

ESF Market Failures for Microfinance in Europe

Findings “short mapping”

1 Background

Supporting entrepreneurs setting up their own business is one of the objectives of the European Social Fund (ESF)¹. ESF offers a range of funding opportunities for financial and non-financial services. It has been used to co-finance entrepreneurship training and guarantee funds in different countries such as Lithuania, France and Germany to name a few. A more detailed analysis was conducted within the COP-IE project and results were published in a manual on how to build and implement microfinance support programmes using the ESF². Furthermore, fi-compass³ provides valuable information for policy makers as well as microfinance organisations on how to make use of structural funds. Despite the availability of information, which includes case studies, manuals and guidelines, getting access to ESF appears to be difficult if not impossible.

In order to identify potential market failures a “first mapping” was conducted in a first step in order to identify suitable case studies in Europe. To this end nine telephone interviews with representatives from Spain, Italy, UK, The Netherlands, Greece, Hungary and Germany were conducted. In addition to the interviews the meeting of EMN’s National Networks Committee with representatives from Poland, UK, Hungary, Italy, Spain and Germany was used to gather additional insight and information. Also, some other cases have been compiled by the Microfinance Centre (MFC) in the Central and Eastern European Member States

2 Next steps

The purpose of this exercise is to request to DGEMPL to distribute this mapping among the respective national country desks in order to obtain their feedback and own analysis on the issues identified by the sector in every country.

With the feedback from the national country desks, DGEMPL and the microfinance networks will agree on which cases should be the object of a deeper and detailed analysis.

3 First findings: Country Mapping

The results of the first mapping are summarised in the following table. We mentioned only those organisations/contacts which are interesting for a case study. The table represents an overview of suitable case studies, which will be conducted in a next step. Country and contacted organisation are represented in the first column. The current situation and obstacles are described in the second column. The identified market failures are categorised in a first taxonomy.

¹ <http://ec.europa.eu/esf/main.jsp?catId=457&langId=en>

² http://www.mikrofinanz.net/fileadmin/user_upload/dateien/pdf/dokumente_veranstaltungen/COPIE_ESFManual_Access_to_Finance_print.pdf

³ <https://www.fi-compass.eu>

Country	Findings	Market Failures
Germany (DMI)	<p>In cooperation with 19 MFIs, DMI planned to set up the microfinance programme “3P-Fund”. It was planned to use ESF funding. The programme was designed so that MFI, public authorities and partner banks work closely together. The aim was to establish a resilient, long-term solution for the German microfinance market. It was noticed that the “Mikrokreditfonds Deutschland”, which is managed by the Germany Ministries of Labour and economy, has developed towards a more bank-like structure and that the aim of “financial inclusion” could not be achieved as well any more. Despite broad approval and commitments of MFIs, banks and the public sector the initiative was discontinued after 3 years of work at the end of 2015.</p> <p>The reasons for the failure are manifold:</p> <ul style="list-style-type: none"> - The application’s requirements did not fit since only banks could make the applications and not MFIs. - The publication of the call was significantly delayed. - Due to the long waiting period, the partner bank ended their commitment after creating the formal structure and procedures internally. The biggest problem was considered to be the unpredictability of ESF in terms of a long-term strategy. The announcements and delays of the programme led to the conclusion that the overall programme is unpredictable. - Other potential partner banks were deterred by the unknown task of an ESF application. 	<p>Application process</p> <p>Long-term strategy</p>
Germany (diverse MFIs)	<p>The success story of “Mikrokreditfonds Deutschland”, which has been funded by ESF, turned to a new chapter, which unfortunately is not as successful. From formerly roughly 60 MFIs (in 2012), which disbursed more than 6000 loans annually, only 13 MFIs are left of which only 8 MFIs are (significantly) active. The number of loans disbursed has decreased by 80%. Some 10 formerly active MFIs had to declare insolvency.</p> <p>The reasons for that are considered to be as follows:</p> <ul style="list-style-type: none"> - The objectives of the ministry changed dramatically. It was not in line with the MFI’s objectives and the borrower’s needs. - The financial balance of opportunity and risk was no longer given. 	<p>Long-term strategy</p> <p>Formal procedures</p> <p>National Policy</p>

