model of self-financing communities in Spain (microsavings), the possibility of credit unions and cooperatives to take deposits as well as the microinsurance product offered by ADIE in France.

³ formerly National Action Plans for Social Protection and Social Inclusion

⁴ A definition of financial engineering can be found in Appendix a.





2 Implementing microfinance as part of the policy cycle

The setting up of a microfinance and/or self-employment support scheme can be seen as part of a policy cycle with the aim of developing/ensuring an environment conducive to self-employment and business creation. This process is composed of three major parts:

- a) **Identifying the place of inclusive entrepreneurship policy in relation to other active labour market policies:** 1) agenda setting, 2) creating a shared vision/mobilising key stakeholders, 3) ex-ante evaluation, 4) formulating an integrated strategy for inclusive entrepreneurship;
- b) **Defining the place of microfinance in the inclusive entrepreneurship strategy:** 5) organising professional management of a microfinance system (key intervention parameters for microfinance schemes, such as loans, guarantees, interest rebates, fees, collateral, grants, incentives for success, who provides what, spreading of risk and costs...), 6) how to select a fund manager and financial intermediaries;

- c) **Organising the implementation of the scheme:** 7) establishing synergies between financial and non-financial support schemes, and between national and regional levels, 8) pathways from unemployment/inactivity to entrepreneurship: ensuring schemes are reaching out and meeting the needs of specific target groups, 9) quality of microfinance institutions and services.

Each of these steps in the policy cycle is described below. Where appropriate, cases from different EU countries as well as good practice examples are presented.

2.1 Agenda Setting

2.1.1 Why should inclusive entrepreneurship and access to finance be put on the policy agenda?

Entrepreneurship and self-employment are labour market activation tools. Many people, especially from ESF target groups (unemployed people, migrants, women, people aged 50+, young people) have a hard time finding a job, but they could make very good entrepreneurs. Supporting them in establishing a business or becoming self-employed is not only a way of usefully bridging periods of unemployment and saving benefits to be paid out. It is also a manner of developing people's creativity and innovative potential and gives them a feeling of trustworthiness and usefulness. Well-designed, inclusive entrepreneurship policies foster economic and social inclusion. In the UK studies have been carried out to show the Social Return on Investment (SROI) of entrepreneurship and microfinance programmes, meaning that the



amount of public money granted to the scheme is a fraction of the amount of money consequently saved in terms of social benefits that did not have to be paid out to the beneficiary as he or she had become self-employed or found a new job owing to the microcredit programme. Such evaluations show the social and economic utility of microfinance schemes.

Social return on investment (SROI)

“Social Return on Investment (SROI) analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. SROI shows how social and environmental outcomes translate into tangible monetary value, helping organisations and investors of all kinds to see a fuller picture of the benefits that flow from their investment of time, money and other resources. This investment can then be seen in terms of the return or the value created for individuals, communities, society or the environment. [...]

A SROI ratio is a comparison between the value being generated by an intervention and the investment required to achieve that impact. However, a SROI analysis should not be restricted to one number, which should be seen as a short-hand for expressing value. Rather, it presents a framework for exploring an organisation’s social impact, in which monetisation plays an important, but not an exclusive, role.” (nef, 2008)

Net present value of benefits

SROI = $\frac{\text{Net present value of benefits}}{\text{Net present value of investment}}$

In 2005 WEETU (Women’s Employment, Enterprise and Training Unit), a Norfolk-based social enterprise and CDFI in the UK, commissioned the Enterprise Research Centre to conduct an independent evaluation of the impact of its programmes in terms of their effectiveness and social and economic returns to the wider community. WEETU’s Full Circle (FC) and STEPS programmes aim to increase women’s economic and educational opportunities. FC provides training, support and small loans to women who wish to start up or develop a business, while STEPS helps women to re-enter the workforce or gain a better paid job. Looking at the 254 clients that benefited from the programmes, the study showed – beside other benefits – that for every £1 invested in WEETU, £5.80 of social value would be created for society in terms of reduced welfare costs and increased tax contribution. (Enterprise Research, 2005)

To help assess the current climate for inclusive entrepreneurship in a given country or region, the COPIE project developed the **European Tool for Inclusive Entrepreneurship** (<http://cop-ie.eu/copie-tools-copie-diagnosis-tool>). The COPIE partners have already tested this tool in order to better understand the quality of their current mode of delivery and to detect their individual needs. Between 2007 and 2010, the European Tool was applied to 17 European regions and cities. The tool takes stakeholders systematically through a process including an analysis and synthesis of enterprise support in their region, sub-region or city. It is targeted specifically at entrepreneurs from groups such as the unemployed, women, migrants and ethnic minorities, 50 plus, young people under 30, people with disabilities and social enterprises. It consists of a matrix analysis that identifies the main gaps or challenges to the support system for entrepreneurship in the main themes of:

- 1) strategy,
- 2) culture and conditions,
- 3) start-up support and training,
- 4) support for consolidation and growth and
- 5) access to finance.

Application of the COPIE tool should lead into policy strategies to improve the performance of entrepreneurship support systems in Europe.



Germany: An assessment of inclusive entrepreneurship based on the COPIE tool was carried out in two sites: the city neighbourhood of Berlin-Mitte (2007) and the region of Rheinhessen (2008). In Berlin the availability of financial products for new entrepreneurs was rated weak. In Rheinhessen the assessment showed a strong commitment to support entrepreneurship, mainly due to the existence of EQUAL projects, but a lack of financial support for entrepreneurs from vulnerable groups.



In the Belgian region of **Flanders**, the COPIE tool was applied in 2007 and 2011 and revealed in 2007 that access to finance is the area in which the Flemish enterprise support system scores best. This area receives good scores from policy-makers and specialist advisors, but lower scores from entrepreneurs. A key strength is the wide availability of start-up financing and this is true also for disadvantaged groups. However, points of improvement exist: the time delay until the subsidies are received is too long and the subsidy amounts are sometimes too low, which causes liquidity problems for start-up firms. In Flanders, microfinance is provided mostly by the government, social enterprises and non-profit organisations, so the report highlights the need to involve commercial banks. Another strong point is the availability of high-quality financial management support for entrepreneurs.



Setting up an inclusive entrepreneurship policy means addressing all the areas that are needed to create a favourable environment for would-be entrepreneurs from disadvantaged groups: entrepreneurship education, start-up and business support, and access to finance. Regarding access to finance for entrepreneurs and self-employed people, public funders are tending to move away from the provision of grants and towards the disbursement of repayable advances or microloans. Although new entrepreneurs certainly need some form of grants and support via continued (unemployment) benefits in the first months of their new economic activity, giving them access to loans rather than grants is not only a way of making them responsible, but also of sustaining financing possibilities, where grants risk ceasing to exist.



2.1.2 Microfinance in Europe

Different models of microcredit provision exist in Europe. In **Western Europe** the sector has only started developing since the year 2000, although some initiatives had already been set up before that date. Because of the strict regulatory framework which gives banks the exclusive right to grant credit, the **linkage model** prevails: support organisations accompany the clients and cooperate with banks to disburse the loans. A legal exemption was introduced in 2001 in France, where registered microcredit organisations fulfilling certain requirements are allowed to borrow from banks and on-lend to self-employed people and microentrepreneurs themselves. In Italy, a similar law is currently being drafted. Although the linkage model results in more complicated and often longer loan decision and disbursement procedures, it does have certain advantages: while the banks obtain specific information on the customer segment and can outsource part of their operating costs, the non-profit organisations support their initial target group with an extended range of products while learning techniques such

as customer evaluation models and scoring from banks.

By contrast, in **Central and Eastern European** countries microfinance operations have been in operation since the 1990s as private initiatives (often backed by international funders), started to fill a gap in an environment characterised by a lower banking density. For instance in Romania and Bulgaria microfinance organisations have a specific status as non-bank financial intermediaries and are allowed to lend. Moreover, specialised microcredit banks exist. Credit co-operatives and credit unions are also involved in microfinance and provide a wide range of financial services including saving and borrowing facilities and also insurance; however, normally, their focus is exclusively or primarily on personal finance and not on lending to businesses. Financial organisations with a specific legal status allowing them to engage directly in microlending also exist in the UK. Here, specific non-governmental, mainly non-profit and officially non-bank organisations, the “community development financial institutions”





(CDFIs) lend to small businesses and individuals in disadvantaged areas. Based on the rationale of responding to market imperfections, promotional banks also engage in microfinance operations, in the framework of public programmes.

Chart 2: Microcredit organisations

<p>NGOs specialised in microfinance</p> <p>ADIE in France, ANDC in Portugal</p> <p>Inspired by international practice Integrated non financial services</p>	<p>Microcredit banks</p> <p>Mikrobank in Spain, FM Bank in Poland</p> <p>Transformed from NGOs/foundations to bank</p>
<p>NGOs, focus on specific groups</p> <p>WEETU in GB, NCN in Norway</p> <p>Small scale (expection: Prince Trust) Finance seen as added value for enterprise support</p>	<p>Credit cooperatives</p> <p>Crédal and Hefboom in Belgium, Nachala in Bulgaria</p> <p>Special legal status; in Romania, Poland, Lithuania, Ireland, Great Britain</p>
<p>Non-bank financial institutions</p> <p>Patria Credit, ROMCOM-Romania</p> <p>MFI in Eastern Europe</p>	<p>Institutional support programmes</p> <p>Fonds de Participation in Belgium, Invega in Lithuania</p> <p>Part of existing programmes of development banks</p>
<p>CDFIs</p> <p>Fair Finance, Business Finance Solutions</p> <p>Only in Great Britain</p>	

Source: adapted from EMN

The most recent EMN Survey “Overview of the Microcredit Sector in the European Union”, which is based on data from 170 microfinance providers in 21 European countries, illustrates the heterogeneity of the European microfinance market (Jayo et al, 2010):

- Sixty percent of the respondents are not-for profit organisations (17% fewer than in the previous survey);
- Microfinance is provided by either small organisations or bigger institutions (where microfinance represents only a small part of the overall activities). 24% of the responding lenders focus only on microfinance, while for almost half of the respondents the activity represents only a small portion of the overall activities;
- Fifty-seven percent of the microfinance organisations provided fewer than 50 loans in 2009; only 13% provided more than 400 loans;

- Microloan sizes (including not only business, but also personal microloans) vary between €220 and €30,000, with banks, non-bank financial institutions and government bodies offering larger loans than credit unions, NGOs, savings banks, and foundations;
- Fifty-nine percent of respondent lenders do not require guarantees; the remainder require either collateral or participation in a guarantee programme;
- The most pressing problem for the microfinance providers is the lack of access to long-term funding.

2.1.3 Evidence for the need to put inclusive entrepreneurship/ access to finance on the policy agenda

The October 2011 ECB Bank Lending Survey shows that throughout the last two years almost a third of SMEs that applied for a bank loan did not get any credit or got less than they applied for. Compared to 2007, the success rate in obtaining finance decreased by 19% in 2010. And the **highest rejection rate occurs among micro-companies** employing less than ten people: **a 16% rejection rate in the period of March to August 2011**. A similar trend can be observed on the national level.


Small loans are not profitable for a bank. Often, microentrepreneurs do not have normal bank securities and banks are unaccustomed to serving specific self-employment target groups, whose business plans might not conform to banking standards. Self-employed entrepreneurs (especially young people, women, migrants, persons working part-time etc.) do not fit the usual public image of a

“real” businessman/-woman. As a result, people are not able to realise their business plans and self-employment and microentrepreneurship are not able to reach their full potential. Their contribution to job creation and economic inclusion on the local, regional and national level is limited. Where private initiatives do not exist, public intervention is needed.

A telling argument in favour of promoting the establishment of microfinance schemes in Europe is the impressive uptake of microfinance and entrepreneurship programmes by new entrepreneurs and self-employed people. Different types of programmes and their results are shown below.




ESF-funded microfinance programmes⁵


 In **Latvia** the “Support to Self-employment and Business Start-ups” programme was set up in 2009 with ESF and government resources totalling €32.7 million. The purpose of the programme is to boost economic activity in the country by developing the knowledge and skills of business start-ups and providing them with the financial support they require. The results of the programme so far (as of 02/09/2011) are convincing; they have exceeded the initial targets:

- 1,938 signed agreements with applicants regarding participation in the programme (target: 1,200 persons);
- 1,033 persons trained (target: 1,200 persons)
- 537 loan agreements totalling €9.31 million signed (target: 800 entrepreneurs);
- grants totalling more than €1.68 million issued.


The average loan amount disbursed is of €18,000, indicating that the entrepreneurs actually need lower amounts than was initially thought.

 **Sardinia:** The results of the ESF-funded “Fondo Microcredito” programme, which was set up on 4 December 2009 with a sum of overall €50m, show the high demand for such a programme: when the first call was launched in 2009, there were nearly 2,400 applications. Out of these, 1,900 were eligible and 956 were accepted for a microloan. €41m was allocated. About 80% of the funded projects fall under the selected priority areas (mainly retail trade, manufacturing, social and personal services, environmental protection, energy effi-

ciency and renewable energies). Only the tourism and ICT sector did not match expectations – the €25,000 ceiling effectively excluded many projects in these areas. **Fifty-four per cent of all the fund's microloans went to women**, a very high rate when compared to other microloan programmes in the EU, where the average is around 33%.


 In **Germany** the federal guarantee fund “Mikrokreditfonds Deutschland” was set up in January 2010 with the sum of €100m (€60m from the European Social Fund and €40m from the Federal Ministry of Employment and Social Affairs), with the aim of improving access to loans up to €20,000 for start-ups and microbusinesses. The goal of the fund is to disburse 15,000 loans by 31 December 2015. Serving clients with a migrant background, women entrepreneurs and companies offering apprenticeships is of special importance. Since the start of the fund in 2010, **the number of disbursed loans is more than 250% above what was initially planned.** By December 2011 6,600 microloans totalling €39m had been given out, **with a default rate of only 3%**. Forty-one per cent of the clients have migrant backgrounds and 33% are women. The main business areas are services, retail, catering and hand-craft.

Microfinance programmes with a combination of public and private funds

 In the **Netherlands** Qredits started its operations in January 2009. The microfinance provider was set up in 2008 as a private foundation by the Ministry of Eco-

nomical Affairs, Agriculture and Innovation, the Ministry of Social Affairs and Employment and three major Dutch banks. The Dutch Council for Microfinance with HRH Princess Máxima as a member was the driving force behind the setting up of a coherent microfinance system (see 2.2).

Qredits works nationwide in the Netherlands and provides financing for micro- and small business up to €35,000⁶ (average loan amount: €18,000) and coaching for existing and start-up microentrepreneurs. The government stands surety for 80% of each loan. In February 2011 Qredits also signed a €20 million guarantee and loan deal with the EIF under Progress Microfinance in order to extend support under €25,000 to over 1,000 small businesses in the Netherlands, many of whom are higher risk borrowers. Over the last three years, Qredits has extended **1,750 microloans**. Qredits' objective is to become sustainable by reaching a total of 7,500 applicants and 2,500 loans disbursed per year.

 In **France** the microcredit organisation Adie was set up in 1989 at a time when unemployment caused by the restructuring of the economy became a major problem and the RMI⁷ social allowance scheme was set up. Maria

Nowak, at that time programme manager at the French Development Agency, together with two other volunteers, founded Adie with the financial support of several private foundations, the government, the French development bank *Caisse des Dépôts et Consignations (CDC)* and the European anti-poverty programme. Adie provides microfinance to socially and financially excluded persons. Moreover, Adie's advocacy activities have played a huge role in ameliorating the administrative and regulatory environment for microfinance and microenterprises in France.

Today Adie has 463 staff in 130 branches and works with over 1,700 volunteers all over France and its overseas territories. It provides microloans up to €6,000 that through combination with public loan funds can reach €11,000. Adie has public and private funding. The business support side, which is separate from the loan department, is dependent on subsidies. The organisation cooperates with all French banks and has established partnerships with private firms. Adie constantly pilots new programmes such as *CréaJeunes* for young people and a programme for rural areas.

Since its inception Adie has given out 93,011 microcredits totalling more than €255m (Adie, 2010).

⁵ A summarizing table as well as a chart of all mentioned programmes can be found in Appendix g.

⁶ In November 2011 the loan ceiling was raised from €35,000 to €50,000 through an agreement with EIF.

⁷ Until 2009, the *Revenu Minimum d'Insertion (RMI)* was a social allowance that applied to persons over 25 years of age who had exhausted their unemployment benefits or whose resources were inferior to a fixed ceiling. On 1st June 2009 it was replaced by the *Revenu de Solidarité Active (RSA)*. It now also applies to persons aged under 25, who are lone parents or who have already worked for two years.





2.2. Creating a shared vision for inclusive entrepreneurship/ mobilising key stakeholders for action/formulating an integrated strategy

A precondition for designing an inclusive entrepreneurship strategy is the creation of a common vision that is shared by all involved stakeholders. Ideas that are invented by somebody else tend to face more resistance than ideas that we generate ourselves. It is not unusual for organisations to have different objectives. When undertaking any joint activity it is therefore important to recognise that these exist, but also to identify areas of common ground where joint working can add benefits. It is also imperative that inclusive entrepreneurship is not seen as

the ideology of any one particular political party. Self-employment, entrepreneurship and microfinance are at the crossroads of several policy fields: employment policy (addressing problems of structural change in certain sectors and integrate target groups into the labour market); social policy (combating the exclusion of disadvantaged persons from financial and non-financial services relevant to job creation); economic policy (boosting the number of target group members, such as women, who create businesses or in-

creasing the number of business start-ups overall, and regional policy (revitalising deprived urban and rural areas). Funding and carrying out **pilot projects** on certain topics is one way to create a common vision. In many countries, projects on inclusive entrepreneurship have been carried out under the EU **EQUAL** programme (2000-2008). Although such projects tend to be quite diverse and do not always have lasting effects, they can form the cornerstone for a shared vision about inclusive entrepreneurship.



The **Greek EQUAL** programme supported a number of projects on social enterprise and inclusion. However, these projects were run by many different and fragmented organisations. It was only with the establishment of the **Social Economy Law** in September 2011 that stakeholders, local communities, citizens and vulnerable groups came together to build up social economy structures. The discussion and negotiation among all relevant parties to create the legal framework took about two and a half years. The social economy was also put on the internet and gathered opinions of all interested citizens. It is now planned to set up a Special Fund for Social Enterprises.



Since 2008, the Italian region of **Lombardy** has run a **JEREMIE** programme that is believed to be unique. It uses €40m from ESF and private money from banks to make loans of €4,000 to individuals, for investment in the shares of their co-operatives. The scheme was set up as a response to the diagnosis that co-operatives and especially social co-operatives are excluded from the credit market – a fact that is aggravated by the financial crisis. Its objective is to improve access to credit for co-operative members, in order to allow them to buy equity in their businesses. It targets social co-operatives as these create employment, especially for disadvantaged people. The scheme is in line with Italian reform policy since the 1990s to favour cooperatives that provide social services. National law L. 381/1991 (as amended) provides the legislative framework for the cooperative system and, in particular, for social cooperatives that deal with disadvantaged people. Cooperatives are supervised at regional level, and the region created the register for social cooperatives in 1998.



In the Netherlands, a common vision for microfinance was created through the establishment of a steering group, the **Council for Microfinance**.



The Dutch Council of Microfinance

In the Netherlands, until recently activities and publicity concerning microfinance focused on Dutch involvement in developing countries without taking note of some major government programmes in the Netherlands that could be categorised as microfinance programmes. A growing number of private foundations and other non-governmental organisations started microfinance projects in the Netherlands, often supported by EU co-financing (mainly ESF, EQUAL) and with local funding (public and sometimes private). In 2007 McKinsey carried out a market study to understand the feasibility of a microfinance project and the Ministry of Economic Affairs established the Dutch Council for Microfinance to promote microfinance inside the country. The Council consists of high-ranking individuals from the government and the private sector including microfinance experts. Amongst its most prominent members is Her Royal Highness Princess Máxima of the

Netherlands who has also been UN Special Advocate for Inclusive Finance since 2009. The Council was set up to make policy recommendations to government through the Minister of Economic Affairs and to formulate solutions to improve access to microfinance in the Netherlands. Since early 2008 a special Support Bureau for Microfinance Initiatives has become operational within the Ministry of Economic Affairs and funds have been made available to create a central facility to support local initiatives. The government has adopted the Council's advice and has developed a comprehensive programme including coaching, mentoring and a guarantee scheme. This has enabled the establishment of the nationwide microcredit organisation Qredits. In 2011 the Committee for Entrepreneurship and Finance was established as successor of the Council for Microfinance.

In other regions such as Flanders **large-scale consultations and integration between structural funds and domestic government resources** have ensured stability beyond the political cycle. This is the case in the examples below.



In Flanders, the Ministry of Education, the Ministry of Labour, the Ministry of Economy and SYNTRA Flanders (the Flemish agency for entrepreneurial training) collaborate in shaping policies and practices on inclusive entrepreneurship. A **Steering Committee** for Entrepreneurial Education was set up. It consists of representatives from the private offices of the ministers of Economy, Education and Labour, from the departments of Economy, Education and Labour and from Syntra Flanders. External stakeholders (i.e. employers) are consulted on some topics, but they have not been included in the steering committee. Moreover, in the framework of PACT 2020 a **large-scale consultation** between government, social partners and civil society was held in 2009. PACT 2020 is a joint commitment to attain 20 objectives and meet concrete targets. Part of the strategy is an action plan for the promotion of entrepreneurship. Following the consultation, the document was signed in 2009 by a large number of stakeholders: the Flemish government, the employers' organisations, the unions and the United Associations, an umbrella organisation that represents hundreds of associations from civil society.