Country	Findings	Market Failures
	<ul style="list-style-type: none"> - A long-term perspective could not be identified for MFIs - The formal requirements in managing ESF cause/caused significant problems at bank level. 	
Spain (Nantik Lum)	<p>Intend to make use of ESF but find it difficult to identify a suitable programme.</p> <p>Too many different actors are involved on local, regional, national and European level, which makes it more complicated to develop a common objective and develop a suitable programme.</p>	<p>Application process</p> <p>Complexity of ESF programme</p> <p>Availability of information</p>
Italy (RITMI)	<p>National and regional authorities manage the ESF, but in most of the cases they are not aware of microfinance institutions and their services. They invest money in more “classical ideas”, e.g. boosting employability. Self-employment is currently not a relevant topic in Italy.</p>	<p>National Policy</p> <p>Awareness from ESF authorities</p>
Spain (C’PAC)	<p>The application process is very difficult and a very complex procedure and involves too much bureaucracy.</p> <p>Quite regularly funds do not arrive in time, which makes it more difficult to plan, manage, implement & deliver the programme. Hence, pre-financing is a constant concern.</p> <p>ESF managing authorities are not aware of MFIs as a delivery partner for non-financial services.</p>	<p>Application process</p> <p>Long-term strategy</p> <p>Awareness of national managing authorities</p>
Greece (Cooperative Bank of Karditsa; Agricultural University of Athens)	<p>Despite the good experience with EaSI, the contact to ESF managing authorities is very difficult.</p> <p>ESF managing authorities focus on other topics. Self-employment/(social) entrepreneurship is not a priority in Greece.</p> <p>Calls are mostly generic and exclude most vulnerable parties/organisations.</p> <p>The design of calls is rather poor, clear eligible criteria for applicants are missing.</p>	<p>Contact, working relationship with managing authorities</p> <p>National policy</p> <p>Application process</p> <p>Eligibility Criteria</p>
Hungary (Fejér Enterprise Agency)	<p>ESF managing authorities focus on other topics. Microfinance and entrepreneurship support programmes are not a priority.</p> <p>The already existing support structure (access to microfinance and non-financial services) has been excluded in the current funding period, new delivery partner are banks.</p>	<p>National policy</p> <p>Long-term strategy</p>
The Netherlands (Qredits)	<p>The application process is time intensive and a rigorous procedure. Credits does not have the resources to apply for ESF opportunities on their own.</p>	<p>Application process</p> <p>Awareness of ESF opportunities</p>

Country	Findings	Market Failures
	<p>Credits is not fully aware of ESF funding opportunities for non-financial support. A clearly defined long-term strategy to make use of ESF funding opportunities is missing.</p> <p>Credits is not sure if they meet the eligibility criteria. Detailed information for clarification is not available.</p>	<p>Long-term strategy is missing</p> <p>Availability of information</p> <p>Eligibility criteria</p>
<p>United Kingdom (Responsible Finance)</p>	<p>The application process is very bureaucratic and too difficult. Eligibility criteria are unclear.</p> <p>ESF managing authorities are not aware of the full potential and services microfinance organisations actually provide.</p>	<p>Application process</p> <p>Eligibility criteria</p> <p>Awareness of national managing authorities</p>
<p>Belgium (microStart)</p>	<p>The application process is very time consuming and split between the three communities of the country (NL, FR and GER)</p> <p>To be eligible, you need to start a collective project with other organizations</p> <p>You need to co-fund the project with minimum 50% of other public money: own resources are not eligible (ex: interests)</p> <p>The operational program talks about training entrepreneurs. The word “microfinance” or “microcredit” does not appear.</p>	<p>Application Process for ESF</p> <p>Availability of information</p> <p>Complexity of the management of the ESF programme</p> <p>Eligibility criteria</p> <p>Direct contact with ESF authorities</p>
<p>Romania (VITAS)</p>	<p>MFIs, as financial institution, are excluded from any financing instrument from the Structural Funds (no institutions providing financial services are eligible, regardless of the institutional form) so there is systemic barrier here.</p>	<p>National policy</p> <p>Eligibility criteria</p>
<p>Bulgaria</p>	<p>ESF is not very active in general in the country and there is not much awareness among the microfinance sector of any opportunity that MFIs could be supported by ESF. Not very proactive communication from ESF Managing Authorities.</p>	<p>Awareness of ESF opportunities</p> <p>Availability of information</p>

The following table provides an overview of expected market failures in the respective countries. Within the case studies these expected market failures need to be analysed in more depth.

Market Failure	IT	ES	GR	DE	NL	UK	HU	BE	RO	BG
Application Process for ESF (too complex, too complicated, too time-consuming, lack of transparency)		X	X	X	X	X		X		
National Policy (long-term commitment; clear, transparent objectives)	X			X			X		X	
Awareness of ESF managing authorities (financial and non-financial services provided, results achieved by the sector)	X	X	X	X	X	X				X
Availability of information (Guidelines and funding opportunities)	X				X			X		X
Long-term strategy (Reliability and Planning on long-term commitment strategy of national policy and managing authorities)		X		X	X		X			
Complexity of the management of the ESF programme	X	X						X		
Eligibility criteria (Who can apply, criteria to be met, reporting)					X			X	X	
Direct contact with ESF authorities (Working relationship, one contact partner)			X					X		