In Lithuania the need to expand financial services to SMEs and improve access to concessional loans and microcredits, venture capital funds and forms of loan insurance has been included in most strategic documents, such as the **Long-term strategy for Lithuania's economic development until 2015** (including the Small and Medium Business Development Strategy) developed by the Ministry of Economy in 2002 in the course of the EU accession. It is based on a SWOT (strengths, weaknesses, opportunities and threats) analysis of the country's economy. In 2009 the economic crisis resulted in substantially higher unemployment and a large number of small business failures. This unprecedented situation stimulated a search for new and sustainable ways to tackle these problems. Therefore, the Ministry of Social Security and Labour (MOSL) and the Ministry of Finance (MoF) started to develop the Entrepreneurship Promotion Fund in 2009. The aim of the programme is to promote self-employment and entrepreneurship as a sustainable way to keep people active in the business and labour market and create more jobs. It focuses on disadvantaged target groups (unemployed, disabled, young people under 29 and people over 50). The long-term target is to encourage a culture of self-employment and entrepreneurship in Lithuania.





2.3. Conducting an *ex-ante* evaluation for the microloan scheme

Another step in the decision process of setting up a microfinance scheme as part of an inclusive entrepreneurship policy is *ex ante* evaluation. Conducting an assessment of the market and client situation helps **detect market failure, suboptimal investment situations and investment needs**. Such *ex ante* evaluation can be done in house or carried out by contracting **external evaluators**. Launching a call for an external evaluation might be relatively costly; however it guarantees an independent external view and provides recommendations that overcome political partiality.



In 2009 the **German** Ministry of Labour and Social Affairs commissioned a study to assess the supply and demand by SMEs for loans and mezzanine capital up to €20,000. This study was commissioned from the German socio-economic research organisation FAST. It triggered the establishment of the federal Mikrokreditfonds Deutschland (Microcredit Fund Germany) scheme in January 2010. The study first looked at the history of business start-ups by disadvantaged people and related support programmes, including those funded by the ESF. It then presented the results of a demand assessment that built upon existing studies and supplemented them with new data.

The study came to the conclusion that despite existing business support programmes **access to small business loans in Germany was limited, especially for start-ups**. Moreover, the authors stated that this trend was worsening owing to the economic and financial crisis, while at the same time more unemployed persons would wish to start a business. The study therefore recommended a decisive increase in the supply of microcredit as well as the creation of a source of mezzanine finance for this target group. It proposed a product framework for a potential supply of microcredit and mezzanine loans as well as a business model for its implementation (http://www.bmas.de/SharedDocs/Downloads/DE/studie-mikrokredit.pdf?__blob=publicationFile)





In 2010 the **Lithuanian** Ministry of Economy contracted the study *Evaluation of the relevance of the Lithuanian legal and financial framework for the establishment and implementation of financial engineering measures for SME development funded from the EU Structural Funds*. It was carried out by three firms: PricewaterhouseCoopers, ESTEP and the law firm Tark Grunte Sutkiene. The study concludes that most of the financial engineering instruments, credit guarantees and loans are available for small and medium businesses in the early stages of their activities. However, because the risk is greater, it is more difficult for them to obtain funding than it is for businesses with a longer operating history and larger businesses.



The **Basilicata** region in Italy set up its microloan programme in the framework of the 2007-2013 ESF Basilicata OP after an analysis of the economic situation in Basilicata. This analysis showed that the economic and financial problems of local enterprises are due to difficulties in accessing credit and subsequent undercapitalisation of micro-enterprises. Moreover, the region is characterised by **net out-migration, above all of graduates resulting in a loss of intellectual capital (“brain drain”)**. Although instruments for the setting-up of enterprises already existed, such as the provision of a grant to new enterprises financed by Invitalia (the national agency for inward investment and enterprise development), they were only partially directed to inclusive entrepreneur-

ship. In contrast, the microfinance programme is directed to a wider group of beneficiaries to reach all the people interested in entrepreneurship.

The region evaluated the potential social impact and economic and growth effects of using financial instruments or tools like microloans. These results were taken up to design the microloan programme. The main goals are: to discourage the brain drain and support entrepreneurship despite the financial crisis and to encourage and favour start-ups and new investment programmes for people with difficult access to credit, such as the unemployed, handicapped people, ex-prisoners and invalids.



In **Calabria** (Italy), an empirical verification of initiatives to promote microcredit was carried out, in order to acquire knowledge about the architecture and performance of operational and financial programmes. In the course of this empirical testing as well as through meetings, a business model was developed to optimise the microcredit supply chain and reduce inefficiencies. In the preparation of the model, special attention was given to the identification of the tasks and responsibilities of each person involved in the chain, including ministry, fund manager and financial intermediaries, in order to avoid overlapping functions and duplicated activities, thus minimising costs.

Where a similar programme has already been run in the former programming period, its results can be used as indicators to design the new programme. This is a less precise, but also less costly method and seems rational if the new programme builds upon the former one. This was the case in Latvia, where an ESF-cofinanced loan programme run by LMBL that was closed in March 2008 highlighted the high demand by start-ups for loans, grants and training. Additionally, when designing a microfinance programme, it is useful to consult existing studies on microfinance that have been carried out on an EU-wide level. For instance, the **European Microfinance Network (EMN)** carries out its *Survey about the Microcredit Sector in the EU* every two years (http://www.european-microfinance.org/etudes-sectorielles_en.php). The **European Investment Fund (EIF)** drafts Working Papers about microfinance in Europe such as the January 2012 paper that gives an overview of the market and presents EIF’s

microfinance mandates (http://www.eif.org/news_centre/publications/EIF_Working_Paper_2012_13.htm). Moreover, the EIF commissioned eight country studies on microfinance demand and supply by banks and non-banks in the framework of the JEREMIE and JASMINE programmes in 2008 and 2009 (Bulgaria, Czech Republic, France, Germany, Romania, Spain, the Netherlands and the UK). The studies revealed a diversity of approaches, methodologies, instruments and institutions engaged in providing as well as facilitating access to financial services to underserved entrepreneurs, microenterprises and individuals. They show concern about the fast-growing consumer-lending market. Moreover, they highlight the lack of statistical data about microcredit on the national level, especially from banks. (http://www.european-microfinance.org/etudes-sectorielles_en.php)





2.4 Formulating an integrated strategy for inclusive entrepreneurship/access to finance for all

The results of such studies lay the basis for designing an appropriate national or regional microfinance scheme. For this purpose, EU funding can be used. In the Europe 2020 strategy entrepreneurship is seen as a key element in achieving smart, sustainable and inclusive growth. The EC therefore encourages Member States to put measures in place that promote entrepreneurship and self-employment and foster access to finance. At the European level, various programmes exist to fill the gap and support access to finance for small business. These programmes are aimed at banks or MFIs that can disburse loans themselves: the **CIP Microcredit Guarantee Window**, the **JASMINE** programmes, the **EPPA**⁸ programme and the

European Progress Microfinance Facility. These programmes have experienced significant take-up in the Member States. For instance financial intermediaries use the CIP microcredit guarantee window in Austria, Belgium, Bulgaria, Ireland and Spain (see: <http://www.access2finance.eu/>). JEREMIE funds for microfinance were set up in Greece, Malta and two French regions. And Progress Microfinance is already used by 12 intermediaries in nine European countries (http://www.eif.org/what_we_do/microfinance/progress/Progress_intermediaries.htm). In the new funding period 2014-2020 these different microfinance programmes will be streamlined under Progress Microfinance to avoid overlapping, in the framework of the **EU Programme for Social Change and Innovation (PSCI)**.

2.4.1 Microfinance under ESF

To complement these broad initiatives aimed at serving market needs, more targeted regional and national support can be made available through the use of financial engineering instruments under the **EU Structural Funds (ESF and ERDF)**, through a direct contribution or by using the JEREMIE initiative.⁹ While ERDF resources are primarily used for support to enterprises (mainly SMEs), urban development and regeneration, energy efficiency and the use of renewable energy in buildings, ESF is used to support self-employment, business start-ups and micro-enterprises. More generally, the ESF aims at increasing employment, fostering entrepreneurship, enhancing inclusion and ensuring mobility and life-

long learning in Europe, in line with the revised Lisbon Strategy and the Integrated Guidelines for Growth and Jobs. As part of the political decision-making process for the Structural Funds, Managing Authorities are asked to hand in, in April of each year, their **National Reform Programmes (NRPs)**, the **National Strategic Reference Frameworks (NSRFs)** and the related **operational programmes (OPs)**. In these documents, the Member States explain how they plan to translate the targets and policy priorities established at European level into their own national policies. The National Reform Programmes (NRPs) are an important instrument in the implementation of the Europe 2020 strategy.

⁸ JEREMIE (Joint European Resources for Micro to Medium Enterprises); JASMINE (Joint Action to Support Microfinance Institutions in Europe); EPPA (European Parliament Preparatory Action)

⁹ Under JEREMIE, the Member States and regions have the possibility to place part of their EU-allocated structural funds in a dedicated Holding Fund (HF) which acts as “fund of funds” or “umbrella fund”. The HF is governed by an Investment Board and may be managed directly by the EIF or by national institutions selected through public procurement. This is formalised through a “Funding Agreement” between the managing authority and the selected HF.





In several EU countries and regions, Managing Authorities have already implemented microcredit schemes in line with the respective ESF operational programmes.



In **Latvia** the *Support to Self-employment and Business Start-ups* programme is implemented under the *ESF Human resources and employment OP, 3rd priority Promotion of Employment and Health at Work*. Under the Employment measure the aim is to enhance the competitiveness of people of economically active age on the labour market, through the promotion of self-employment and business start-ups. The programme provides start-up loans of up to €76,830 for investment and working capital, with a duration of up to eight years. These loans can be coupled with grants. Along with them, training is provided to the entrepreneurs.



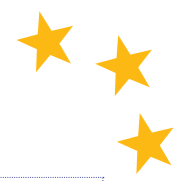
In the Italian region of **Sardinia**, the Fondo Microcredito was set up on 4 Dec 2009 with a sum of €30m from **ESF Priority Axis 3**, later topped up by another €20m. The programme objective is to improve access to the labour market, create jobs and support SMEs and self-employment. The scheme was established because economic analysis showed that unemployment was high, especially among women, and credit availability was more limited than elsewhere in Italy. Moreover, several pilot projects had proven that there was a demand for microcredit. The programme makes loans to enterprises (not to individuals) of up to €25,000 in a number of priority areas, such as retail, manufacturing, social and personal services, tourism and ICT.

Instruments co-financed by European Structural Funds fall under the responsibility of the relevant **Managing Authority (MA)**. MAs operate on a national or regional level e.g. a national ministry of employment or a regional governmental body. When a microfinance scheme is set up, however, different ministries beside the Managing Authority need to collaborate. The ministries each have clear and different responsibilities and perform their tasks under different political perspectives (and sometimes different regulations). It is therefore necessary to bind together the unique competencies of different government entities and to merge their different habits and attitudes. Moreover, microfinance is embedded in separate national legal frameworks for credit services, consumer protection, tax, etc. Legal regulation and restrictions have a fundamental impact on the design of

loan processing and the actors involved. In order to implement and run a successful microfinance scheme the government needs to bring together comprehensive expertise from the political, technical, regulatory and risk-related areas. To align all actors with the objective of an initiative and bundle existing competencies together, most countries have decided to set up a taskforce or steering committee to prepare the setting up of the fund. Such a committee binds stakeholders at government level (in one ministry or stretching over several ministries), as well as the other actors involved. This has proven to be an effective way of streamlining different views, bundling skills and thus bringing forward policy implementation. After the setting up of the microfinance fund, a steering or monitoring committee is formed that meets regularly to

set the strategy for the fund and ensure that its objectives are met (see also 2.10 – Monitoring and evaluation arrangements, performance and results indicators).





In **Greece** the ministries involved in the setting up of the loan fund for social enterprises are the Ministry of Labour and Social Security and the Ministry of Economy in close collaboration with the Employment DG of the European Commission. The Ministry of Labour is in charge of the registration of social economy enterprises and the funding of the Social Economy Fund (through the ESF) and the Ministry of Economy is overseeing one of the candidate bodies for administration of the Social Economy Fund. The Ministry of Labour has set up a task force for Social Inclusion and Social Economy which is running the project.



In **Lombardy**, several actors are involved in the JER-EMIE microfinance fund aimed at strengthening the cooperative sector. Beside the **ESF Managing Authority**, these are: **Finlombarda** (the in-house financial company charged with managing the fund), **other regional DGs** that have competencies in the field of the cooperative system (DG Family Integration and Social Solidarity and DG Industry, Craft, Building and Cooperation), **financial intermediaries and cooperatives** and the **Ministry of Welfare** (as cofinancing body). All these organisations (except the ministry) were involved in informal meetings and in the monitoring committee, in order to verify the technical, economic and procedural sustainability of the intervention. After the setting-up phase, a steering committee was established, charged with ensuring the correct and effective management of the initiative. The coordination has been fruitful: for instance, at the beginning, the private banks were reluctant to deal with disadvantaged people, but after the coordination meetings, they fell into line.



In **Lithuania**, three institutions, namely the **Ministry of Finance, the Ministry of Social Security and Labour and the state-owned guarantee institution INVEGA** were involved in setting up the Entrepreneurship Promotion Fund. During the design phase there were a lot of discussions with social partners (Ministry of Economy, financial institutions and NGOs). A **steering group** consisted of delegates from the Ministry of Finance, the Ministry of Social Security and Labour and the guarantee institution INVEGA. In the fund, the Ministry of Finance is the Managing Authority and responsible for all financial issues; it supervises the selected fund holder, INVEGA, and a related ERDF-financed guarantee scheme for SMEs. In contrast, the Ministry of Social Security and Labour (Implementing Authority) is responsible for the practical implementation of services. Loans are provided through LCCU, the federal organisation of Lithuanian Credit Unions, which were selected as microfinance intermediaries.



In **Sardinia**, the Managing Authority of the Fondo Microcredito set up in December 2009 is the **regional Labour Ministry**. In cooperation with its Support Office it coordinates the Fund's actions, approves the most important documents for the implementation of the Fund, approves or rejects proposals and nominates the members of the Investment Committee and Technical Office; it also verifies compliance with Art 60 of Reg (CE) no. 1083/2006, detailing the functions of the Managing Authority of the Structural Funds.





2.4.2 Time period for fund implementation

Once the decision about the setting up of the fund has been taken and the involvement of the main actors settled, a business plan needs to be prepared including the financial framework (EU funding / national or regional cofunding), stakeholders, tasks and processes, quality and quantity targets and indicators of the microloan fund concerning loan disbursement, beneficiaries (e.g. ESF priority groups), loan conditions, processing and exit strategies.

In Latvia, the business plan for the microloan fund included the following information:

1. Description of situation
2. Goals and targets
3. Tasks necessary to reach the targets
4. Activities to complete the tasks
 - 4.1. Separation of accounting blocks
 - 4.2. Identification of human resources
 - 4.3. Structure of support department
 - 4.4. Chart of project management and decision-taking process
5. Loan products
6. Loan conditions
7. Criteria for receiving the loan
8. Lending process and decision-making process
9. Risk management
10. Marketing activities
11. Loan fund operations
12. Indicators
13. Forecast cash flow

Submission of the business plan is followed by information and negotiation between national/regional MAs and responsible EU authorities. Several factors influence the length of this process. As the Latvian experience below shows, the existence of previous pilot projects, and thus of knowledge of actors that could be involved and their roles, facilitates and speeds up the process of setting up the fund.



On 31 March 2009 the **Latvian** government approved regulations regarding the *Support to Self-employment and Business Start-ups* programme. It aims to provide business start-ups and newly established companies with comprehensive support – advice, training and financing in the shape of loans and grants. The regulations lay down the procedure for use of the funds of the European Social Fund (ESF), the state and the *Land and Mortgage Bank of Latvia (LMBL)* – resources totalling €32.7 million.

The programme conditions and national regulations were developed by the Ministry of Economics as the responsible institution. The programme is implemented by LMBL, but the monitoring and auditing are done by LIDA (Latvian Investment and Development Agency). The programme development was based on the experience of a pilot carried out in 2004-2006. Setting up the programme from its development to its coming into effect took eight months:

January 2009: development started



March 2009: national regulations approved



Business Plan for Microloan Fund submitted to the National Authorities



August 2009: Agreement between LMBL and LIDA signed (stipulating that the programme will be operational until June 2015 having provided advice and training to 1,200 start-ups, and loans to 800 start-ups)



August 2009: Programme in force



In **Lombardy** the process from the development to the launching of the programme took longer as besides the fund manager, financial intermediaries had to be selected. This was done by way of a call for expressions of interest.

End 2007: approval of the regional OP, including the activation of a financial engineering instrument



July 2008: establishment of the fund



End 2008: agreement between Lombardy Region and Finlombarda (according to a pre-existing framework agreement)



March 2009: approval of the investment strategy



April-July 2009: selection of financial intermediaries (first call)



October 2009: agreement between Finlombarda and the selected banks



September 2010-May 2011: selection of financial intermediaries (second call)



August-September 2011: agreement between Finlombarda and the selected banks

2.5 How to select a fund operator

Financial engineering instruments must be regarded as vehicles for the delivery of repayable investments which contribute to the achievement of the goals set out under specific priority axes of the operational programme. Financial engineering instruments receiving financing from Structural Fund programmes must be set up either as independent legal entities, governed by agreements between the cofinancing partners or shareholders, or as separate blocks of finance within a financial institution. Once they have been set up, the financial engineering instruments in either form are governed by specific rules, usually reflected in the applicable bylaws and other documents applicable to the financial engineering instruments concerned, and operating on the basis of the business plan or other appropriate document agreed with the managing authority or the holding fund (COCOF_10-0014-04-EN).

The terms and conditions for contributions from operational programmes to financial engineering instruments shall

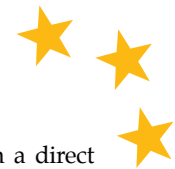
be set out in a funding agreement, to be concluded between the duly mandated representative of the financial engineering instrument and the Member State or the Managing Authority.

As part of the decision-making process the Member State or the Managing Authority must assess whether they want to implement the **financial engineering operation through a holding fund or through a direct contribution** from the operational programme to a financial engineering instrument.

The (Holding) Fund holder or operator manages the funds made available by ESF and ERDF. It can be a regional, national or European public financial intermediary. Potentially all public financial intermediaries can become fund operators, including those that already manage ERDF or ESF instruments. As part of the decision-making process the Member State or the Managing Authority must assess whether they want to implement the financial engineering operation through the award of a public contract in accordance with pub-

lic procurement law or through a direct contribution.

In general, the Managing Authority arranges a **public tendering procedure** to appoint fund operators. However, if regional or national bodies like development banks (in-house providers) exist that already have sufficient experience of managing a (holding) fund, they can be **designated as fund operators without tendering**. In this case, **a national/regional published law, regulation or administrative provision compatible with the EC Treaty needs to be adopted** that attributes to the national/regional body the exclusive right to manage the fund for operations during the 2007-2013 programming period (see Directive 2004/18/EC, art. 18).





Granting a direct contribution to an experienced **in-house provider** has several advantages:

- efficiency: the cost of controls in the selection phase and in the management of the operation and administrative burdens are lower;
- reliability: a regional/national company ensures consistency with the objectives of regional/national planning, transparent information flows and immediate control.

If a regional or national entity is selected as fund holder it should have:

- experience in managing financial operations (cofinanced by EU funds) and knowledge of rules and procedures;
- the objective of supporting regional development goals;
- a results orientation.

As already mentioned above, if a financial institutions such as a national financial body is selected as fund operator, the fund should be located in a separate entity inside the institution, in order to strictly separate its public and private banking activities. This is for instance the case in Latvia (see example alongside).

No public tendering – Latvia and Sardinia



Latvia decided to implement its microcredit programme through a direct contribution to a financial instrument. It applied a closed selection procedure for the fund manager after approving the national legal basis. The Mortgage and Land Bank of Latvia, a state-owned joint-stock company, was selected as it has already gained expertise during the implementation of a similar programme in the previous EU funding period and has branches all over the country. The business plan and application forms submitted were thoroughly analysed, and their conformity with regulations checked.

The bank has a specific structural unit, ALTUM, which provides loans and support of other types to entrepreneurs under national and European Union programmes. ALTUM was established in order to separate state support functions from traditional banking services, according to the EU Commission requirements. Separation of support functions and employees into a separate structural unit ensures that state support is not used to finance the commercial activities of the bank. ALTUM employs highly-qualified specialists, who have experience in handling promotional programmes at the Mortgage Bank as well as public management institutions. ALTUM has 26 people working with the microcredit programme in the general office (including project managers, risk department, credit department, etc.). There are also 12 consultants working in 10 branches and serving clients in 29 cities as by travelling around the cities. The bank is currently undergoing structural changes in order to increase the quality and utilisation of the programme, and plans to almost double the number of consultants and analysts working on it.



The region of **Sardinia** selected the regionally owned financial institution SFIRS SpA as fund manager. No public tendering procedure was carried out. The in-house provider was chosen for several reasons:

- SFIRS has 45 years of experience in the development and support of Sardinian enterprises;
- SFIRS's balance sheets prove the experience it has acquired in similar operations in Sardinia and the availability of highly-skilled professionals;
- There is coherence with in-house providing principles: the Sardinian region has a similar level of control as that, which it exercises over its own departments and an essential part of its activities are carried out with the controlling authorities.

SFIRS has allocated 26 employees to the implementation and management of the fund.

In-house provision was also chosen by the **Calabria** region for the Microcredit Guarantee Fund. The financial company of the region, Fincalabra, manages the fund.

Public tendering procedure – Germany



The **German** MA launched two public tenders. The first concerned the management of the fund assets (which according to German law had to be a regional or national public bank). The regional public bank of Lower Saxony – N-Bank – was chosen to administer the assets of Mikrokreditfonds Deutschland. The second public tender concerned the practical implementation of the loan fund activities such as the selection of intermediaries and establishment of MFIs, contract management with MFIs, loan processing, IT, public campaigns to reach beneficiaries and the like.

A Member State or Managing Authority may also decide to implement the operation through the award of a contract directly to the EIB or the EIF owing to their special status as Community bodies established under the Treaty. There is also a possibility to have institutions collaborating as co-fund operators, such as national or regional financial institution working with the EIF, subject to a tender process. (http://www.eif.org/what_we_do/jeremie/faq/index.htm#What%20is%20the%20role%20of%20a%20Fund%20Holder).

Once selected, the Member State or Managing Authority needs to conclude a funding agreement with the fund operator. Such funding agreements must ensure the correct implementation of the strategy – including goals to be achieved, target sectors and beneficiaries/final recipients to be supported, as set out in the operational programme – through a coherent investment strategy, range of products, likely project types and targets to be achieved through the financial engineering instruments. The funding agreements should include a system of remuneration of fund managers that is linked to performance. Moreover the funding agreements must also contain a corpus of rules, obligations and procedures, to be observed by the parties concerned, regarding the financial contributions made by the operational programme (COCOF_10-0014-04-EN).



2.6 How to select a fund operator

In the context of ESF support for self-employment a financial intermediary is an institution that acts as an “agent” and service and/or microloan provider between those who want to implement a business support and/or microlending scheme (e.g. government, programme authorities at EU, national and regional level) and those who need a loan for business purposes (e.g. business starters, self-employed people, microenterprises, social enterprises). A financial intermediary or microcredit provider can be a licensed public or private bank, credit union, finance company, non-bank financial institution like a microfinance institution (MFI) or the like.

Financial intermediaries can be selected following a **tendering procedure or cho-**

sen directly by the fund operator. The fund operator selects and signs **funding agreements** with the national/regional financial intermediaries and then makes a contribution of resources to them (item fees, lump sums, bonuses). The criteria that have to be considered by ESF authorities when selecting a financial intermediary depend on the legal and policy framework and the specific requirements of the microlending scheme e.g. the range and quality of services. Some schemes, like the German one, use **linkage models** between organisations from the business development sector and the banking sector to bring together different competencies or to fulfil statutory requirements, if **banking law** prohibits loan providing by a non-bank MFI.

Moreover, while some Member States contract **established financial institutions**, while others have **set up a new structure of microcredit organisations**. Accordingly, in Lithuania, it was decided to work with the existing credit unions, which are able to serve clients through an extensive network of branches (e.g. the 57 regional credit unions in Lithuania with 154 points of sale, and cooperate with the labour exchange office, NGOs and communities) and are already used to credit procedures. Another option is to work with promotional banks. This is the case in Latvia where the Mortgage and Land Bank is in charge of loan distribution or in Belgium where the *Fonds de Participation/ Participatiefonds* provided the Solidarity Loan until December 2011.

Working with established financial institutions (banks or promotional banks)

- + **PRO:** Established financial institutions are already used to working with IT information systems and have qualified loan officers.
- **CONTRA:** When working in a microfinance programme, a shift is required from simply selling a specific financial product to adjusting both products and services (based on solid experience of or research into the target groups) so that they genuinely help to increase income flows and the ability to repay the loan. Such a shift away from standard ways of proximity-driven credit provision might prove difficult for commercial financial institutions. Moreover, commercial institutions are likely to draw back from microfinance again once the programme stops. When the decision is taken to work with a promotional bank, it is important to take into account that such institutions tend to be far away from the clients. It is recommended to work in close relationship with local partners or apply a linkage model; however the credit procedures should remain as simple as possible.



Credit unions



In **Lithuania** non-banks are allowed to disburse consumer loans, but not loans for business purposes. At the end of March 2010 the fund manager INVEGA launched an open international public procurement tender for the selection of a financial intermediary. The financial intermediary LCCU in cooperation with 57 credit unions (with 154 points of sale), was selected at the end of July 2010 on the basis of the criteria set for financial contribution rate, risk and profit margin, accessibility of rural areas etc. The agreement between INVEGA and LCCU was signed on 30 July 2010.

The strengths of both LCCU and credit unions explain why they were chosen as partner in the Entrepreneurship Promotion Facility. The credit unions are already well equipped with loan processing IT systems and have qualified loan officers for loan decisions and ongoing services for maintaining and ensuring loan repayments.

Where a network of established financial organisations does not yet exist the alternative is to establish **new structures like a nationwide network of microfinance institutions** to ensure broad access to microloans for self-employed starters and microenterprises. This option was chosen in Germany and in the UK (Community Development Finance Institutions – see below).

Establishing a new structure – pro and contra

- + PRO:** Working with new organisations that specialised in microfinance creates a specific dynamic; the operations of such institutions/organisations can be particularly well adapted to the aims of the scheme.
- CONTRA:** The process of establishing a new structure takes longer than basing a scheme on existing (commercial) financial institutions; it will also be more costly as the funders need to invest in institution-building. During the implementation of the programme ways of becoming sustainable should be prepared with the organisations.

Specialised institutions



In the **United Kingdom** the Community Development Finance Institutions – CDFIs (which are regulated by the Financial Services Authority) have the right to lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. Although some of these institutions have existed since the 1960s, the sector developed considerably when a public fund, the Phoenix Fund, was set up, providing €42 million between 2000 and 2006 to support existing and emerging organisations. The Fund was formally terminated in 2008. CDFIs provide loans and support to micro-, small and medium enterprises, social businesses, community organisations, charities and individuals. CDFIs can serve one or several of these markets, but often they specialise in just one. Most lending by CDFIs is to microenterprises and social enterprises. Since 2002 the majority of CDFIs have joined the trade association CDFIA (Community Development Finance Association) which now has 70 members. CDFIs who wish to become part of CDFIA must adopt the CDFIA Code of Practice (see 1.10 How to ensure quality in microfinance operation).

Linkage model



In Germany, only financial institutions are allowed to provide loans. Germany therefore applies a “linkage model” in the implementation of the federal guarantee fund *Mikrokreditfonds Deutschland*. The practical implementation of the fund is assigned to a private co-operative bank (GLS Bank). The bank has the task of establishing a nationwide network of microfinance institutions to distribute the microloans to business starters and small enterprises. These can be NGOs, business support centres, financial service providers etc. The scheme thus involves local support organisations as key actors in the loan process through a cooperation model with a private bank, in order to better reach out to the self-employed starters and microenterprises, but also to fulfil the requirements of the Credit Services Act. To become a financial intermediary under the fund, applying organisations/institutions have to be accredited by the Deutsches Mikrofinanz Institut – DMI (see 1.10 How to ensure quality in microfinance operations).

This model of practical implementation is based on previous experience with the microfinance fund that was run from 2006 to 2009, initiated with the support of GLS Bank, BMAS, BMWi and the federal promotional bank KfW-Bankengruppe. In this period, a support structure was established with the help of the EU EQUAL initiative. It comprises a country-wide network of local MFIs, with DMI as their umbrella organisation. During the first year of the scheme, the microfinance organisations received a flat-rate fee of €800 per loan disbursed to cover the cost of the credit operations, advice and follow-up as well as their institution-building. Moreover, to minimise risk, they have to deposit an amount for risk coverage of at least €30,000 (see 2.9).



A quality standard such as adhesion to the European Commission Code of Good Conduct could become a pre-condition for microfinance providers to be part of public microfinance schemes (see 1.10, How to ensure quality in microfinance operation).



2.7 Organising the professional management of a microfinance system - key intervention parameters

2.7.1 Complementing microfinance by interest rebates

Microfinance providers have to apply relatively high interest rates to cover their costs, because the effort of providing small loans to high-risk groups is elevated. The European Social Fund offers the possibility to apply an interest rebate so that the individual beneficiary can receive the loan at market rates or even below. This is highly important for entrepreneurs from disadvantaged target groups with limited financial capacities. When applying an interest rate rebate it should however be ensured that such a measure does not distort the market.

The interest rate should be adapted to the repayment capacities of the clients; it should not be set too low, because, once the interest rebate disappears, the client will feel an enormous difference in the cost of the loan. In fact, statements from MFI practitioners in the EU such as Adie in France stress that a low interest rate is not the most important factor for vulnerable groups. Instead, what they focus on is the need to access finance rapidly and without complicated procedures, and for the microfinance provider to show confidence in them, and do not consider the cost of the credit as crucial.



The **Calabrian** microcredit guarantee fund uses the ESF to provide an interest rebate. The fund was set up in 2010 to give financial support to start-ups and chose Fincalabra, a holding company 100% owned by Calabria Region, as the fund manager. By January 2012, the programme had received over 900 applications and approved over 200 loans (loans are of up to €25,000 over 5 years). The scheme consists of a €20m guarantee fund (which guarantees 80% of the loan portfolio). The loans are given out by private banks involved in the programme that obtain the money for the loans from the money markets. There is also €4.5m for interest rebates, so that the final beneficiary receives a loan at 0% interest. Fincalabra repays the interest (at a fixed rate) plus a transaction fee to the banks. Finally, Fincalabra receives a €2.5m fee to provide borrowers with 'tutoring' support for 24 months after start-up.



The **Lithuanian** scheme uses ERDF to provide an interest rebate. The Ministry of Economy is responsible for the implementation of the ERDF measure "Partial financing of loan interest". The borrower has to pay 3 months VILIBOR + 0.1% – but not less than 2% and not more than 6% – of annual interest, plus equity of the credit union (unchanging part of interest) which has not to be more than 3.49%. The borrower has a possibility to get a 50% reimbursement of loan interest paid. At the moment the Ministry of Finance and the Ministry of Economy are working on the legal acts needed to reimburse 95% of interest paid from the ERDF measure "Partial financing of loan interest".



The **Lombardy** scheme which helps people to buy shares and thus increases the equity capital of co-operatives provides a different type of rebate. The programme does not use interest rate rebates, and accordingly the fund selected, on purpose, financial intermediaries that propose low interest rates. However, the €4,000 microloans are divided into two different components. Half of the loan (€2,000) is an amortising component: a 5-year, monthly repayable loan at a fixed rate. The other half (€2,000) is a bullet component: a zero-rate 5-year loan with a single repayment at the end. On condition that the borrower stays in the co-operative for five years and reimburses the amortising component, the bullet component can be converted into a grant. The amortising component is repaid to the participating bank, at a fixed interest rate.

2.7.2 Combining loans and grants

Besides interest rate rebate, grants are a way of supporting entrepreneurs from disadvantaged groups. For many years European Union Member States have used the Structural Funds to set up programmes that provide grants to business starters. However, recently there has been a shift in emphasis from grants to repayable loans. The challenge is to combine the existing grant and loan programmes into an effective system of finance provision to small, starting entrepreneurs. Interesting ways of combining loans and grants are used in Latvia and Germany.



Latvia: To help businesses to achieve a sustainable cash flow during their first year of operation, the Latvian ESF-funded "Support to Self-employment and Business Start-up" programme offers financial resources in form of grants in addition to the loans. There are two different types of grants:

- *Grant for sustaining economic activities:* this is available to businesses wishing to start or having already started economic activities within the last year. These grants are disbursed within one year after signing the loan agreement. The grant is up to 35% of the amount of the loan, with a ceiling of €5,120. For the next 12 months the client has access to 1/12 of the grant each month.
- *Grant for repayment of the loan:* this is only given upon successful implementation of the project and if the loan was used in compliance with the stated purpose. The maximum grant is €2,840, with a ceiling of 20% of the amount of the loan in the case of businesses wishing to start or having already started economic activities within last year, and a ceiling of 10% of the loan in the case of businesses that started the economic activities more than a year ago.

The take-up of grants is in line with expectations: an amount of €1.56 million in "grants for sustaining economic activities" was issued along with €31,500 in "grants for repayment of the loan". Given these results, the Latvian authorities are aiming to secure even more money for grants in the future.





In **Germany**, microcredits can be combined with the *Gründungszuschuss*, the public start-up grant scheme for unemployed people. The start-up grant is available to people who are entitled to wage replacement benefits in accordance with Book Three of the German Social Code (SGB III) or were employed in a job creation measure. When taking up self-employment, the founders must be entitled to at least 150 more days of unemployment benefit. Since December 2011, unemployed persons are no longer automatically entitled to the start-up grant, but must prove that they have the necessary knowledge and abilities to be self-employed first. In case of reasonable doubt as to the applicant's knowledge or abilities, the Employment Agency can demand or offer participation in aptitude tests or in measures to prepare the applicant to found a business. An expert authority must examine the start-up project and certify its viability. Expert authorities are chambers of industry and commerce, chambers of crafts, professional organisations, expert associations and financial institutions. *Gründungszuschuss* is granted in two phases. In the first phase of six months, the amount equals the unemployment benefit last received plus €300 for social security. The €300 component can be continued for a further nine months if intensive business operations and full-time business activities can be proved. It is not possible to apply for a repeat grant for a period of two years.

http://www.arbeitsagentur.de/nn_426332/EN/zentraler-Content/Leistungen/Foerderung-der-Aufnahme-einer-selbststae-EN.html

2.7.3 How to share the cost of microfinance between stakeholders

Financial institutions have to cover several cost centres:

- operational cost
- refinancing cost
- cost of provisions

In the case of microfinance, financial advice and loan follow-up (including crisis intervention) for the target clients make up another important cost centre. Business development services such as training and coaching are an additional service to be financed. The whole amount of this cost can hardly be covered by the interest only. In particular, loan-follow up and additional business development services need to be supported by public funds.

When designing a microloan scheme, positive and negative incentives to the fund manager and the financial intermediaries should be provided so that they fulfil or even exceed their mission in terms of volume of activity, risk indicators and target groups reached. Such incentives can be given through the provision of guarantees, spreading the risk and cost of the operations, as well as bonuses and fees.



Germany (microloans only): In Germany, if an MFI wants to access the federal guarantee fund (Mikrokreditfonds Deutschland) it first has to pay approx. €6,000-8,000 for an accreditation/auditing process. Additionally the MFI needs to finance its staff (loan officers), investments (e.g. IT equipment), working capital (office, application forms, marketing material, training, networking) and deposit capital for 20% risk sharing (min. €30,000).

However, Mikrokreditfonds Deutschland also supports MFIs with two incentives (revenues coming from the investment of the fund assets):

- **item fees** for processing and administering the loans (analogous to the flat service fee which banks receive for the administration of public business loan programmes); the item fees will diminish as the expected rate of loan disbursements rises (2011 = €800; 01/2012 = 650; 07/2012 = €500; 2014 = €300; 2015 = €200).
- **bonus for successful loan repayments (fund) / risk sharing for loan losses (MFI):** the MFIs are liable in terms of "first loss" for all loans recommended by them. This liability is limited to 20% of the total yearly loan portfolio. For losses exceeding this margin the fund is liable with its property. The fund's risks are managed so that prior to possible loan losses beyond 20% loan provision can be suspended, with the consequence that the MFI generally bears the full costs on its own. In turn the fund will grant the MFI a bonus of 10% of the loan amortisation.

Thus the following rules hold:

- MFIs with loan losses of less than 10% receive a bonus of 10% of the loan amortisation from the fund, minus the amount of the loan losses. Accounts are settled annually.
- MFIs with loan losses higher than 10% pay up to 20% of their loan portfolio to compensate for the loss of loans. It should be noted that here, too, a 10% bonus on the annual amortisation is allocated.

To cover this liability the microfinance institution must deposit in a fund account a sum equal to 20% of the estimated yearly total loan portfolio as a form of insurance (minimum €30,000). Some MFIs get additional financing from their regional promotional banks (public-private partnerships) or have partnerships with enterprises (corporate social responsibility) to cover financial gaps.

To pay for bonuses and item fees, the bank partner in the fund, GLS Bank, pays a commission of 5% of the guarantee to the fund from the interest received (8.9% effective interest). The remaining approx. 3.5% are used by the bank to pay its own refinancing cost and cover the cost of account management.





Lithuania (microloans and training): The Entrepreneurship Promotion Fund provides €12.16m from the ESF, match-funded with €1.35m (10%) from the credit unions (LCCU). INVEGA's **administration costs** (management fee up to 2% of €14.5m) and **LCCU/regional credit union costs** (administration and training/consultancy fee up to 3% of €14.5m) are covered by fund capital. The borrowers pay from 5.49% to 9.49% interest to the regional credit union. LCCU takes the whole risk of lending and pays interest on for the money received to the manager of the Entrepreneurship Promotion Fund (INVEGA). If there is no ERDF guarantee, the borrower has to provide a 100% guarantee. This guarantee can be through a pledge on equipment, a mortgage or a guarantee by another member of a credit union.



Lombardy (microloans only): The cost of the whole initiative is funded equally by private and public resources: 50% of the cost is borne by the financial intermediaries (amortising component of the loan), while the remaining 50% is charged to the fund (bullet component and guarantee

fund). There is no additional cost for loan disbursement, except a low fee (about €10) for the examination of applications, while management fees covered by the managing body (staff costs, subcontracting, etc.) and related to the implementation of the initiative are charged to the fund.



In Calabria the fund operator Fincalabra receives about 2% of the fund to cover its operating costs. Fincalabra manages the guarantee fund which covers 80% of the loans made to microenterprises/SMEs by commercial banks. Although they have to cover 20% of the risk themselves, the scheme is attractive for banks as Fincalabra immediately advances them 80% of the amount when they disburse a loan to a final beneficiary. However, there is a procedural problem: although Fincalabra examines applications quickly, it then passes them to the bank which has to approve them separately as it bears 20% of the default risk. Banks are very slow to do this – they can take six months. Fincalabra gets a 10% bonus if the businesses it supports are successful. Moreover, a €2.5m fee for tutoring for 24 months after start-up is provided to Fincalabra.



2.8 Establishing synergies between financial and non-financial support schemes (at all levels) for business starters

Non-financial services are key to microfinance provision in Europe, especially for organisations and programmes that work with disadvantaged people. Non-financial services comprise the financial advice that is directly linked to the microcredit, as well as pre- and post-loan business advice. As financial advice and follow-up can be considered part of the microcredit operations themselves, this chapter focuses on business support.

Although there is still no comprehensive research on the effectiveness of business support, it is a commonly accepted view that low-income starters are in particular need of Business Development Services (BDS) such as training (for instance group training) as well as coaching and mentoring (carried out on a one-on-one basis with an entrepreneur) before, during and after the business start-up, in addition to the financial support. This enhances the survival and growth chances of their enterprise and also minimises credit default risk where a business loan was taken out. But, just like the financing, the business

support needs to be targeted at the types of entrepreneurs (solo, micro, small, medium etc.), the types of businesses and the phase of enterprise development (see chart in appendix e).

Disadvantaged groups and people living in disadvantaged areas tend to rely on a circuit made up of different public and semi-public agencies working at the boundaries between social security, employment and enterprise policy. Here, one often finds inappropriate and overlapping sources of business support for small enterprises; they rarely form a genuine system capable of effectively accompanying disadvantaged groups along an itinerary towards independent income generating activities (Wikipreneurship).

2.8.1 Types of linkages

In its biannual *Survey of the Microcredit Sector*, the European Microfinance Network shows that the great majority of microfinance providers in Europe do offer support services to their clients in addition to the financing (out of 170 microcredit

organisations in 21 European countries, 81% provide some form of BDS). Often, a mix between group training and individualised support (coaching) is offered. While 20% deliver BDS to their clients on an obligatory basis, another 20% require their clients to take up BDS in some cases only and 14% provide BDS only if the client asks for it. Finally, 27% do not provide BDS themselves but do refer clients to other providers (EMN, 2010).

A well-established linkage between financial support and BDS is of benefit for all – the beneficiaries, the MFIs and the BDS providers. Broadly three different types of combining microfinance and BDS can be distinguished:

Integrated Microfinance and BDS Programmes (Multiservice Provision): Some countries like Belgium (Microcredit Business Line), Lithuania (Entrepreneurship Promotion Fund) and Latvia (Support to Self-employment and Business Start-up) combine BDS and microloans within their programmes. People who intend to start a business and have no business plan or business records can participate in an advice and training programme first, before they are allowed to submit a loan application. In this spirit the loan is an integral element of a public support programme for personal asset building/capacity building for (disadvantaged) starters.

Separation between Microenterprise Lending and BDS Programmes: In other countries, the public support programmes for microloans and BDS are separated. For instance, in Germany the federal microloan programme Mikrokreditfonds Deutschland (Federal Ministry for Labour and Social Affairs) offers exclusively microloans to self-employment starters and

microenterprises: the service includes financial advice, but no business coaching or training. In contrast, the federal BDS programme Gründercoaching Deutschland (Federal Ministry for Economy and Technology) offers exclusively business support for starters and companies (for five years after start-up – but no pre-start coaching). Consumer protection legislation does not allow (lease add: MFI or BDS) to offer the combination of these separated programmes (prohibition of bundle contracting).

Various Structures (Microenterprise Lending / Microlending / BDS / Multiservice-Provider): In some countries like the United Kingdom and France a broad range of suppliers of pure microfinance exists, but there are also multi-service providers offering both finance and BDS, as well as community networks combining solidarity loans with business support by local volunteers. In many cases microfinance institutions and BDS providers need to draw up complex contracts and put a lot of effort into administration to combine the fragmented funding.





Which form of linkage between financing and BDS is used depends very much on the local context. Effectively coordinating the business support services that are provided by various organisations and ensuring their quality is a major challenge. To set up a good support system for inclusive entrepreneurship the local business support structure needs to be deeply analysed and well understood, the main actors for cooperation identified, and an intensive exchange process carried out. The COPIE European tool can be used to analyse the local and regional environment for inclusive entrepreneurship and identify areas for

improvement. The tool looks at pre-start-up support, post-start-up support, access to finance, infrastructure, quality and business start-up regulations. More information on the COPIE tool can be found here: <http://www.cop-ie.eu/node/87>.

A holistic approach to combined business support for young people was developed by Verbund Enterprise as part of the ESF EQUAL programme. Another interesting programme cofinanced by the ESF is implemented in Flanders by UNIZO and the public employment agency VDAB. It leads people from unemployment to self-employment.



Good practice

All in one – A structured business support pathway for young people

In order to support young people facing the confusing maze of complicated procedures and support agencies, the Verbund Enterprise EQUAL partnership developed a structured business support pathway made up of four clearly defined stages: profiling (lasting about four weeks), planning (3-12 months), start-up (approximately six months), and consolidation and growth (3-5 years).

Each stage involves the provision of a variable menu of services (counselling, training and qualification, mentoring and access to microcredit) which help the entrepreneur to acquire the personal competences, skills and resources that are necessary for success. One innovative feature of this programme is the change from the concept of 'one-stop-shop' (one organisation trying to do everything under one roof) to that of a partnership

which orchestrates the inputs of grassroots youth organisations, mainstream business advisers and financial institutions into a tailor-made package of support for young people. During each phase of the support pathway, the partnership pulls in different specialist and mainstream providers to provide specific services.

However, one of the problems encountered with a multi-stakeholder system like this is how to ensure quality along the entire pathway. In order to do this, Verbund Enterprise started to design an Enterprise Quality Management Structure (EQS) which covers all four stages of the support system. Finally, one of the most distinctive features of Verbund Enterprise's work has been to create an enterprise passport that provides a clear and transparent road map of the progress made by the entrepreneur at each stage. (http://ec.europa.eu/employment_social/equal/data/document/etg2-suc-verbundentrep.pdf)





Ondernemen Werkt / Entrepreneurship Works

This Flemish coaching programme is a partnership between UNIZO, the Union of Self-Employed and SMEs, VDAB, the Public Employment Service, and Syntra, the Entrepreneurial Training Network, with the financial support of the ESF and the Flemish community. The target group of the programme is jobseekers who want to start up their own business.

The programme consists of several steps:

1. The first meeting takes place at the VDAB with an 'Entre Mirror', a self-assessment questionnaire that establishes the entrepreneurial competences of the applicant.
2. The second step is the exploratory phase of maximum six months, where the applicant is coached to develop a Personal Development Plan and an Action Plan.
3. The third step is the preparatory phase, also of maximum six months, where the entrepreneur is coached to apply for an appropriate loan and to start up his activity. For the loan application UNIZO works together with the Participation Fund/Hefboom/Crédal in order to provide a microloan.
4. The last step is the actual start-up of the business.

Integrating financing and business support seems to be a good option to ensure that entrepreneurs can access adapted financial and non-financial support at the stages of development of their enterprise when they need it. It can be done through sub-contracting BDS provision to specialised training and consultancy providers. This has been shown to be an effective way of ensuring that beneficiaries receive high-quality services.

Integrated Microfinance and BDS Programmes



Latvia: In the *Support to Self-employment and Business Start-up* programme, the consultations on drafting the business plan and implementation of the project are provided in the branches of the bank. Additionally, a public tender was issued to select high-quality private consultancy firms to provide training. Applicants who lack theoretical and practical knowledge on business operations are offered the following training modules:

- business basics (80 hours)
- management basics (20 hours)
- regulatory framework of business (20 hours)
- financial management of company (20 hours)
- accounting and taxes (20 hours)
- fundamentals of marketing (20 hours)

No more than two modules of training are allowed. This system works well, as both financial and non-financial organisations are specialised in the support they offer.



Lithuania: The financial intermediary LCCU, the national network of credit unions, works with 11 sub-contractors who specialise in providing training and consultancy. Support is provided in the pre-start, start and growth phases of self-employment, new micro- and small businesses (not older than one year and social) and social enterprises. There are two types of training: 1) general training "Basics of entrepreneurship" and 2) entrepreneurship training: "Creation of a business plan", "Accounting and tax basics", "Business and labour law basics", "Business management basics", "Marketing basics" and "Human resources in business". General training is obligatory for all participants and entrepreneurship training can be chosen according to an assessment of the skills and needs of a start-up. The sessions are free, optional and based on the 'first come first served' principle. Clients are free to take all modules if they wish or only choose some. Accessibility to training and consultancy in different regions of Lithuania is ensured as training is organised in 15 towns in all counties of Lithuania. Moreover, co-operation was started with non-governmental organisations, the labour exchange office and communities to better reach out to ESF priority groups. So far, the number of training sessions attended is in line with the objectives (3,343 by 31 December 2011).

LCCU has accepted the challenge of managing this project, which includes not only distributing the loans but also organising the training and consultancy. The reason for this is that LCCU is interested in high-quality work with participants, but also in the growing potential client base for the credit unions participating in the project.





Separation between Microenterprise Lending and BDS Programmes



Germany: Through the ESF-funded business support programme *Gründercoaching* starters and entrepreneurs who have already set up their business, but less than five years ago, can receive coaching for 12 months. The coaching can concern financial advice, the development of a marketing strategy or conducting a market study. The programme is managed by the German federal bank KfW. The entrepreneur receives a grant to partially pay the fees for a coach. The amount covered is 75% in Eastern Germany and 50% in Western Germany, of a maximum of €6,000 of fees. For starters who are unemployed 90% of a maximum of €4,000 of coaching fees is covered. Applications for the grant need to be handed in at one of the regional partners of KfW such as Chambers of Commerce or start-up and business support organisations. For microcredit institutions, combining a microloan with *Gründercoaching* is difficult. Microcredit organisations that operate under *Mikrokreditfonds Deutschland* must not make participation in *Gründercoaching* they provide themselves a prerequisite for receiving a loan. This is prohibited under German consumer protection legislation. In principal however a

combination is possible. Moreover, the *Gründercoaching* cannot be used for the development of the business plan. This means that the entrepreneur has to go to another organisation that offers either paid advice in this regard or has a subsidised (e.g. ESF-funded) counselling project. It is also problematic that the maximum duration of the coaching is only 12 months and once started no interruption is allowed. This means the borrower cannot receive any more coaching if he/she has a problem with the business after 12 months has elapsed.

Besides sub-contracting, working with volunteers can be a (cost-)effective way of providing training and coaching. In fact, many microfinance organisations in Europe have chosen to work with **volunteer** coaches (the coaching is done as a volunteer activity in parallel with an income-generating activity (job) or a pension), mostly owing to limited financial resources for BDS.



France: The French microcredit provider Adie has disbursed more than 93,000 microcredits since its establishment in 1989. Alongside the financing the organisation itself provides extensive complementary business support services for microentrepreneurs before, during and after the loan has been taken out. This includes group training, coaching, a telephone hotline and online advice. Adie works with more than 1,000 volunteers who dedicate several hours or even days of their time each week to this task. Adie's dedicated business support staff provide clients with an introduction to Adie's services as well as training. Before working alone, a new volunteer works together with another more experienced volunteer for several months.



United Kingdom: The Prince's Scottish Youth Business Trust (PSYBT) helps young people aged between 18 and 25 in Scotland to become successful entrepreneurs, by providing financing and additional support. Since its inception, PSYBT has helped over 12,000 individuals start over 10,000 businesses, 81% of which continue to trade after their first year in business and 60% of which are still trading after three years. It works with a volunteer network of 750 individuals. Every two years PSYBT organises a conference for volunteers. In 2011 over 200 volunteers from throughout Scotland attended to share best practice and new ideas and discuss hot topics such as social media, sales, marketing and aftercare.





Regarding the quality of working with volunteers, there are mixed results. In her study *Volunteer versus Paid Coaches within Microfinance Initiatives* (2011), Margot Lobbezoo from the Dutch INHolland University of Applied Science Research group on Microfinance and Small Enterprise Development concludes that there is no evidence that a particular coaching model (with volunteers or with paid coaches) is more effective. However, she advocates that political or financial reasons for choosing one model or the other should be made transparent. Moreover, according to the study, it is not clear what impact supplanting an existing coaching industry with volunteers has for the sustainability of the BDS market in the country. There is a risk of crowding out markets.

To effectively link entrepreneurs and coaches the **internet** is more and more widely used as a tool for business support. Through the web basic information and support such as business and financial plan templates and good examples of business plans can be provided. For instance, in the Netherlands the microfinance organisation Qredits triggers the interest of potential entrepreneurs by using its homepage to ask simple questions to make them think about their business. A financial module translates their answers into the necessary financial figures. The web can also be used to link entrepreneurs and coaches. In Germany entrepreneurs can choose their coaches through an online database, and a similar system is currently being set up in the Netherlands.



In Germany, once approved for Gründercoaching, the entrepreneur can search for a coach in the KfW online database that includes more than 13,000 coaches. The search can be done regarding the specific theme or area of coaching that is needed, the phase of development of the enterprise, the region where the enterprise is located and the business sector. The database also provides a feedback function which allows the entrepreneur to rate the coach once the services have been received. https://beraterboerse.kfw.de/index.php?ac=consultant_search



Netherlands: Qredits is the only microfinance institution operating nationwide in the Netherlands. It uses sophisticated IT support in several parts of the process in order to create a sustainable approach. Beside microcredit, clients also receive coaching for at least the first year. The microfinance organisation is currently developing its digital database whereby clients can select their own volunteer coach online, the Coaching Pool (<http://qoachpool.nl/>). Moreover, through this system, Qredits loan agents can access the reports written by the coaches about enterprises financed by Qredits in an online logbook.



2.8.2 Quality management

The COPIE sub-group on Quality Management (QM) has carried out work to identify quality standards for business support. It has developed a curriculum for a business advisor training course based on eight training modules as well as a “Business Advisor Passport” (*BeraterInnen Pass*), an individual planning, control and documentation instrument for business start-up advisors. More information about the Quality Management toolbox developed by COPIE can be found here: <http://www.cop-ie.eu/copie-tools-quality-management>.

The work of the QM subgroup draws on the standards established by SFEDI, the Small Firms Enterprise Development Initiative, founded in 1996. SFEDI, a not-for-profit organisation led by existing entrepreneurs and business owners, is recognised by the UK government as the national standards-setting body for business support for microenterprises and solo entrepreneurs. SFEDI has developed **standards** for entrepreneurs, business advisors and staff working

with potential entrepreneurs. It provides its standards to government-funded departments, agencies and bodies and to major small business support organisations (banks, trade associations, major training providers and educational institutions). SFEDI standards can be downloaded here: <http://www.sfedico.uk/standards-setting-body/standards/downloads>.

To make sure that the services match the clients’ needs it is also important to carry out regular evaluations of the support measures. The INHolland study mentioned above highlights the fact that the business support should be analysed separating the different modes of provision (training, coaching, mentoring etc.) and the different points in time when they are provided (pre-, during or post-start up), in order to detect which service has the most impact and to know how these services best support each other. However, European-wide indicators evaluating business support do not yet exist. Therefore, the INHolland

study concludes that: “Using indicators for comparison will only work after agreeing which indicators are needed most and deciding on what method to use to gather the information. It would be a step forward if, in the Netherlands but also the other countries, agreement could be reached concerning two or three indicators that should be used for measuring improvements achieved, at entrepreneurial level, in each project, with guidelines on how and what to measure.” (INHolland, 2011)

2.9 Ensuring schemes are reaching out and meeting the needs of specific target groups

Serving socially excluded people is one of the *raison d’être* of microfinance in Europe. Individuals from disadvantaged population groups face a higher risk of financial exclusion and they encounter particular difficulties in accessing suitable financial services. The reasons for this are varied: little personal capital, lack of collateral or guarantees, little or no credit history, lack of skills; furthermore they tend to ask for relatively small loan amounts, which banks perceive as too risky.

Microcredit is not intended as a substitute for bank credit. Rather, it helps excluded people to integrate later into the banking system. Microfinance providers therefore need to implement methodologies to ensure that their products reach the excluded clientèle and provide them with a link to the mainstream financial system. Methods range from designing suitable products to special forms of communication and partnerships, as

well as providing appropriate non-financial services. Of course, this needs to go along with a favourable environment for making the transition from unemployment to self-employment.

2.9.1 Welfare bridge - transition from unemployment to self-employment

Microfinance schemes can only reach out to disadvantaged people if the environment for starting a business or becoming self-employed is safe enough for them to risk the undertaking. Unemployment schemes need to be designed so as to build a bridge and not penalise self-employed people and entrepreneurs. This means that unemployment benefits and social security contributions should still be paid out in the first months of a business’s life. Moreover, if the entrepreneur has to close the business down, he or she should be entitled to unemployment benefits again. As an example, in

the Irish system people get income support on a decreasing scale over a period of two years, and there are no barriers or penalties if the person wants to return to the benefit system if their enterprise should fail. This transition period allows people to test the income-earning capacity of their enterprise. (FACET BV, nef, EVERS & JUNG, 2004)

Moreover, establishing a favourable context for self-employment and microenterprises also means decreasing the administrative barriers and charges that microenterprises face. A good example of this is the French *auto-entrepreneur* system. Under this system, no social charges or taxes need to be paid until the new business starts to generate sales, and small businesses are charged a percentage of their actual turnover in social charges and income tax. Also, an improvement in the business registration process results in less paperwork for small businesses.





2.9.2 Cooperation and partnerships

Microfinance is based on proximity. Therefore, access to the programme should be ensured through as many contact points as possible. Moreover, to make a microfinance programme known it is useful to work in collaboration with partners such as local or national NGOs, community organisations, professional organisations, banks, social welfare centres and employment offices, depending on the focus of the programme and its target. Working with such organisations and institutions helps to spreading the word about the programme and attract new clients.



Lithuania: In the Entrepreneurship Promotion Fund, the credit union umbrella organisation LCCU has to ensure that persons from priority groups can access and take part in training, and that they receive a pre-set target of loans made: 30% priority group participation in training, 15% of loans. LCCU provides more and longer consultations for persons from priority groups and gives more attention to assessing their needs. To reaching priority groups LCCU also collaborates with NGOs, local labour offices, business centres and various state institutions. So far 3,343 clients have taken part in training (objective by 3 December 2015: 5,000) and 160 loans have been disbursed (target: 1,200). Prioritised target groups¹⁰ are over-represented when it comes to training: 1,912 (127% of the target), but under-represented when it comes to credits disbursed: 80 (44% of the target). The success of the training courses in the Lithuanian case clearly shows the need and demand for training by entrepreneurs from target groups.



Germany: A key element in reaching the desired target groups and quantities was the establishment of broad coverage in all German federal states through local microfinance institutions – MFIs (NGOs, business support centres, financial institutions, etc.) that are responsible for client acquisition, credit analysis, ongoing client monitoring etc. The NGOs and firms (MFIs) target different geographical areas (local, regional, national) and different target groups (self-employment starters, micro-enterprises, ESF target groups). They are often themselves closely connected with formal and informal networks related to their areas of operation and target groups (women’s networks, associations and cooperatives, migrant communities, social entrepreneurship communities etc.); this seems to be a key for informal marketing. The MFIs can also work with distribution partners/resellers. In this case however the fund requires a written agreement between the two parties based on cooperation standards that exclude any additional fees or bundle sales. Ensuring that quality standards are applied by distribution partners is a critical point for the MFIs. The German Microfinance Institute, the umbrella organisation of all German MFIs, is therefore currently working intensively to ensure that strict cooperation standards are applied by all MFIs/resellers.

2.9.3 Product design

In order to serve excluded people, microfinance organisations provide loans with characteristics such as small loan amounts, alternative guarantee options, transparent pricing and flexible repayment rates. Methodologies such as step or group lending are suited to under-represented entrepreneurial groups, too. Moreover, microfinance organisations that work with staff from the same community, area or social background as the entrepreneurs themselves have proven to be especially successful in reaching out to underrepresented groups.

¹⁰ The target groups in the Lithuanian scheme are: business start-ups (individuals), micro- and small enterprises (new enterprises or existing enterprises not older than one year) and social enterprises; moreover some priority groups are defined: unemployed, disabled, young people and people over 50 years of age





Good practice



France: In developing countries, many microfinance organisations use **group lending** as primary micro-credit methodology, taking advantage of the mutual aid and solidarity in the groups and the social pressure of group members to repay the loans. In contrast, group lending is very uncommon in the individualised European societies – nearly exclusively individual loans are given out. However, the French Adie has developed a successful group lending programme. It targets people from immigrant communities (especially from Mali and Senegal) who have conserved their organisational modes based on collective solidarity. Loans are given to groups of maximum four persons. At the same time Adie supports them in formalising their activities. In 2011 Adie provided 34 such group loans in the Parisian suburb of Montreuil (Adie press release, 11/12/2011).



Hungary: The *Kiútprogram* pilot project aims to promote the integration of Roma in Hungary through self-employment and microcredit. It was launched with private funding and, since 2009, also has ERDF support. It uses the **group lending model**, and makes loans to groups of around five people. Loan amounts go up to a million forints (€3,500) and the interest rate is 20%. For regulatory reasons the organisation works with the Raiffeisen bank to do the lending. Field workers continuously receive dedicated practical

training in the field and regional coordinators manage the field workers. As of June 2011, the project is working with 220 potential clients, 19 groups have been formed in 60 settlements in Eastern Hungary and Budapest; the number of active clients is 85; and 49 loans have been made totalling 31 million HUF (approx. €97,800).

The programme has provided important insights. This includes the need to select clients and build groups very carefully. Moreover, one of the most serious barriers for Roma integration through entrepreneurship is the lack of a ‘welfare bridge’. Start-up entrepreneurs have to pay social security contributions based on the minimum wage of some €300 per month – yet the welfare benefit most Roma are entitled to is only around €100 per month. Qualifications are another factor of exclusion: even selling vegetables from a barrow in the street requires a diploma requiring 70 hours of study. (Wikipreneurship and *Kiútprogram* Interim Report, 06/2010-06/2011)



Germany: The German Mikrokreditfonds Deutschland uses **step lending** to keep risk low and ensure that the financing is adapted to the reimbursement capacity of vulnerable groups. The first loan for a business starter can go up to €10,000. The second loan has a maximum of €15,000 and the third €20,000 and can be used to finance tight liquidity positions or to pre-finance contracts.





2.9.4 Communication and marketing

The best form of communication depends very much on the national or local context, the aims and capacities of the microfinance programme and its financial intermediaries. Amongst possible communication tools are local/regional newspapers, information leaflets, TV and websites. Large communication campaigns should be used with caution as microfinance providers risk being overrun by inquiries, most of which might not be in line with the objectives or requirements of the programme. Targeted communication – for instance through displaying flyers and information in labour offices, banks or the offices of other private or public organisations, the organisation of local/regional seminars and meetings as well as word-of-mouth advertising – has proven to be effective for microcredit. Another way of promoting a microcredit/microenterprise programme is through organising entrepreneurs’ competitions. This method is used in Latvia where a special competition for young people called “Jump into Business” – is organised. A similar competition for seniors is planned.



Sardinia: In order to inform all stakeholders, a communication and information campaign was carried out in the three months preceding the launch of the first call of the programme. The Department of Labour set up a head office and seven permanently staffed branches for microcredit. Information was officially circulated to the presidents of the eight districts of Sardinia and to the mayors of the 25 most important cities, and meetings were held in all major towns. All in all meetings were held with about 3,500 people in all Sardinian regions. The scheme was also publicised through the newspapers, a TV talk show and the internet site of the regions of Sardinia, the Fund Manager, the regional Ministries of Labour and all Employment Offices on the island. The results are convincing: after the first call, applications came in from 290 of the island’s 377 municipalities. Fifty-two percent of approved loans went to women. This is the best female participation rate in a microcredit programme in Europe known so far, besides Lombardy, where the female rate is equally high. In contrast, the female participation rate in microloan programmes is for instance 36% in Calabria, 35% in Germany and only 25% across the EU.

Moreover, the **internet** and especially **social media** (Facebook, Twitter, LinkedIn etc.) can be used as powerful tools to reach out to (new) clients. In Europe, the best-known microcredit organisations such as Adie in France, PSYBT in Scotland and Qredits in the Netherlands make extensive use of social media. Costs are low and specific groups can be easily targeted. Examples of using social media for specific goals are the announcing of conferences and workshops, or the marketing of new loan products. Moreover, social media can be used by the entrepreneurs to be part of a professional network. However, the time needed to use social media well should not be underestimated.



In **Germany**, an internet campaign for the microcredit fund was launched in January 2012: *Mein Mikrokredit* (www.mein-mikrokredit.de). The aim is to inform the public about the programme and streamline the communication material. The webpage displays information about the fund and credit conditions, a search engine to find out about microcredit providers as well as short videos of microentrepreneurs. Moreover, all MFIs operating under the fund can use the advertising material such as banners, posters and flyers through an internet platform where they have some scope to individualise them (for instance by adding their logo and address). The MFIs have to pay for this service. It is still too early to assess the impact of the campaign.





2.9.5 Processing time

For people who need a microcredit to start their business, it is important to receive the money without any complex procedures – and rapidly. For many people, asking for a microcredit is the last resort in a long chain of attempts to obtain credit from banks and other financial institutions. If the process of receiving the microcredit takes too long, they risk becoming discouraged – and giving up. Microfinance schemes therefore need to ensure that the processing time from the loan application to the disbursement of the credit is as short as possible. Therefore efficient procedures need to be put in place, for the loan application and screening, the loan decision and the actual disbursement of the loan. Using the internet to receive loan

applications and being equipped with an efficient management information system are important tools to speed up the process. Moreover, if there is a credit committee to decide on loan provision, it needs to meet regularly – here again internal communication through an MIS or the internet can be an advantage. In case of linkage provision in cooperation with a bank, it should be envisaged to leave the decision on a loan to the support organisation. This is the case in Germany, where the private cooperative bank GLS Bank automatically approves all loan proposals handed in by the MFIs. The design of the microfinance scheme ensures that the MFIs have enough (positive and negative incentives) to only accept loan applications that they have screened thoroughly.

2.9.6 Appropriate non-financial services

It is particularly true of people from underrepresented groups that they do not only rely on financial support, but also on additional help in the form of pre- and post-loan training and coaching, financial education and advice. However, the business support needs are often specific to some groups, for instance migrants and ethnic minorities. As for the loans, it has proven successful for business support services to work with staff who have a similar origin or socio-economic background as the entrepreneurs, or who are specifically trained in how to help disadvantaged groups.



UK – Association of Community-Based Business Advice (ACBBA): Community-based business support (CBBS) is an innovative approach to delivering business support to groups that mainstream agencies find difficult to reach. It was developed and operationalised in London through two EQUAL projects (REFLEX – Regenerating Enterprise through Facilitating Local Economic Exchange, 2001-2005 – and SIED – Supporting Inclusion through Enterprise Development, 2005-2007). The model involves embedding business support within existing community organisations that address, for instance, religious or welfare needs. Based on this experience, in 2004 the Association of Community-Based Business Advice (ACBBA) was founded as an umbrella organisation connecting advisers from a variety of communities. ACBBA works in cooperation with SFEDI, and most ACBBA business advisers have achieved SFEDI accreditation. Moreover, ACBBA has published its own toolbox: *How to Be a Brilliant Community Based Business Adviser* (<http://www.communitybasedbusiness.co.uk/services/for-business-advisers>).

The CBBS model is not the only approach to reach out to hard-to reach groups; but it has proven to be a successful model where mainstream programmes often fail. Community development finance institutions that work in deprived areas, such as Greater London Enterprise, cooperate with ACBBA.

2.9.7 Gathering data on lending to target groups

In order to be able to track data about lending to specific target groups, first there needs to be a precise determination of the target group (starters, self-employment starters, (micro)enterprises, specific target groups or business sectors) as well as clear definitions, for instance of “immigrants/ethnic minorities”, “young people” or “disabled” persons. This needs to go hand in hand with increased data collection on social performance indicators so as to ensure that microfinance providers reach out to excluded target groups in line with their mission (see 2.10: Monitoring and performance Indicators).





2.10 How to ensure quality in microfinance operations

The European microcredit market is a young and growing sector which has considerable potential. However, this market is still quite heterogeneous owing to the disparity of the legal and institutional frameworks in the Member States and the diversity of the microcredit providers. As a consequence, lending practices in microcredit 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. Thus, ensuring quality in microfinance operations is a crucial preoccupation, especially in times when microfinance is receiving harsh criticism in many developing and transition countries where the unprecedented growth of microfinance coupled with unethical lending practices has led to high levels of over-indebtedness of clients. Several mechanisms to ensure the quality of microfinance operations have been developed.

2.10.1 Risk management

In the ESF-funded programmes, risk management/monitoring systems have been set up so as to control the quality of operations. In this regard, in the case of linkage models of microcredit provision (NGOs/support centres working in co-operation with a bank), it is particularly important that financial intermediaries have immediate access to reliable data on repayments (and thus loan defaults) from the bank in order to be able to monitor effectively and follow-up on repayments with clients in a timely manner.



Lithuania: In the Entrepreneurship Promotion Fund, credit unions have the means and access to verify the credit history and to **estimate and monitor risk**. Each client is requested to open a bank account with the credit union so that the balance of the account can be seized in case of default. If there is a problem with the repayment of the loan, the credit union will talk to the client to find a solution. If the loan is not repaid, the client will be put on the block list. Whether the credit union goes to court to enforce repayment and seize the collateral depends on the amount of the loan. Normally credit unions face a portfolio at risk (over 30 days) of 3 to 4% and a write-off rate of 0.2%. For the microcredits a write-off rate of 1% is predicted.

Regarding **business support**, INVEGA organises half-yearly meetings and training sessions for the specialists of all credit unions participating in the project. This training is financed from priority 1 “Quality employment and social inclusion” of the Human Resources Operational Programme measure “Development of human resources in enterprises”. The implementing period of this training project is from April 2009 till March 2012. LCCU aims to train 200 people.





Under the **German** Mikrokreditfonds Deutschland scheme, the national federal organisation Deutsches Mikrofinanz Institut e.V. (DMI) plays a significant role in ensuring the quality of operations using the microfinance fund. DMI was set up after the finalisation of several microfinance pilot projects and during the funding period of EQUAL. It supports capacity building for MFIs, carefully prepares potential MFIs via an accreditation/auditing process and enables MFIs to take part in a process-driven know-how exchange and methodology development. The DMI accreditation process is made up of 12 steps that lead the organisations through all topics they will face during their microfinance activity. The support for accredited MFIs also includes networking and exchange with other practitioners as well as the provision of an IT management information system called *Inthepro*. The system imports account balances once per day; the complete lending data are imported three times per month. One of the system's features is monthly client monitoring by email (on the 10th of each month). The client answers three questions and marks them from +3 to -3: the state of well-being, the state of business, and the capacity to pay (there is also space for personal remarks). The answers (reported using a traffic light system depending on the marks the client has given) can be stored and give an overview of the development of a microenterprise over time.

The second feature – based on the data of the loan contracts – delivers an overview of the performance of each MFI (for instance the number of loans disbursed, loan sizes, statistics on gender, share of migrants) and can be used to produce various statistics. The main purpose of this feature is to enable monthly risk reports to be compiled at the 15th of each month. This is an important control and steering tool for the cooperating GLS Bank and Mikrokreditfonds Deutschland. MFIs going above the limits of certain performance indicators – determined as “risk classes 1-3” by the Portfolio of Risk (PAR) – have to work out an action plan on how to overcome problems, otherwise GLS Bank is allowed to reject their loan recommendation. An action plan can for instance prescribe changes in microlending methodologies or new methods of client acquisition. Furthermore, DMI organises regular transfer workshops to boost networking and the exchange of experiences and consolidated findings among MFI practitioners. Additionally a project funded by the Federal Ministry of Labour and Social Affairs sponsors transnational know-how exchange with MFI practitioners from France, Italy, UK, Spain and Poland. DMI is also involved in the pilot implementation of the EC Code of Good Conduct for Microcredit Provision in Germany and intends to integrate the code into its accreditation process.

2.10.2 Codes of Conduct

Besides supervision and risk management, codes of conduct for microcredit organisations have been developed, above all the European Commission's **Code of Good Conduct for Microfinance Provision**. It primarily addresses non-bank microcredit providers: http://ec.europa.eu/regional_policy/thefunds/instruments/jasmine_cgc_en.cfm. The Code was published in October 2011. It sets out good practice guidelines and identifies expectations and common principles to support the microcredit sector in facing the challenges of accessing long-term finance, maintaining and raising the quality of services and moving towards sustainability. The code is divided into five indexed sections comprising several clauses:

1. *Customer and investor relations*: This section covers the obligations of microcredit providers to customers and investors, and their rights;
2. *Governance*: This section covers stand-

ards for both the management and the board of microcredit providers;

3. *Common reporting standards*: This section details which indicators microcredit providers must collect, report and disclose;
4. *Management information systems*: This section details common standards for management information systems;
5. *Risk management*: This section details common approaches and procedures for managing risk.

A sixth section on *Social performance*, covering ethical and social aspects, will be added to the document in 2012.

The existing code will be field-tested over 12 months in 2012. It will influence experienced MFIs, and it also contains relevant information for stakeholders wishing to establish a microfinance sector. In the course of the year 2012 the code will be complemented by *JASMINE Online*, a web application primarily intended to facilitate the implementation

of the code for those who have endorsed it. It will help potential borrowers to identify local and regional microcredit providers and will also allow potential investors to liaise with the microcredit providers listed in the *JASMINE Online* database.

The **European Microfinance Network (EMN)**, the major microfinance network in Europe, has also developed a (less extensive) **Code of Conduct** to ensure the quality of services provided by its members. It features a list of Client Protection and Organisational Principles that are binding for the EMN and its member organisations:

http://www.european-microfinance.org/data/file/section_qui_sommes_nous/approved-emn-code-of-conduct-oga-2010-final.pdf.

In the United Kingdom, the national umbrella organisation of microfinance providers CDFA has designed a Code of Practice for its members.





United Kingdom: All community development finance institutions (CDFIs) are required to work in compliance with a code of practice developed by the CDFIs' trade body, the CDFA, with mentoring from the Financial Services Authority (FSA). New members are given a copy of the code with their application form and, upon entry, have a year to meet its conditions. Existing members have one year to comply with the code or risk termination of membership. The code of practice is tied to CDFA's Change Matters Performance Framework, a financial, organisational and impact monitoring and assessment tool which examines CDFIs in three key areas: impact, financial activity and business activity.

2.10.3 Training and capacity building

The **European Microfinance Network (EMN)** offers a number of services, such as training, study visits and technical assistance, to assist microfinance organisations in developing high-quality services. Training concerns, among other things: operational issues (such as delinquency management, risk, marketing and performance measurement), advocacy for MFIs, outreach to target groups (women and migrants) and financial education (http://www.european-microfinance.org/services-formation_en.php). Peer-to-peer visits enable EMN members to visit each other, exchange experience and learn (http://www.european-microfinance.org/peer-visits_en.php). Technical assistance is provided in the form of on-demand consulting for MFIs through coaching, training and long-term assistance (http://www.european-microfinance.org/services-appui-technique_en.php). Moreover, the **European Commission** provides technical assistance for non-bank MFIs under the Jasmine Technical Assistance programme, managed by the European Investment Fund (http://www.eif.org/what_we_do/microfinance/JASMINE/index.htm).

Under the banner of *Jasmine Microfinance Development Services* it also organises workshops on important themes related to microfinance and provides an *online Helpdesk*:

<http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=jasminhelp&lang=en>

Moreover, the **ESF** can be used to pay for the capacity building of financial intermediaries and business support organisations.

2.11 Monitoring and evaluation arrangements, performance and results indicators

One key element of programme governance is the continuous assessment of policy impact. Only if goals exist can the **effectiveness** of the policy and its components be determined. Side-effects must also be discovered and reckoned with. The output of such evaluation processes may be no change, minor modification, overhaul or even (but rarely) termination of the policy. The feedback provided by evaluation is injected back into the agenda-setting stage, thus closing the loop of the cycle. The European Commission recommends that the funding agreements of ESF-funded schemes at all levels establish a **structure for the remuneration of fund managers** linked to performance, namely through formulae which take into account **benchmarks for effective investments** in financial engineering instruments and from these to repayable investments **effectively paid to final recipients**. It is also recommended that performance-based remuneration should be linked to the **quality of investments** effectively made, namely measured through their **contribution to the achievement of the strategic objectives** of the operational programme, as well as the **value of the resources returned to the operation** from investments undertaken by the funds, in line with the specific objectives and investment strategy of the financial engineering instrument.





Lombardy: The financial intermediaries track mainly the financial performance of the initiative, through periodic reporting. The data provided, concerning the targets reached, the investments and the progress of the refund process, give the Managing Authority all elements it needs to evaluate the performance and the success of the operation. Based on the periodic monitoring data and reports a steering committee provides orientations for the scheme.

The Managing Authority analyses data and assesses the operation with regard to:

- efficiency of financial intermediaries (time to evaluate applications, time to disburse)
- effectiveness (loans disbursed, cooperatives reached, disadvantaged people involved)

The results of this analysis are reported in the annual report and are available to meet any other requests of the European Commission (i.e. audit). Moreover an independent evaluator assesses the progress and the outcomes of the operation. So far the evaluation has concerned:

- the relevance of the instrument
- the effectiveness of the initiative in terms of targets reached, effects on the cooperative system, utilisation of the loans
- the efficiency of the financial intermediaries



In **Latvia**, the Ministry of Economics regularly monitors the implementation of the programme and the Ministry of Finance as Managing Authority performs additional supervising activities. The Ministry of Economics evaluates the results of the programme according to the following indicators, which are submitted to them using quarterly reports or meetings:

- applications received
- persons receiving consultations
- persons trained
- business plans submitted
- loans issued
- grants issued

Besides quarterly progress reports, at least once a quarter a steering group is organised at which LMBL, LIDA, the Ministry of Economics and the Ministry of Finance are present to discuss the progress of the programme both quantitatively and qualitatively and to resolve any problems.

The Ministry of Economics as responsible authority also makes semi-annual and annual reports regarding all activities to the Ministry of Finance as managing authority.



In **Lithuania**, a committee for the supervision of the fund observes the implementation of the investment strategy and plan, the results achieved and actions taken to meet the Human Resources Development Programme's goals. The committee has 10 permanent members and meets every six months.

The Ministry of Finance is responsible for reporting to the European Commission. It drafts an annual report and provides relevant information by filling in the form according to the *COCOF Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No. 1083/2006*.



In **Germany** Mikrokreditfonds Deutschland has a Board of Management that meets regularly. It decides on general strategies and the product framework (co-operation contract with MFIs, loan size, interest, item fees and bonuses for MFIs, marketing campaign). It is composed of the Managing and Funding Authorities: the Ministry of Labour and Social Affairs and the Ministry of Economics and Technology.

The German ESF MA submits an annual report to the European Commission with all information and makes additional reports during the year on numbers of loans disbursed and total loan portfolio.

To track MFIs' financial and social performance, the **European Microfinance Network** has developed a list based on the international standards used by MIX Market (financial) and the Social Performance Task Force (social). It has adapted these international indicators to the European context. EMN asks European microfinance organisations to provide this information regularly in its bi-annual sector survey (see appendix f).

The **European Commission** has also included the main financial and social performance reporting indicators and disclosure standards for microfinance providers in its *European Code of Good Conduct* (Chapter 4 – Reporting standards). The list is provided in appendix f. More in-depth social performance reporting standards are currently being developed.

Microfinance performance evaluation frameworks that are shared and filled by all actors have also been developed on the national level in France (Valentin et al. – CNIS, 2011), the UK (Change Matters Performance Framework) and Germany. While this reporting is being piloted in France by the public statistical office and reported to the *Banque de France*, in the UK the umbrella organisation of microcredit organisations (CDFIs) gathers this data annually and drafts a report targeted mainly at investors. In Germany, benchmarking is done through the common management information system *Inthepro* provided by the umbrella organisation DMI.





Germany: The Portfolio at Risk at 15 days is automatically calculated for all MFIs in the *Inthepra* MIS. The PAR is used to carry out benchmarking by a monthly comparison of performance indicators of all MFIs in one list, so that every MFI is able to classify its own performance. Moreover, important social indicators collected through the MIS are for instance gender, German or migrant background, educational achievements and trainee places.



In France, in order to get a more precise picture of microcredit, the French statistics office CNIS set up a working group on microcredit and public statistics that has analysed microcredit activity as well as the microenterprise and self-employment sectors in France. It has developed standard definitions of business and “personal”¹¹ microcredit in France. The microloan definition is based on four criteria: the nature of the operation (with or without interest), the target public/projects financed, the amount and the non-financial services (mandatory or not). As regards business microcredit, microcredit organisations have to collect three pre-defined sets of data: on the borrower’s/business characteristics, the non-financial services and the guarantee organisations (if any). These data have to be sent to the Banque de France on a four-monthly basis.

¹¹ There is a “personal” microloan fund run by the state – personal microloans for employment purposes.



In the UK, the Change Matters Performance Framework has been developed by the CDFA, the national umbrella organisation of Community Development Finance Institutions. It is very much investor-focused. It measures key non-financial and financial performance indicators to provide key essentials about CDFIs to investors: Input ▷ Process ▷ Outputs ▷ Outcomes ▷ Impacts

Table: Logic Model

Input	Process	Outputs	Outcomes	Impacts
EXAMPLE				
Finance: Earned Revenue Financial Services Earned Revenue Other Revenue from External Sources Staff Premises	Outreach/Marketing	Number of loans	Jobs created and safeguarded	Unique according to each CDFI’s mission and activity to support that mission, but might include getting the unemployed into jobs, how long they remain in them and how their quality of life is improved or improving household welfare and broader effects on the community or local economy.
	Loan applications	Loan value	Financial literacy	
	Loan disbursement	Social: by gender, ethnicity, disability etc	Reduced barriers to lending (e.g. establishment of loan repayment history)	
	Arrears management	Economic by employment status Environmental: loans to green business etc	Social empowerment, confidence	
	Advice services			
	Other services			

Source: CDFA 2011 – Change Matters Stakeholder Report



3 Conclusions and Recommendations

Projects such as the *Community of Practice on Inclusive Entrepreneurship* are important opportunities to exchange experience among European countries and regions with the aim of building up an inclusive entrepreneurial society. Self-employment, entrepreneurship and microfinance have become priorities for the European Union in the framework of its Europe 2020 Strategy for smart, inclusive and sustainable growth. With unprecedentedly high levels of unemployment and exclusion and undergoing one of the most severe economic crises for several decades, the European Union cannot no longer afford to waste any of its innovative and creative potential. Promoting entrepreneurship and self-employment effectively, while continuing to ensure social security and protection, will help to unleash this enormous potential – in a European way.

This manual has described the main policy steps to be taken in order to implement a microfinance scheme with support from the European Structural Funds, above all the European Social

Fund (ESF). The aim is to ease access to finance for entrepreneurs from vulnerable groups as part of a more global policy for inclusive entrepreneurship. Throughout the manual practical examples have been given to demonstrate what has already been done in some Member States to implement microfinance, and what can be replicated in other countries (or what should not be replicated). From these examples the following main factors can be highlighted:

- Responsibility for microfinance stretches over several ministries and government departments (economics, industry and trade, social affairs, regional/community development). In order to implement an inclusive entrepreneurship policy and an effective microfinance scheme, all bodies involved need to work together with a dedicated strategy and budget in a special unit or taskforce to bundle knowledge and mainstream communication and implementation of the policy.

- The legal and regulatory framework as well as social policy should be adapted to suit microentrepreneurs and self-employed persons (from vulnerable groups) to ensure that they have enough incentives to become entrepreneurs.
- Microfinance schemes can have a complex set-up as they can involve several actors, such as a public or promotional bank, other banks, a guarantee fund as well as local organisations providing the support and advice to the final beneficiaries. Ways should be found of reducing complexity so as to speed up the loan disbursement process.
- Combining loans with support services is a crucial factor for the success of the programme. Effective linkages need to be put in place between the loans and the support providers, both in schemes where support services are integrated in one programme and in schemes that focus solely on credit provision.



- Evaluations are of the greatest importance. For microfinance operations, financial and social performance indicators exist and can be applied. Several countries have already developed joint performance reporting frameworks that are shared by all micro-credit actors.

The design of a microfinance scheme, comprising all the steps of the policy cycle that have been described throughout the manual, is crucial for its success. In the future, one of the main challenges for microfinance programmes that have been set up will be to eventually become independent of public aid. ESF-funded schemes provide the opportunity to build up the capacities of the financial intermediaries and to test, adapt and professionalise the credit procedures so as to enable them to become more financially independent in the future.

At the same time it is clear that for microfinance providers that reach out to the most disadvantaged people such as the long-term unemployed, financial sustainability is an illusion. The time needed to support them before and after the loan disbursement (crisis intervention) is just too substantial. Public subsidies are and will continue to be needed for the credit-related advice and loan follow-up of such client groups. Business support such as training and coaching will also need to be subsidised. The ESF can be further used in this regard.



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Appendix

a. Definitions

- **Inclusive entrepreneurship:** “Inclusive entrepreneurship is about a set of attitudes, competences and skills which allow people to turn their dreams into concrete projects or “enterprises”. It is about more than starting an individual business. Inclusive entrepreneurship can be applied to self-employment, starting or growing micro- or small enterprises and to social enterprise using business-based approaches driven by a social mission. Indeed the personal qualities required for entrepreneurship are essential for success in the knowledge economy – whether this be in the private or public sectors.” (http://www.wikipreneurship.eu/index.php5?title=Inclusive_entrepreneurship)
- **Financial engineering:** “Financial engineering instruments have the form of ‘...actions which make repayable investments or provide guarantees for repayable investments’ in enterprises, public-private partnerships

or other urban projects included in integrated plans for sustainable urban development, and funds or other incentive schemes for energy efficiency and use of renewable energy in buildings, including in existing housing.’ [...] Repayable investments are distinguished from non-repayable assistance or grants, defined for the purpose of this note as ‘a direct financial contribution by way of donation.’” (Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006, Final version 21/02/2011 COCOF_10-0014-04-EN)

- **Holding Fund:** Article 44 of Regulation (EC) No 1083/2006 defines holding funds as “funds set up to invest in several venture capital funds, guarantee funds, loan funds, urban development funds, funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments for energy efficiency and use of renewable energy in buildings, including in existing housing”.

(Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006, Final version 21/02/2011 COCOF_10-0014-04-EN)

- **Target entrepreneurs,** these are entrepreneurs from the ESF priority groups
- **Target groups,** as defined in ‘Wikipreneurship, 2010’: disabled people, older people, ex-offenders, women, migrants, young people, Black and minority ethnic (BME), Roma
- **Microcredit** in the EU means loans of under €25,000. It is tailored to microenterprises, employing fewer than 10 people (91% of all European businesses), and unemployed or inactive people who want to go into self-employment but do not have access to traditional banking services. (EIF, Microfinance in Europe – A market overview, Luxembourg, 2009)
- **Good or Best Practice,** as defined in COPIE 2 *Proposal for Learning Networks, Annex D2: Detailed work programme*, p.11: In simple terms a best practice can be defined as a technique

or methodology that, through experience and research, has proven to reliably lead to a desired result. A more detailed definition is the following: “Best Practices are those documented, accessible, effective, appropriate, and widely accepted strategies, plans, tactics, processes, methodologies, activities, and approaches developed by knowledgeable bodies and carried out by adequately trained personnel which are in compliance with existing laws and regulations and that have been shown over time through research, evaluation, and practice to be effective at providing reasonable assurance of desired outcomes, and which are continually reviewed and improved upon as circumstances dictate.” To this rather demanding list the notion of transferability or evidence of successful transfer is sometimes added as some practices turn out to be harder to transfer than foreseen especially across national boundaries.

b. Community of Practice on Inclusive Entrepreneurship (COPIE)

b.1 The COPIE Learning Network and Resource Centre on Inclusive Entrepreneurship

In the last ten years a number of European policies and programmes have been created to support self-employment and microenterprises, and a wide range of policies exists in the EU member states. These can be categorised as follows: the creation of an environment that motivates people to become self-employed, the existence of favourable tax laws and social security schemes, measures to reduce bureaucracy and administrative burdens, the provision of infrastructure, business development services, finance and others.

The initiation of co-operation, the processes of co-ordination and planning, the principles of careful decision-making and the implementation of self-employment and microfinance programmes demand great skill, knowledge and resources from responsible decision-makers and stakeholders. To highlight and

to learn from successful policy strategies and measures is one of the aims of the COPIE European learning network. COPIE, the Community of Practice on Inclusive Entrepreneurship, focuses on the development of favourable conditions for the growth of self-employment and micro-enterprises – especially for ESF priority groups. The work of COPIE is to describe good practices and organise their exchange among EU Member States, to facilitate mutual learning and to transfer knowledge and experiences to other entrepreneurship support systems, so as to close existing gaps or simply to promote continuous improvement.

For the funding period from November 2009 to March 2012 the COPIE partners selected four objectives to work on:

- support of entrepreneurial education
- securing high quality and inclusive support systems for all entrepreneurs
- on-going development of integrated business support
- reinforced use of approaches of access to finance for all

COPIE organised working groups on these topics, and created the appropriate tools.

b.2 The COPIE working groups

The following thematic groups were founded to promote learning and good practice exchange between partners.

Strategy and Action Planning

The main objective of this thematic group is to help policy-makers and ESF Managing Authorities to plan cohesive activities that support entrepreneurship in their region alongside their key stakeholders. It helps partners to integrate EU-funded activity with locally-funded activity, and it stimulates practical actions of value to all COPIE partners.

The core members of this group are Flanders, Germany, Wallonia, Asturias and the Czech Republic. Regular attendees include Joeri Colson, Antonio Georgopolis, Bettina Reuter, Mechthild Jürgens, Caroline Van Der Linden, Jenny Charlier, Didier Clarinval, Filip Kucera, Daniel Darek, Petra Francova, Ana Maria Mendez and Iain Willox.

<http://www.cop-ie.eu/thematic-groups-action-planning>
Action Planning Expert: Ian Willox: iain-willox@hotmail.co.uk

Entrepreneurship Education

Entrepreneurship is one of the eight key competences for lifelong learning and represents a valuable set of knowledge, skills and attitudes that enable people to transform ideas into actions. The role of education in the development of this competence should not be underestimated. The Europe 2020 strategy thus highlights the importance of entrepreneurship education in promoting a more competitive and entrepreneurial workforce.

Evidence suggests that making entrepreneurship education an integral part of the curriculum leads to an increase in entrepreneurial intention and attitude but also to greater prospects to get a job. Employers have consistently complained about the lack of skills such as self-initiative, communication skills, ability for teamwork. Better employability means lower risk of social exclusion and, in our opinion, this is the greatest asset of entrepreneurship education.

The entrepreneurship education group led by the Spanish Ministry of Labour and Social Affairs with Flanders being an active partner seeks out to analyse the

role ESF could play in shaping and reinforcing the entrepreneurship education agenda in 2014-2020.

<http://www.cop-ie.eu/thematic-groups-entrepreneurship-education>
Entrepreneurship Education Expert: Ivan Diego: ivan@valnalon.com

Quality Management

The main objective of this group is to identify good practices in quality management for business start-up support in the context of a European exchange; and to develop, apply and transfer them to other interested regions. Both high-quality and inclusive policies, structures and processes including inter alia accreditation for individual advisors and training schemes and review mechanisms will be developed in close collaboration with the partners. The core members of this group are Extremadura, Galicia, Andalusia and the Spanish nationwide Incyde foundation.

Among other activities study visits have been conducted to analyse and assess regional start-up support infrastructures, surveys for business advisors and entrepreneurs and the development of a Eu-



European Quality Management System for business advisors.

Partner regions:

- Andalucía (Spain): Ángeles Cruzado, María José Cabanillas Cabanillas (Regional Ministry of Employment)
- Extremadura (Spain): Virginia Jimenez (Regional Ministry of Employment)
- Galicia (Spain): Noemí Iglesias Rodríguez (BIC Galicia), Jorge Barros (Regional Ministry of Employment), Aurelio Jimenez Romero (Incyde Foundation)
- IQ Netzwerk (Germany): Dr. Ralf Säger (IQ Netzwerk), Nadine Förster (IQ Netzwerk)

<http://www.cop-ie.eu/thematic-groups-quality-management>

Quality Management Expert: Norbert Kunz (IQ Consult): kunz@iq-consult.com

Integrated Business Support

The main objective of this group is to support the start-up process of businesses and their long-term sustainability by providing services and actions according to their needs and in line with existing

regional policies, taking advantage of Structural Funds for European regions. The group has established links to the two groups on “Quality Management and Access to Finance”.

<http://www.cop-ie.eu/thematic-groups-integrated-business-support>
Integrated Business Support Expert: Ana Ma Mendez: ana@ceei.es

Access to Finance

This working group is led by the Flanders ESF Managing Authority with support from the Czech ESF Managing Authority, and with the participation of Germany, Lithuania and Spain. Its focus is on the identification of good practice for the implementation of microfinance systems.

Access to finance baseline study

In April 2009 a baseline study was carried out on “Access to finance for All” to analyse the current use of the structural funds (ESF and ERDF) for setting up microfinance schemes. The study showed that microfinance, microentrepreneurship and self-employment have only rarely been integrated into national NSRs or ESF and ERDF OPs. This trend

is confirmed regarding the countries and regions which are core partners of COPIE (Flanders, Czech Republic, Germany, Lithuania and Spain).

The baseline study describes how governments tend to give more priority to salaried employment and to small, medium-sized and large enterprises and less to self-employment or the development of micro-business. In addition to this it became apparent that there is a lack of information about what potential entrepreneurs need in terms microfinance, the regulatory environment and the transition from unemployment to self-employment. The study comes to the conclusion that microfinance and self-employment need a higher level strategy at government level as they lie at the intersection of social inclusion and economic growth and come under the responsibility of different stakeholder of the social and economic areas. <http://www.cop-ie.eu/thematic-groups-access-to-finance>
Access to Finance Expert Marion Cahen (Hefboom): marion.cahen@hefboom.be

c. COPIE tools

The COPIE partners have developed and tested a set of tools to analyse and improve their support structure for inclusive entrepreneurship. This should help policy makers and regional and national ESF and ERDF Managing Authorities from across Europe to design and deliver successful inclusive entrepreneurship support.

COPIE website

COPIE’s web presence was completely overhauled in 2011, and now offers descriptions of the various working groups and work under way, profiles of people active in the network, downloads of documents and tools and news stories on recent developments. www.cop-ie.eu

European Tool for Inclusive Entrepreneurship

The European Tool for inclusive entrepreneurship is a standardised instrument for assessing local or regional business support infrastructures and their inclusive approach towards entrepreneurship. It was developed in

2006/2007 in the context of the European Community Initiative EQUAL and combines a secondary analysis of the overall start-up environment in the region with a direct survey among policy-makers, start-up and business advisors, and entrepreneurs.

Its benefits include:

- an increased awareness of strengths and weaknesses within the regional support infrastructure;
- the opportunity for comparing perceptions of the needs of different stakeholder groups and clients,
- the provision of access to European good practice in specific fields of entrepreneurship support and the opportunity for transnational collaboration through COPIE.

Between 2007 and 2010, the European Tool was applied to 17 European regions and cities. As a tool based on collaborative action, it was adapted and revised several times based on the experience gained through implementation. The majority of COPIE partners have applied the tool and have in fact chosen to participate in individual groups based on a diagnosis of the strengths and weaknesses

of their respective enterprise support systems.

A new manual for the implementation of the European Tool has now been finalised and is available for download: <http://www.cop-ie.eu/copie-tools-european-tool>.

Wikipreneurship

Wikipreneurship is the wiki knowledge centre on inclusive and social entrepreneurship. It covers definitions, organisational profiles, project descriptions, product downloads, event reports, news and policy analysis. A key component is the Compendium on Inclusive Entrepreneurship that resulted from the EU EQUAL programme. Anyone can edit Wikipreneurship, using the same familiar software as Wikipedia. Since its launch in 2008, it has accumulated over 1,000 articles indexed by user-defined tags. Most but not all of the content is in English. It has received 1.7 million page views – and Access to Finance is the most popular topic. Try your hand at: www.wikipreneurship.eu





Access to Finance Evaluation and Assessment Framework on ‘Good Practices’

This framework is designed to detect, describe and analyse good practices of support on access to finance in partner countries. It is inspired by the COPIE 1 Framework and the IMPART Peer Review Manual. The intent is not to ‘dictate’ one practice but to support a diverse range of approaches that work well within a specific context through a shared framework of basic good practice principles. The Evaluation and Assessment Framework includes a description of practices by the country or region concerned, a secondary analysis of the COPIE lead expert and a 1.5-day peer review workshop.

For the full description of this tool please see here: http://www.cop-ie.eu/sites/default/files/COPIE_Access_to_Finance-evaluation_and_assessment_framework.pdf

Peer Review Methodology for the Access to Finance sector

The peer review is a method based on the exchange of experiences between a ‘host country’ who presents and wishes to gain feedback on an effective policy (and associated good practice), and ‘peer countries’ who are interested in:

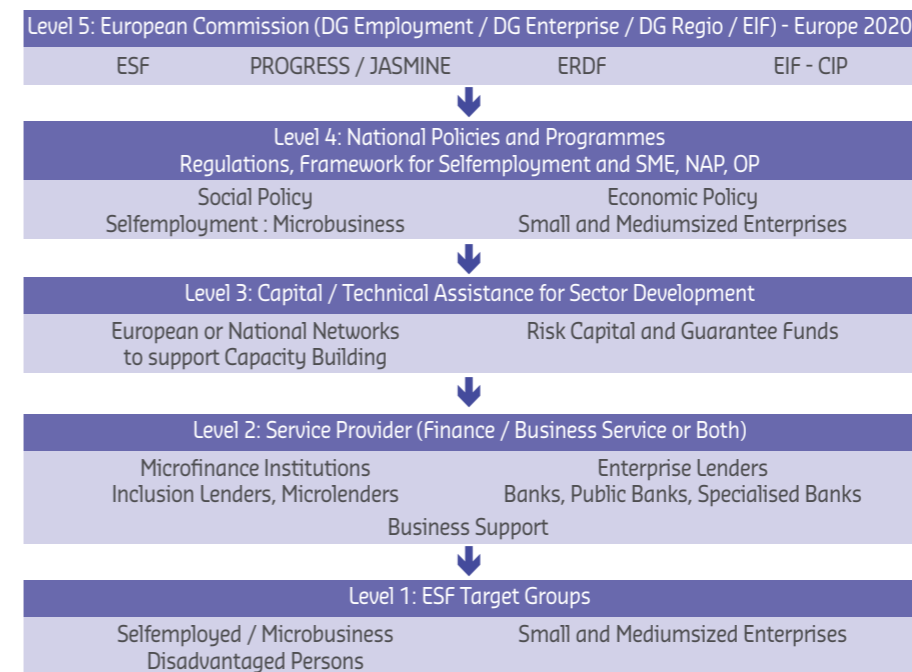
- learning from the host example and potentially transferring it into their national setting; and
- sharing their own policy experiences with the host and other participating countries.

Hence, the process is very much based on a two-way exchange. The peer review takes place over the course of 1.5 days in the host country with representatives from up to 12 peer countries. Each country is represented by a national government official and an independent expert. The peer-review related documents from the last COPIE Access to Finance peer review in Brussels in May 2011 can be found here: <http://www.cop-ie.eu/node/236>.

d. The place of microfinance in the new programming period 2014-2020

Self-employment occupies a prominent place in the Europe 2020 strategy with its three key priorities: smart, sustainable and inclusive growth. These invite Member States to remove measures that discourage self-employment.

Chart: Overview of EU programmes that concern microfinance



Source: *Entrepreneurship / Self-employment and Microfinance: Brigitte Maas*

The importance of self-employment and microfinance has been highlighted not only in the ESF regulation but also in the complementary European Globalisation Adjustment Fund (EGF) and the European Programme for Social Change and Innovation (PSCI) for the 2014-2020 period. The EGF supports the promotion of entrepreneurship among people who have lost their jobs as a result of changing global trade patterns or the global and economic crisis. The PCSI, which combines the three existing European programmes PROGRESS, EURES and the European Progress Microfinance Facility, offers considerable scope for the development of microfinance systems.



Progress Microfinance and Social Entrepreneurship (PSCI)

On 6 October 2011 the European Commission published the proposals and the citizens' summary for the new Programme for Social Change and Innovation (PSCI) with the following selected statements about microfinance:

What is the issue?

- Poor access to finance and microcredit for social enterprises and unemployed people, people at a risk of losing their jobs and people from disadvantaged groups, for instance young or older people and migrants.

Who will benefit and how?

- People who want to become self-employed or set up or develop their own business and face difficulties in securing a traditional bank loan, i.e. unemployed people, people at a risk of losing their jobs and people from disadvantaged groups, for instance young or older people or migrants. These people need better access to microcredit, i.e. loans of less than €25,000.
- Social enterprises will benefit from easier access to funding for develop-

ment, consolidation and scaling of operations.

Why does action have to be taken by the EU?

- Stepping up the availability of microcredit is best achieved at European level. The Commission, in co-operation with the European Investment Fund, can now build on experience with the current European Progress Microfinance Facility. Microfinance institutions in all Member States can now take advantage of this expertise without their national, regional or local authorities needing to use their resources to put similar systems in place.
- The new instrument facilitating access to finance for social enterprise will have a multiplier effect as it will pave the way for enhanced public and private action at national and regional levels in the years to come. It is expected that the EU level instrument will stimulate the creation of more social enterprises and facilitate the exploitation of growth opportunities for existing ones; facilitate mutual learning across national borders, and

to contribute to building sustainable and professional capacities for social impact investments across the EU.

- If financial resources are pooled at European level, additional funding is more likely to be attracted from third-party investors such as the European Investment Bank.

What exactly will change?

- Access to microcredit will be easier for unemployed people, people at a risk of losing their jobs and people from disadvantaged groups, for instance young or older people or migrants. Self-employment and business development will thus be boosted and will in turn be important sources of growth and job creation.

Summing up, the new programme will:

- **extend the support** given to microcredit providers under the current European Progress Microfinance Facility (launched in 2010)
- provide funding for **capacity-building** of microfinance institutions
- include investments for **developing and expanding social enterprises**, i.e. businesses whose primary purpose is social, rather than to maximise profit

distribution to private owners or shareholders.

The total proposed budget for the microfinance and social entrepreneurship axis is around €192 million for the period 2014-2020. **Access to microfinance would receive €87 million that could result in €400-450 million of microloans. Institutional capacity building would receive almost €9 million and €95.5 million would be dedicated to support to social enterprise development.**

A framework for the next generation of innovative financial instruments - the EU equity and debt platforms

Regarding the first years of operation under the Europe 2020 strategy the EU Commission assumes that the after-effects of the economic and financial crisis will still be noticeable. The ongoing effects are visible on the one hand by the reluctance of banks to grant credits and equity and on the other hand by a reduction in public sector funding.

To address this situation the application of "new innovative financial instru-

ments" has assumed an increasingly important role in the EU budget and the 2014-2020 Multiannual Financial Framework (MFF). The term "new innovative financial instruments" is used for interventions other than traditional pure grant funding, such as the blending of grants with loans from financial institutions. Furthermore those innovative instruments were created to realise a multiplier effect by facilitating and attracting other public and private financing for EU projects. Finally the Europe 2020 strategy also aims to address the present fragmentation of EU funding instruments. Partnerships among public and private institutions from regional, national and European levels are laying the essential groundwork for these debt and equity platforms.

The European Commission has also published a more detailed communication called A framework for the next generation of innovative financial instruments - the EU equity and debt platforms. These platforms consist of common rules and guidance for innovative financial instruments which make use of equity or debt (loans, guarantees, risk shar-

ing). The communication refers to solid experience already gained through the management of financial instruments under the current MFF which were created to respond to the current funding challenges. Concerning microfinance these are the Competitiveness and Innovation Framework Programme (CIP), the CIP SME Guarantee Facility (SMEG), the European Progress Microfinance Facility (EPMF) and the Structural Funds (ESF and ERDF), including JEREMIE. The communication also refers to the establishment of adequate funding structures. A specific chapter on financial instruments is also included in the Financial Regulation (FR), setting out the overall principles for the budgetary management of such instruments. The Financial Regulation is under review in co-decision between the European Parliament and Council. It is expected to enter into force in early 2012. In parallel, the Commission will work on the more detailed rules and guidance in order to have this in place when the Financial Regulation has been agreed by the co-legislator.



e. Business support

Table: Overview of financing and BDS needs according to phase of business development

Business development phase	Financing needs	Business service needs
Pre-start	Seed capital	Coaching/advice: market research, business idea assessment, business planning, business registration/administration
Start-up	Venture capital or loans Investment capital loan Working capital loan Loans for specific purposes	Training, e.g.: marketing, bookkeeping, management, networking, specific business skills Business development advice/coaching Incubator
Consolidation/growth	Second/third (step) Loan Investment capital Working capital Liquidity assistance	Regular coaching: monitoring of business development/business records Specific training
Crisis	Liquidity assistance - e.g. to cover order or cash losses	Intensive business coaching / advice on development of solutions/crisis interventions
Over-indebtedness	Cancelling of loan contracts Liquidation of collateral / guarantees	Credit counselling/debt consolidation: business bankruptcy

Source: Brigitte Maas, DMI



Table: Support services according to type and size of business

		Support services			
		Information services	Client development Services	Entrepreneurship Development Services	Business Development Services
Microfinance Institution Clients	Small enterprises	Formal information by means of brochures, leaflets	Financial education	Enterprise Education (at vocational training and polytechnic level) Business Creation programmes	Management training Business Advice Technical skills training Supply chain / market access Innovation programmes Sector / market studies Business associations Health, safety and environmental advice
	Micro enterprises	Formal information by means of brochures, leaflets	Financial Literacy programmes Health, safety and environmental awareness programmes	Enterprise Education (at vocational training level)	General business skills
	Self-employed / hybrid entrepreneurs	General information on lending conditions	Financial Literacy programmes		Adjusted advice Informal training
	Income Generating for Survival	General information on lending conditions	Financial Literacy programmes		

Source: Molenaar, Opening Ceremony, EMN Annual Conference Amsterdam, June 2011/Klaas

f. Performance monitoring

Table: List of key indicators – EMN

Portfolio quality	
PAR 30	Portfolio at risk after 30 days
Provision expense ratio	Provision for future loan losses
Refinancing ratio	Volume of loans refinanced or restructured
Write-off ratio	Volume of loans written off
Efficiency and productivity	
Operating expense ratio	Institutional cost of delivering services
Cost per borrower	Cost of maintaining an active borrower
Staff productivity	Productivity of the institution's staff
Loan officer productivity	Productivity of the institution's loan officers
Financial management	
Cost of funds ratio	Average cost of borrowed funds
Debt/equity ratio	Leverage of the institution
Profitability	
ROE	Return on equity
ROA	Return on assets
Portfolio yield	Portfolio earnings in a given period

Source: EMN – Restricted Call for Proposals: Overview of the microcredit sector in the European Union 2010-2011, November 2011



Table: List of social performance indicators – EMN

Gender	Gender distribution of portfolio
Age	Proportion of people under 25 receiving services
Unemployed	Proportion of unemployed receiving services
Minorities and immigrants	Proportion of minorities receiving services (Roma, migrants, refugees, etc.)
Outreach	Proportion of people receiving services in rural or semi-urban areas
Jobs	Number of jobs created
Start-ups	Number of new enterprises set up
Financial inclusion	Proportion of people gaining access to banking services
Social inclusion	Proportion of people out of welfare

Source: EMN – Restricted Call for Proposals: Overview of the microcredit sector in the European Union 2010-2011, November 2011

Table: List of reporting and disclosure standards – European Commission

Chapter 4 Common financial reporting standards

<i>Microcredit providers will...</i>	
4.1	Adhere to common way of measuring and reporting:
4.1.1	Current loan portfolio
4.1.2	Gross loan portfolio
4.1.3	Net loan portfolio
4.1.4	Active borrowers
4.1.5	Financial revenue
4.1.6	Operating revenue
4.1.7	Personnel expense
4.1.8	Administrative expense
4.1.9	Financial expense
4.1.10	Portfolio at Risk
4.1.11	Write-offs
4.1.12	Impairment loss allowance and provision expense
4.1.13	Assets
4.1.14	Liabilities
4.1.15	Operational sustainability ratio
4.1.16	Financial sustainability ratio
4.1.17	Adjustments to sustainability ratios taking into account subsidies

Common social reporting standards

<i>Microcredit providers will ...</i>	
4.2	<i>Publicly disclose ...</i>
4.2.1	Social mission
4.2.2	Average disbursed loan size
4.2.3	Median loan size as % of gross national income if relevant for target market and mission...
4.2.4	% of female customers
4.2.5	% of rural
4.2.6	% of poor customers
4.2.7	% of customers graduating to mainstream finance
4.2.8	% of ethnic minority or indigenous customers
4.2.9	% of start-up businesses funded
4.2.10	% of customers on welfare benefits

Common disclosure standards

4.3	Members of public will be able to access information about individual microcredit providers through an online database
<i>Microcredit providers will...</i>	
4.4	Publicly disclose...
4.4.1	Number of active borrowers
4.4.2	Number and value of loans issued and outstanding
4.4.3	Value of current, gross and net portfolio
4.4.4	Portfolio at Risk
4.4.5	Total value of assets and liabilities
4.4.6	Operational sustainability ratio
4.4.7	Financial sustainability ratio
4.4.8	% of cost per loan subsidised
4.4.9	Number of loan officers and (total) personnel
4.5	Record complaints by applicants and past and current customers
4.6	Publicly disclose data on complaints
4.6.1	Number of complaints by applicants and past and current customers
4.6.2	Complaints as % of applicants and past and current customers

(clauses marked in **bold** are priority clauses)

Source: European Commission Code of Good Conduct



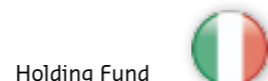
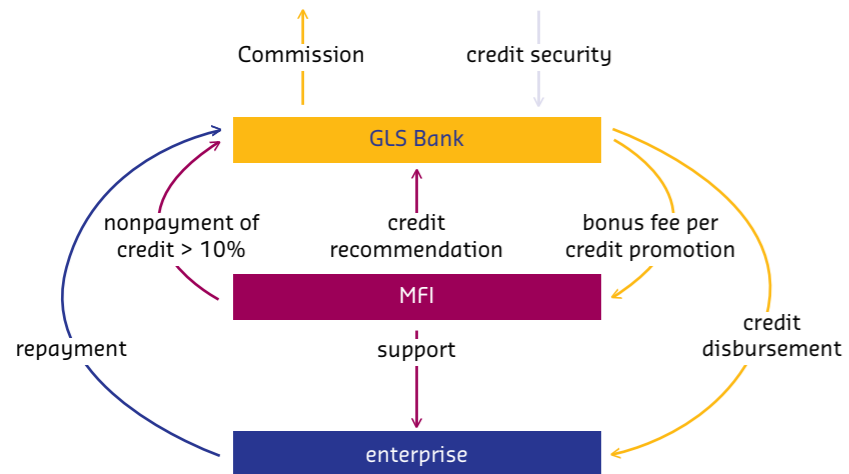
g. Microcredit programmes funded by ESF

A table showing the main characteristics of the microcredit programmes in the EU is provided below. Moreover, charts illustrating the set-up of some of these programmes are shown.

Guarantee funds:



Germany



Holding Fund

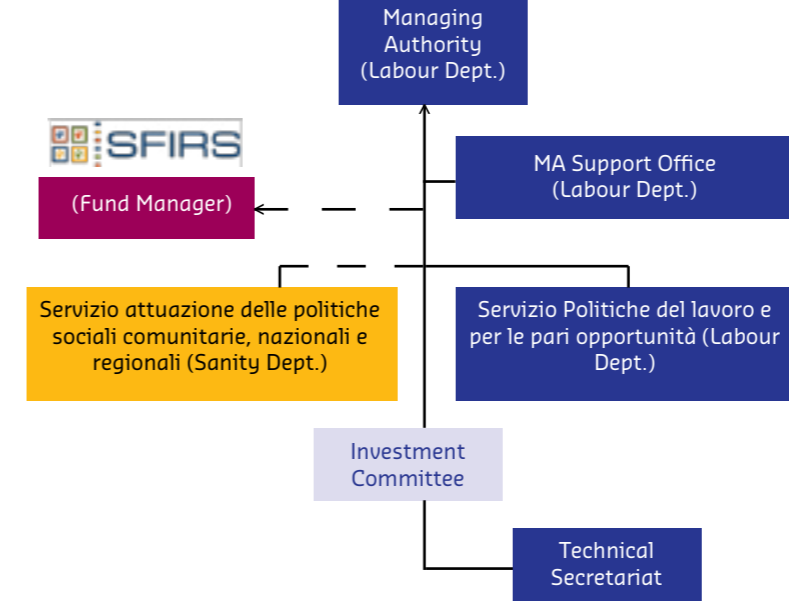
Calabria



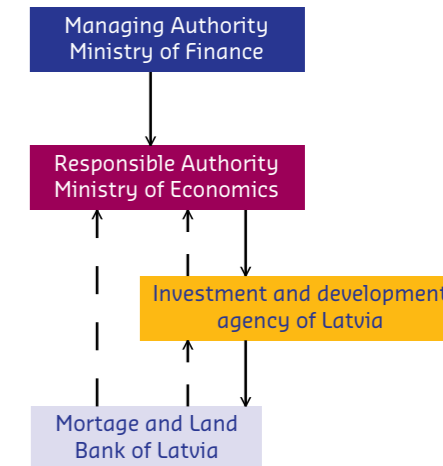
Loan funds:



Sardinia



Latvia



Microcredit programmes funded by the ESF in table form

Microcredit Business Line (Belgium) (until December 2011)	Mikrokreditfonds Deutschland (Germany)	Entrepreneurship Promotion Fund (Lithuania)
Institutional Framework:		
Loan Fund – administrated by “Fonds de Participation”(since 1984, a federal financial parastatal Institution)	“Mikrokreditfonds Deutschland” was initiated in January 2010 by the Federal Ministry of Labour and Social Affairs (BMAS) and the Federal Ministry of Economics and Technology (BMWt), with the aim to provide approx. 15,000 loans by 31 December 2015.	“Entrepreneurship Promotion Fund” was initiated by the Ministry of Social Security and Labour (MoSL) as implementing authority and Ministry of Finance (MoF) as the managing authority. The aim is to provide 1,200 loans in total by December 31, 2015.
The ‘microcredit business line’ of the Fonds de Participation started in 2002, when they took over the ‘Prêt Solidaire’ (Solidarity loan) from the King Baudouin Foundation. This was done because the latter did not wish to become a credit institution. [The King Baudouin Foundation ran the pilot project from 1997 to 2002.]	[...on the basis of the previous experience (2006 – 2009) with Mikrofinanzfonds Deutschland initiated with the support of GLS Bank (private cooperative bank), BMAS, BMWt and KfW (federal SME bank). Supporting structures were established with the help of the EU’s EQUAL initiative.]	After 9 months of preparation of agreements on national and EU level for establishing the fund, the first training started Sept. 2010 and the first loan was disbursed in Nov. 2010.
The assets of ‘microcredit business line’ is held by the Fonds de Participation.	The fund assets of Mikrokreditfonds Deutschland are held in trust by N-Bank (public bank of the Lower Saxony Land).	The fund assets are held by the State-owned federal guarantee institution INVEGA. INVEGA also provides funds for a guarantee scheme for SMEs (ERDF).
The practical implementation of the ‘microcredit business line’ is hold by the Fonds de Participation – for the distribution of loans a collaboration with two organisations: Hefboom for Flanders and Dutch-speaking Brussels / Crédal for Wallonia and French speaking Brussels.	The practical implementation of Mikrokreditfonds Deutschland is assigned to GLS Bank – with the main task to establish a nationwide network of microfinance institutions (MFIs) for distributing microloans to business starters and small enterprises. These MFIs are joined together in the umbrella organisation Deutsches Mikrofinanz Institut (DMI).	The practical implementation is assigned to the Lithuanian Central Credit Union (LCCU) and their regional credit unions (57 with 154 points of sale).
The Solidarity Loan was distributed until 31 December 2011.		

Stakeholders: Meta-Level (political framework / funding / financial engineering):		
Capital resources of federal bank “Fonds de Participation” (€217m) and bond issue of the Starters Fund (€108m – guaranteed by Belgium government)	Federal Ministry of Labour and Social Affairs / Federal Ministry of Economics and Technology (€40m), ESF (€60m)	€14.5m (90%) from ESF, matched with €1.35m (10%) from credit unions.
Donation of Dexia Foundation (Foundation of Dexia Bank) to cover operational costs of consultancy / coaching of clients; Item fee of “Fonds des Participation” for loan processing.	Interest from fund assets (Fondsvermögen) and income from interest used by GLS Bank to cover costs, e.g.: •item fees and yearly gratification for MFIs; •web-based platform for loan disbursement and monitoring of loans; •website: www.mikrokreditfonds.de; •selected development projects for MFIs to launch new products for specific target groups or particular cases.	INVEGA’s administration costs are covered by fund capital (management fee of €52,658).
Default risk of microloans is carried by the Fonds de Participation. The Fund has a guarantee from the European Investment Fund through the Competitiveness and Innovation Programme.	Three MFIs (in Bavaria, Baden-Württemberg, Thuringia) get additional support by their regional state banks for promotion activities (funding) and risk covering (guarantees).	LCCU / regional credit unions costs for administration and training / consulting are covered by €421,265). Borrowers pay 5.49 to 9.49% interest fee to regional credit unions.
	Default risk is covered by MFI (20% first loss) and 80% by Mikrokreditfonds Deutschland.	All resources will have to be repaid nevertheless the payments to the intermediary by the debtors.

Stakeholders: Macro-Level (governance / capacity building):

“Solidarity Loan Programme” – administrated by “FdP”

Mikrokreditfonds Deutschland – administrative board:
Funders and GLS Bank decide about general strategies and product framework (co-operation contract with MFIs, loan size, interests, item fees / bonus for MFIs).

GLS Bank (ethical-ecological cooperative bank):
administration of cooperation contracts with MFIs / evaluation of item fees and yearly gratification of MFIs; administration of risk capital deposit of MFI (20% of outstanding loan portfolio); running web-based platform for loan disbursement and loan monitoring.
www.mikrokreditfonds.de

Deutsches Mikrofinanz Institut (network / service provider for German MFI)s:
• accreditation of MFIs (approval of applications coming from consulting firms, business support providers, associations or foundations, that want to establish an MFI with access to risk capital of “Mikrokreditfonds Deutschland”);
• training for loan officers, (trans)national know how exchange, risk management, benchmarking.
www.mikrofinanz.net

Entrepreneurship Promotion Fund: Committee for supervision observes implementation of the investment strategy, results and actions to reach the Human Resources Development Programme goals; 10 permanent members; meets twice a year.

The Lithuanian Central Credit Union (LCCU) is responsible for coordination and administration of the project, consultation of credit unions on the evaluation of business plans and cooperation with social partners for dissemination of information. LCCU provides training to employees, board members and credit unions. (LCCU has experience in 2 training projects supported by European Social Fund).

Stakeholders: Micro-Level (serving the clients):

For the Solidarity Loan:

Hefboom:

Technical assistance for loan application in Flanders and Dutch speaking Brussels:

- acquisition of clients preparation / improvement of loan application (advice and coaching of potential borrower)
- first analysis of loan application
- recommendation of loan application to credit committee
- after care service (coaching for 1,5 – 2 years: regularly discussion of business development with a coach / additional service by specialised providers, f.e. bookholding)

Crédal:

technical assistance for loan applicants in Wallonia and French speaking Brussels: see Hefboom

Fonds de Participation:

- back office for loan processing
- issue of loan contract
- disbursement of loan after presentation of invoices for investment (within 12 months after approval)

Microfinance Institutions

(57 MFIs for the 16 federal states)

- acquisition of clients;
- analysis of loan application and check of attachments e.g. identity papers and residence permission, information of General Credit Protection Agency about stock of debts / bankruptcy, personal guarantees etc.;
- data processing for loan contract production (GLS platform for loan disbursement);
- signing loan recommendation for GLS Bank;
- loan contract signing procedure and consumer protection information with borrower;
- administration of personal guarantees / collaterals;
- monthly client monitoring (email at 15th of every months) –
in case of problems: loan restructuring (f.e. deferment of amortisation / extension of loan period);
- in case of loan default: write-offs / liquidation of collaterals.

Regional credit unions of LCCU:

- direct contact to potential participants by phone, internet and through points of sales;
- advice centers / project consultants: support for start-ups (mandatory basic training, entrepreneurship training and individual consultancy).
- loan officers: help with filling in the loan application, administration of applications and necessary declarations, appeal to INVEGA for a specific borrower on a de minimis and help to complete application for INVEGA guarantees; control of repayments, consultancy of business development and implementation of business plan;
- credit union board: evaluation of business plans and decision for loan disbursement;
- supervision of financed businesses.





Stakeholders: Micro-Level (serving the clients):

Dexia Foundation:
 Organisation of a team of volunteers for the coaching of the clients during 2 years

For the Starters loan:
 Partnership with mentoring structures for starters and with SME organisations for the coaching of target group

GLS Bank:

- production, signing and postage of loan contract (to MFI);
- providing loan account for borrower / administration of repayments.

Cooperation with business support / advice centres:

- dissemination of information about new financial resources/possibilities to local businesses;
- provision of training and individual consultations on business establishment / development, cooperation with credit unions.

Cooperation with social partners

- labour exchange offices;
- Non-governmental organisations;
- Local communities.

Dissemination of information to priority groups about micro-loans and non-financial services for business development.



Target Group:

Starters Loan:
 Unemployed persons who want to start up their own business

Solidarity Loan:
 Financially excluded persons who do not have access to a credit from a mainstream bank.

Business starters and small companies

Serving clients with migrant background, women entrepreneurs and training companies is of special

Micro-companies, businessmen/-women and social enterprises

Prioritised groups: unemployed, disabled, young people and people over 50 years of age (180 loans until December 31, 2015).

Loan products:

Starters Loan:

purpose: entrepreneurial activities (investments, working capital and the like)

max. loan amount: €30,000

interest rate: 4% (reduced interest in the first 2 years: 3%)

adm. charges: no

loan period: 5, 7 or 10 years

prepayment penalty: N/A

grace period: 1 year

collateral: financial contribution of 25% of loan amount

purpose: entrepreneurial activities (investments, working capital)

max. loan amount: step lending up to 20.000 € first loan: max. €10,000

interest rate: 8.9% (effective interest rate)

adm. charges: no

loan period: up to 3 years for annuity loans up to 6 months for bullet loans

prepayment penalty: no

grace period: no

collateral: no

purpose: start-ups (legal entities / individuals < 1 year) who are participants of the training programme

max. loan amount: €25,000 (max 1 loan per SME)

interest rate: 5.49 – 9.49% (depending from rating)

adm. charges: no

loan period: max. 5 years

prepayment penalty: no

grace period: individual, under the conditions of lending agreement

collateral: pledge, temporary payment of 10% loan to credit union capital



Loan products:

<p>Solidarity Loan: <i>purpose:</i> entrepreneurial activities (investments, working capital and the like) <i>max. loan amount:</i> €30,000 <i>interest rate:</i> 5% <i>adm. charges:</i> no <i>loan period:</i> 4 years <i>prepayment penalty:</i> N/A <i>grace period:</i> 3 months <i>collateral:</i> no condition defined</p>	<p>To limit risk, some MFIs are starting with a first loan of max. 5.000 € and a personal guarantee of 50% of loan amount.</p> <p>Within the product framework of the “Mikrokreditfonds Deutschland” MFIs have developed specific products and promotion activities for farmers, women in the social and healthcare sector, restaurant sector, creative sector, for peer groups etc.</p>	<p>pledge of min. 100% of loan, if no ERDF guarantee will be accepted.</p> <p>Ex post: control of clients with possible sanctions.</p>
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Processing Time:

<p>(Processing time excludes business plan development)</p> <p>Solidarity loan: Loan disbursement approx. within 6 weeks from date of loan application by client</p> <p>Meeting of Credit Committee: every three weeks (representatives of the “Fonds de Participation” and Hefboom / Crédal). Loan will be disbursed by “Fonds de Participation” immediately after presentation of invoices and the like by client (within one year).</p>	<p>(Processing time excludes business plan development)</p> <p>Loan disbursement approx. within 2 – 4 weeks from date of loan application submission by client (at present: depends on volume of work / raise in number of loan applications).</p>	<p>Processing time includes business plan development) +/- 2 months</p> <p>Business plan > Evaluation by credit union (loan manager, loan committee, board) > loan contract and conditions (loan period, pledge, temporary payment of 10% of loan to credit union capital, disbursement conditions, ...)</p> <p>Simultaneous procedure: evaluation by LCCU / INVEGA for guarantee</p> <p>>disbursement of loan according to documents > follow-up (control and intervention)</p>
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Outreach:

<p>Credit approvals Starters Loan: 2008: 654 / 2009: 669</p> <p>Credit approvals Solidarity Loan: 2008: 22 / 2009: 26 / 2010: 26 / 2011: 22</p>	<p>More than 7,400 microloans disbursed since January 2010</p> <p>Number of accredited MFIs operating in the frame of the fund increased from January 2010 to December 2011 from 12 to 57 (In the former pilot project in 2009, 273 loans had been disbursed by 12 MFIs.)</p>	<p>until Dec 2011: 3,343 clients in training (target 4,500 by 31 December 2015) 160 loans disbursed to priority groups (target: 1,200 loans / 180 to priority groups)</p>
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Methodologies to reach clients:

<p>Via Partners, from other professionals, Internet information.</p>	<p>Via internet information of “Mikrokreditfonds Deutschland” and “Deutsches Mikrofinanz Institut” (DMI); MFI partners; other professionals (banks, trade unions, accountants, consultants); target group oriented promotion material; television reports about local micro-lenders and their clients etc;</p>	<p>Via partners e.g. regional credit unions and social partners like labour exchange office, non-governmental organisations and communities.</p>
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Client Monitoring:

<p>Coaching: After provision of loan a business support service is offered:</p> <p>Starters Loan: for 1.5 years by mentoring structures like UNIZO;</p>	<p>E-mail Monitoring: In most cases, MFIs commit borrowers to participate in monthly client monitoring (e-mail on 15th of every month with 3 questions and space for personal comments and messages). In case of difficulties, MFI and borrower can negotiate contract changes and inform GLS Bank before the 23rd of the month. GLS Bank can approve and carry out modification before debit of next repayment on 30th of month.</p>	<p>Monitoring: Loan manager starts debtor files and maintains loan repayment from the day of disbursement – also consults the development and implementation of business plan.</p>
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Client Monitoring:

Solidarity Loan: for 2 years Hefboom/Crédal together with a network of volunteers from Dexia Foundation. Free of charge but compulsory.

The progress of business development will be discussed regularly.

Checking payment receipts and return debit notes:
At the beginning of each month MFIs check the accounts of their clients. In case of return debit notes, the MFI contacts the client and pushes him for immediate payment. If client makes payment by the 14th, loan will not be listed in the monthly portfolio at risk.

Risk Management / Portfolio at Risk:

NA

Monthly Controlling "Portfolio at Risk" supervised by DMI (Service network for MFIs)

Actual risk • 10% of outstanding portfolio
 • 15% of outstanding portfolio

Change in repayment • 15% of outstanding portfolio
 • 25% of outstanding portfolio

loans with problem all up • 25% of outstanding portfolio
 • 50% of outstanding portfolio

written off • 10% of outstanding portfolio
 • 15% of outstanding portfolio

Monitoring done by regional credit unions

If there is INVEGA guarantee default risk will be covered by the regional credit unions (20%) and INVEGA (80% guarantee).

Risk Management / Portfolio at Risk:

In case of green and red numbers, MFI concerned has to present an "action plan" to GLS Bank and can apply for expert support by DMI. In case of red numbers, GLS Bank can define requirements and cessation of lending for this MFI.

Benchmarking (of MFIs):

NA

Monthly Benchmarking of MFIs by DMI:
German MFIs agreed that every MFI will get a consolidated monthly report with an overview about the results of all MFIs – as an instrument of mutual learning. It is subject of discussion of regular workshops.

Every MFI gets a consolidated monthly report by e-mail with an overview about the results of all MFIs.

A SWOT analysis of this project was done by LCCU.

Non-financial services:

Hefboom Flanders / Crédal Wallonia:
Coaching for business plan development and completion of loan application for free. Business support service for 1.5 year in case of "Starter Loan" and 2 years in case of "Solidarity Loan". Special services, like book holding, are also available, if necessary.

Not included: The service of German MFI is limited to consultancy in the application procedure and client monitoring after loan disbursement.
In many cases MFIs recommend non-financial services (for free or to be paid for) by linked institutions or partner organisations. (German consumer protection law prohibits cross-selling of financial and non-financial services.)

Mandatory for all clients applying for a microloan within the "Entrepreneurship Development Fund"
Before loan disbursement:
General Training: Basics of Entrepreneurship (8 hours);
Entrepreneurship Training: Business Plan Training (16 hours), Accountancy and tax basics (16 hours), Business and labour law basics (8 hours), Business management basics (8 hours), Marketing basics (8 hours), Staff management in business (8 hours);

Belgium	Germany	Lithuania
Non-financial services:		
		<p>Consultations: Individual on business plan.</p> <p>After loan disbursement: control of repayment and business plan development by loan officer;</p>
Sustainability:		
<ul style="list-style-type: none"> • uncertainty about the political context in Belgium • financial sustainability cannot be reached • “Fonds de Participation” decided not to further carry out the Solidarity Loan from 2012 on • numerous loan applications • certain interest for microcredit in Belgium • current technical support providers intent to create own credit products • tax incentives for private sponsors for loan funds 	<p>“Mikrokreditfonds Deutschland” is planned until 31st of December 2015.</p> <ul style="list-style-type: none"> • high public and political interest for micro-credit in Germany; • strongly raising number of MFIs and micro-loans; • strong network of MFIs under a federal roof (DMI) • very elaborated system of monitoring, risk management and benchmarking; <ul style="list-style-type: none"> • not clear yet how to deal with decreasing item fees for loan processing that MFIs receive (charging the clients?) • relatively high financial risks for MFIs (first loss of 20% of outstanding loan portfolio). 	<p>“Entrepreneurship Promotion Fund” is planned until 31st of December 2015.</p> <ul style="list-style-type: none"> • high public and political interest in Lithuania; • strong network of qualified regional credit unions etc.; <ul style="list-style-type: none"> • high dependency on success; • uncertainty of “profitability” of this fund; • not sure about prioritisation of micro-credit instruments within 2014-2020 priorities of ESF programme;

Fondo Microcredito (Sardinia, IT)	Guarantee Fund for Microcredit (Calabria, IT)	Microcredit Fund (Lombardy, IT)
Institutional Framework:		
<p>Key objective: to create access to the labour market, create jobs and support SMEs and self-employment.</p> <p>SFIRS SpA, financial institution in house provider of Sardinia Region, is the selected Fund manager.</p>	<p>Key objectives: facilitating the transition into work, promoting micro-credit operations as a tool for combating poverty and social inclusion, encouraging the participation of disadvantaged groups (focus on women and immigrants) in order to combat and significantly reduce usury in the Calabria Region.</p> <p>The Microcredit Fund amounts to € 20 mln, corresponding to approximately 1000 new companies with an endowment of about 25,000 €.</p> <p>The actors involved at regional level are:</p> <ul style="list-style-type: none"> • The Department of Work and training, publication notice; • Fincalabra SpA, Calabria Region’s financial-asset manager in-house; • Banks that have an agreement with the Calabria Region; • Institutional social-economic partnership POR Calabria FSE 2007/2013. 	<p>Key objectives: promoting access to credit to cooperatives’ shareholders that are excluded / at risk of exclusion; promoting recapitalisation of cooperatives that pursue programmes of social inclusion finances individuals not enterprises.</p> <p>It is delivered through banks that were selected by tender on the basis of different elements, including the interest rate. The ESF half of the loan is interest-free. There are no services delivered along with the loan.</p> <p>Besides the ESF Managing Authority, the following actors are involved in JEREMIE initiative:</p> <ul style="list-style-type: none"> • Finlombarda (financial regional company, charged with the management of the fund, through “in house providing”); • other regional DGs (DG Family Integration and Social Solidarity and DG Industry, Craft, Building & Cooperation, that have competencies in the field of cooperative system); • financial intermediaries and cooperative systems; • the Ministry of Welfare (as co-financing body).



Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
Stakeholders: Meta-Level (political framework / funding / financial engineering):		
<p>The Fondo Microcredito was set up on 4 Dec 09 with a sum of €30m from priority axis 3, and €20m was added later that month. In 2011 a further €8.6m was paid over.</p> <p>Departments (Labour Dept., Sanity Dept.) financially contribute to the Fund through resources of the OP activity Lines they're responsible for.</p>	<ul style="list-style-type: none"> A €20m guarantee fund is managed by the 'holding fund' Fincalabra and guarantees 80% of loans made to small businesses by commercial banks. It serves to guarantee loans worth € 25,000. A budget of €4.5 m to Fincalabra to cover 100% of the interest (which Fincalabra pays to the banks at a fixed rate) plus a fee for each transaction. A €2.5m fee paid to Fincalabra to provide borrowers with 'tutoring' support for 24 months after start-up. Fincalabra gets a 10% bonus if the businesses it supports are successful. 	<p>The €20m of ESF funding was transferred by the Managing Authority to Finlombarda; the financial intermediaries, selected through a public procurement process, added to the Fund almost €20m further of private money.</p> <p>The first call distributed €10m to 2 banks and the second call in 2011 distributed €9m to 3 banks.</p>
Stakeholders: Macro-level (governance / capacity building):		
<p>The Managing Authority, in cooperation with its Support Office, coordinates the Fund's action, approves the most important documents for the implementation of the Fund and enacts the approval/rejection of proposals and nominating members of Investment Committee and Technical Office.</p>	<p>The quality of operations is achieved through cooperation between the institutions involved, especially between Calabria Region and Fincalabra; constant monitoring, verification and control procedures are in place.</p>	<p>The quality of the operations is ensured by the steering committee that provides orientations and asks for periodic monitoring data and reports related to the initiative.</p> <p>Finlombarda organised several meetings aimed at providing information and support to the financial intermediaries involved and to align them to the social goals of the initiative.</p>



Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
Stakeholders: Micro-level (serving the clients):		
<p>Loans are made via the Banco di Sardegna, which won the call for tenders. The tender was open for 42 days and the selection process took 4 months.</p>	<p>The banks receive the interest and get new clients as borrowers in the fund are requested to open an account with the bank.</p>	<p>The financial intermediaries were selected by Finlombarda, according to the orientations of the steering committee.</p> <p>The first public tender was carried out in 2009 and two private banks were selected (Banca Popolare di Bergamo and Federazione Lombardia BCC): 2 lots of €2.5m each were assigned to each bank. The second one was carried out in 2011 and three private banks were selected (Banca Popolare di Bergamo, Banca Popolare Etica and Banca Popolare di Sondrio): a lot of €3m was assigned to each.</p>
Target group:		
<p>The scheme makes loans (it does not give guarantees) and the loan ceiling is €25,000. Loans are to enterprises and not to individuals.</p> <p>The operational programme details certain financial agreement provisions, defining criteria for allocation of resources and also defining some preferential economic activities to be financed.</p> <p>Priority activities: retail, manufacturing, tourism, social and personal services, ICT, environmental protection, energy efficiency and renewable energies, cultural services, craft sector, business services (starting from 2nd call)</p>	<p>The target consists of the disadvantaged groups in according with Regulation (EC) 800/2008.</p>	<p>Target group are the cooperative shareholders who belong to the following types of co-operatives (according to the Italian law 381/1991):</p> <ul style="list-style-type: none"> Type A social co-operatives (providing health, social or educational services); Type B social co-operatives (integrating disadvantaged people into the labour market); Worker co-operatives employing at least 30% of disadvantaged members; Lombardy Region has adopted a broader definition of 'disadvantaged' than the national social co-operative legislation, and for instance includes women over 40 years old, men over 50 years old, migrants and the long-term unemployed. The loan may be taken out by non-employee co-operative members such as volunteers. So far 77% of loans have gone to employee members.



Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
Loan products:		
<p>Max loan amount: €25,000 Payback period: 5 years 6 or 12 months' grace period. The interest rate is zero if the loan is repaid on time (direct debit). Prepayment penalty: N/A Grace period: N/A Collateral: N/A</p>	<p>Max. loan amount: €25,000 (each person, max. three people for the same project) Interest rate: 0% (for beneficiaries); (effective interest rate 7.5%) Admin charges: yes (do not exceed 2% of the fund) Loan period: five years (60 months) Prepayment penalty: no Grace period: yes, 12 months (one year) Collateral: no</p>	<p>The structure of the loan has been designed with reference to the specific target and goals of the initiative:</p> <ul style="list-style-type: none"> • The microloan is assigned to the person (shareholder) who is obliged to subscribe capital of the cooperative. • The microloan (€4,000) is made of two components: <ul style="list-style-type: none"> • amortising component (€2,000): 5-year loan, fixed rate, monthly refundable; • bullet component (€2,000): 5-year loan, zero rate, single refund at the end. • If the beneficiary does not refund the loan, it is covered by the guarantee fund (10%). • The object of the investment is assessed by the financial intermediary but is flexible.
Processing time:		
N/A	N/A	N/A

Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
Outreach:		
<p>In the first call in 2009, €41m was allocated; there were 2,400 applications (1,900 eligible, 956 accepted; out of these: 54% start-up enterprises). In the second call in 2011, €27m was allocated (2,000 applications).</p> <p>The ceiling of €25,000 effectively excludes many tourism projects which require higher investment. Most borrowers are 1- or 2-person businesses in services or manufacturing. Over half of requests come from non-existent enterprises (i.e. start-ups).</p> <p>Funds were allocated to the 8 sub-regions according to unemployment rate and priority trade sectors. This turned out to be a 'blunder' as demand was not as predicted – for instance a high expected demand from Olbio-Tempio which did not materialise)</p> <p>Women received 52% of loans, because they submit better business plans, in part due to the legacy of EQUAL. The average loan amount is around €20,000. 54% of successful applications are start-ups.</p>	<p>By December 2011 applications had been received:</p> <ul style="list-style-type: none"> • 36% women • 81% individual enterprises (solo-entrepreneurs) • 7% foreigners (out of which 40% from outside the EU) • 40% in the services and 52% in the commercial sector 	<p>At the date of 30/04/2011 there have been 3,700 borrowers, 52% of whom are women, and 49% of whom are disadvantaged. Their average age is 43. They come from 244 co-operatives, which is about 15% of the co-ops in Lombardy.</p>



Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
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Methodologies to reach clients:

<p>Marketing is through labour offices, newspapers, a TV talk show, and by going out to talk to people – they met about 3,500 people, of whom 2,000 were women. They are proud that they have applications from 290 of the island's 377 municipalities. It was hard to convince people that this was a loan scheme and not a grant scheme. All applications are made by internet, with a signed copy to follow within 7 days.</p>	<p>Communications campaigns were conducted in the press, on TV, internet and on the most important social networks.</p>	<p>The first call addressed to final beneficiaries was promoted through the national press, while the second call was published in the regional gazette; moreover an information campaign was promoted through several actions, such as: advertisement in the main Italian newspapers, information leaflets, regional seminars for cooperatives and professional unions.</p>
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Client monitoring:

<p>The bank reports on the 15th of each month and as the loan agreement is between the final beneficiary and SFIRS, it is SFIRS that chases late payers. Between 5 and 10 borrowers are late in any given month, and receive a phone call. After 3 missed payments, the lawyers are put to work to demand full repayment, with interest. This has been done only once. There have so far been one death, one disappearance and one serious illness.</p>	<p>Fincalabra SpA that is Calabria Region's financial-asset manager of the fund (Guarantee Fund Manager). Fincalabra reports every six months through many graphs and tables. The bank reports every end of year (31st December)</p>	<p>Monitoring and evaluation tasks are carried out by the Managing Authority and Finlombarda. The financial intermediaries are asked to produce periodic reports to Finlombarda on the progress of the initiative. Finlombarda receives the periodic reports from the financial intermediaries and report every 6 months to the Managing Authority; Finlombarda is also asked to report every 3 months on the financial monitoring.</p>
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Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
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Risk management / Portfolio at risk:

<p>There is a 98% repayment rate so far, and the fund does not know who would bear the cost of a default. The regional government has not yet decided whether to pass this risk to Equitalia.</p>	<p>The loan is structured through a soft loan at zero interests with the guarantee of Calabria Region at 80% of the amount requested in case of beneficiary default.</p>	<p>In the investment strategy Finlombarda estimated a 20% chance of default. By the way, according to the Evaluation Report on the initiative, only 7 cooperatives (less than 6% and referring to different banks) reported cases of beneficiaries who expressed or are expressing their intention not to continue with payments. Consequently, the risk of default seems to be lower than assumed.</p>
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Benchmarking (of MFIs):

<p>Evaluations and monitoring activities are carried out by Managing Authority and Fincalabra SpA. Banks produce reports on the progress of the project every six months. Fincalabra SpA analyses data and monitoring many indicators such as: Efficiency and quickly response of financial intermediaries; Effective loan disbursed, disadvantaged and very disadvantaged people involved; Number of employed; Product sectors involved</p>	<p>The Managing Authority analyses data and assesses the operation with regard to:</p> <ul style="list-style-type: none"> • efficiency of financial intermediaries (time to evaluate the applications, time to disburse); • effectiveness (loan disbursed, cooperatives reached, disadvantaged people involved).
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Fondo Microcredito	Guarantee Fund for Microcredit	Microcredit Fund
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Non-financial services:		
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none	The good work done by local operators as regards the stages of dissemination and outreach for those candidates. Later they were activated Fincalabra's tutors that accompany that acts as intermediaries between the consultants and the beneficiaries of the credit system. Recall that the service is scheduled for the 24 months following the date of admission to the Microcredit Fund. Tutoring activity provided over 40 dedicated tutors for 24 months (start-up period);	Non-financial services are not provided.
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Sustainability:		
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N/A	The Microcredit Fund is open or has a fixed term but, it is a revolving fund that is intended to be self-sustaining over time as the beneficiaries in return rate (up to 60 months) and 0% rate on their loan.	The Fund has a fixed term but it is a revolving fund that is intended to be self-sustaining over time since the reimbursements return into the Fund.
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Support to Self-employment and Business Start-Ups (LTV)

Institutional Framework:

On 31 March 2009 the Latvian government approved regulations regarding the "Support to Self-employment and Business Start-ups" programme. The regulations lay down the procedure for use of the funds of the European Social Fund (ESF), State and Land and Mortgage bank of Latvia (LMBL) resources totalling of €32.7 million for the promotion of start-ups.

On 7 August 2009 LMBL and the Latvian Investment and Development Agency (LIDA) concluded an agreement about implementation conditions and procedure of the programme. The agreement stipulates that the programme will be operational until June 2015 having provided consultations/training to 1,200 start-ups, and 800 loans to start-ups.

The programme is implemented by LMBL, but the monitoring and auditing is done by LIDA. The programme provides the business start-ups and newly established companies with an all-embracing support – consultations, training and financing in the shape of loans and grants for starting the business.

Stakeholders:

- Total resources for programme is totalling of €32.7 million:
- ESF: €17.3 million (≈53%)
 - State budget: €3 million (≈9%)
 - LMBL: €12.4 (≈38%)

- Within the program a Loan Fund have been established for the purpose of loan issuing totalling of €23.5 million:
- €11.1 million co-financed by public finance (46.96%)
 - €12.4 million co-financed by LMBL (53.04%)

The financial resources for training, consultation and grants amounts in 6.4 million EUR, and for other eligible costs (including administration and management of the programme) – €2.8 million.

Stakeholders: Macro-level (governance / capacity building):

LIDA is responsible for coordination, monitoring and auditing of the project.

LMBL is responsible for implementation of project – loan issuing, consultations on business plans, grant issuing. The loan officers of the LMBL will examine the submitted business plans and using pre-determined evaluation criteria (for example, assessment of knowledge of the business start-ups, business idea and market assessment, economic implementation feasibility of the idea, assessment of the planned cash flow indicators, etc.) select viable projects and issue loans and allocate grants for implementation of the projects.

Micro-level (serving the clients):

LMBL:

- Promotion of measure
- Advisory support for potential start-ups
- Entrepreneurship training (outsourced) and individual consultation during the business plan writing process and project implementation
- Analysis/evaluation of business plan and loan application, decision on loan disbursement, contract signing
- Project implementation monitoring
- Implementation of loan default procedures (if necessary)





Support to Self-employment and Business Start-Ups (LTV)

Target group:

Population of giving age, including the unemployed, wishing to start-up a business or self-employment, including newly established businesses, are eligible to receive support from this programme:

- 1) an entrepreneur having registered according to the law not earlier than 3 years before requesting support from the programme;
- 2) companies with experience (including those companies registered more than 3 years ago) wishing to receive support for business start-up in another business field, including manufacturing of new products or services.

Loan products:

Loans:

The programme supports projects with a cost up to €85,400. For projects where the required loan amount exceeds €7,110, the loan applicant has to provide 10% of co-financing (from own resources or external financing not related to any business support funds).

Start-up loans are made up to €76,830 for investments and working capital for a maturity up to 8 years. For the loans exceeding €24,900 the loan amount cannot exceed 135% of the value of collateral offered. Collateral value is the approximate price (excluding VAT) for a given property in a reasonably short period can be sold on the secondary market.

Grants:

- grant for sustaining of the economic activities: for entities wishing to start or having already started economic activities within the last year; disbursed within one year after signing the loan agreement; amount up to 35% of the issued loan amount, but not more than €5,120. For the next 12 months the client will have the access to 1/12 of the grant each month.

- grant for repayment of the loan: given only upon successful implementation of the project; max. available amount: up to €2,840, but no more than 20% of the issued loan amount; given to entities wishing to start or that have already started economic activities within last year, and no more than 10% of the loan issued to entities that have started the economic activities more than a year ago.

Processing Time

Processing time for applicants depends on each individual case. There are following steps to be fulfilled:

- Project consultant provides consultancy and analysis on business idea/business plan;
- Project applicant develops business plan, receive additional consultation/training if necessary, provides additional materials to LMBL if needed;
- Project application date – day when complete business plan is submitted to bank;
- Business plan evaluation by bank experts and loan committee – up to 1 month;
- Loan contract and disbursement.



Support to Self-employment and Business Start-Ups (LTV)

Outreach:

Programme started in autumn 2009 (results on 20 September 2011):

- 1,938 agreements signed with applicants regarding the participation in programme (applicants have received consultations) (target: 1,200 persons)
- Trained: 1,033 persons (target: 1,200 persons)
- Signed: 537 loan agreements totalling €9.31 million (target: 800 entrepreneurs)
- Average loan amount: €18,000
- Grants made for sustaining economic activities: €1.56 million
- Grants made for repayment of loans: €31,500
- Participants in programme: women 45%, men 55%

Methodologies to reach clients:

- Webpage – www.altum.lv
- Via branches of the LMBL
- Via marketing activities:
 - Competition for youngsters – “Jump in the business”
 - Planned similar competition for seniors

Client Monitoring:

Client monitoring is applied according with the internal procedures of the LMBL as a credit institution.

Risk Management / Portfolio at Risk:

- Regular quarter reports are submitted to LIDA and Ministry of Economics if necessary

- Regular statistical data of numerical results of programme submitted to Ministry of Economics
- Regular quarterly meetings organised with LMBL, LIDA and Ministry of Economics to discuss both qualitative and quantitative data of programme, discuss potential problems and solutions

Benchmarking (of MFIs):

N/A

Non-financial services:

Consultations on drafting the business plan and implementation of the project are provided in the bank branches.

Moreover, the applicants lacking theoretical and practical knowledge on business operations and drafting the business plan are offered the following training modules: business basic; management basics; regulatory framework of business; financial management of company; accounting of the economic activities and taxes; fundamentals of marketing.

No more than 2 modules of training are allowed.

Sustainability:

In the previous EU fund programming period (2004–2006) a similar programme for business start-up training, consultancy and financial promotional (co-financed by ESF) was implemented as well (from end 2006 until October 2008). Thus, there is a clear trend of need for such a programme. It is crucial part of support and should be continued.

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Colophon

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