

Migrants' financial inclusion in the EU: which role for the microfinance sector?



MARCH
2013

CONTENT

THE DEBATE 04

OVERVIEW OF THE
RELATIONSHIP BETWEEN
MICROFINANCE
AND MIGRATION IN THE
EUROPEAN CONTEXT 08

Migratory flows' features in
the EU since 1960s onwards –
composition of migration
within EU population 10

Socio-economic conditions
of immigrants 13

Financial and labour situation
of immigrants in the EU 14

MFIs and immigrant clients 18

FIELD EXPERIENCES
AND GOOD PRACTICES
FROM EMN'S MEMBERS 20

Microcredit and Productive
Remittances by Fundación
Nantik Lum 21

Microcredit Investment Test
and BDS with volunteers
by microStart 24

Constant follow-up, social
networks as moral collateral
and customer segmentation
by PerMicro 27

Bibliography 30

Foreword

by Klaas Molenaar

Migrant, micro enterprise, microfinance.... Do they really have something in common? Many of us seem to think so. And even this issue of the EMN Magazine seems to reflect this. It sounds nice, mi mi mi... a beautiful alliteration. But as practitioners, policy makers and academics we need to exercise some restraint, reflect a little more about reality, be critical about our prejudgments and not immediately think that migrants are only destitute, poor persons, living in the informality, and would be best be helped with a micro loan to start a micro enterprise (often in the less developed urban districts).

Of course there are many migrants that are excluded from regular society; indeed with a small loan they can regain self-confidence and feel empowered, start a small economic activity that generates some additional income and become a more respected member of society. And of course there many migrants who have already found a part-time job who want to gain more income through additional self-employment. This type of hybrid entrepreneurs is a new phenomenon that places the microfinance sector for new challenges: how to serve this type of hybrid enterprising persons with small, micro loans as well. But that is not only true for migrants it is major, new challenge in our society and calls for innovation in mainstream financing.

Migrants are still without access yet to formal financing and we deny (ourselves) that they become valuable members in our society because we tend to overlook their qualities. Migrants are often quite resourceful when they arrive in our countries, they are often more enterprising than us, with more ambitions than we seem to understand. They are people who left often a good life behind for political reason, a life they want to set up again. They are people who have completed their education, and as professionals wish to participate in our society. They are people who have crossed borders and by doing so have brought with them new insight and market intelligence that many of us lack; marketing insights with which they aspire to set up small and even medium enterprises that contribute to sustainable development in either our societies and in the countries of origin. But many of them have limited to no access to formal financial services as they often do not fit in the mindset of bank staff or the evaluation schedules that banks use.

Thus, if microfinance means offering access to people who are denied such access by existing formal financial institutions, then yes the lessons learned with the (traditional) micro finance sector can indeed be useful to develop new approaches in society. It can result in new financing programmes that bring strong migrants into the mainstream economy... And that is also a challenge for the microfinance sector. A challenge far more important than just setting up a micro lending programme for migrants that leads them to setting up marginal, micro enterprise. An invitation to be creative, innovative, in a society that has become a real diverse one through migration, a society where the Diaspora forms an integral part of our society ; and thus, where people from other countries are less migrants than we are used to think. If that is the case mainstream thinking is more important than target group focused microfinance programmes.

Klaas Molenaar, Lector in Financial Inclusion and New Entrepreneurship at the Haagse Hogeschool

The Debate

For the present article, EMN asked Mr. **Pape Sene**, a representative of a migrant organization called CAAD ASBL, based in Senegal and working with migrant communities resident in Belgium, France and Italy and Prof. **Bernd Balkenhol**, independent expert and professor for microfinance at the University of Geneva.

➔ **Pape Sene**: is Belgian with Senegalese origin. He graduated in Biotechnology. He was later professor and researcher at the Polytechnic High School of the University Cheikh Anta Diop in Dakar from 1994 to 1999. Then Mr. Pape worked as consultant in quality management within the advice department for industrial policy in Belgium, with the function of quality manager and internal auditor in companies. Since 1991 he has led the NGO CAAD based in Senegal, France (1997), Belgium (2001) and Italy (2010), which since its origin focuses the activities on migration and development. CAAD has achieved several targets and results during its life, both in the structural integration of migrants in their country of residence and in the support and follow-up of their socio-economic initiatives promoted in their origin country. Mr. SENE is also founding President of the "General Coordination of migrants for the Development (CGMD)" which is a platform that brings together the diaspora associations in Belgium.

➔ **Bernd Balkenhol**: is an independent expert and professor for microfinance at the University of Geneva. Until 2011 he directed the Social Finance Program of the ILO (International Labor Organization). In that capacity he was responsible for initiating and managing global policy relevant research on microfinance, SME finance, guarantee funds, impact investing and financial inclusion. For several years he was senior advisor to the central bank of West African States (BCEAO) on policies to facilitate small enterprise finance. He regularly lectures at the Université Libre de Bruxelles (ULB). As representative of the ILO he participated in the launch of the G20 Global Partnership for Financial Inclusion. He also served on the Executive Committee of CGAP. Bernd Balkenhol is an economist by training, he holds a PhD from Freiburg University and a MA from the Fletcher School of Law and Diplomacy (Medford, Mass.).



1

Which are the most important needs for immigrant in the EU? Do you think access to finance is one of them?

➔ **PS:** Immigration to the EU member countries is mainly caused by economic difficulties and concerns (access to employment, access to entrepreneurship, access to resources, access to income). Even if we should not forget the immigration related to security reasons (insecurity in war, political persecution, trafficking in human beings, etc..). Most migrants arrive in Europe with the hope of improving their living conditions. For this reason, the follow-up for insertion into the labor market as employee, as well as the opportunity to access the know-how to start a business and to obtain a credit/microcredit for investments, represent essential and specific needs of migrant people resident in the EU. Access to finance for migrant population will not only facilitate a better structural integration, but also contribute to the promotion of new financial and economic players in Europe (as MFIs) whose success will benefit the economies of the EU member countries at large.

➔ **BB:** The majority of migrant workers are in wage employment. Their number one concern in the EU today is to hang on to their jobs. Even if they succeed to do so in these times of crisis and recession, they are likely to feel pressure on take-home pay, or on the security and duration of their contract. There is always the threat of losing the job and having to return to their country of origin. Moreover, migrants in precarious and irregular contracts or without residence permits have no entitlements under social security, which reinforces the need to save and constitute a cash reserve, whether for risk mitigation or deferred investments in the country of option. The case is different with migrants who decide to start their own business. Like most small and micro business starters they may find it difficult to gather the start-up capital. On the other hand compared to other micro-entrepreneurs migrants can probably tap more easily into informal resources of their community: family, friends, neighbours.

In short: access to finance is probably not their number one worry, but it is a hidden need, namely as the indirect consequence of current changes in the labour markets in the EU.

2

In your opinion, which could be the advantage for a European MFI to address immigrant clients?

➔ **PS:** There are several advantages for a MFI managing commercial relationships with migrant people. Among them I can mention:

- The opportunity for MFIs to open a new market still poorly known by the traditional financial system in Europe
- The opportunity to grow and expand their customer base through various communities with their specificities, strengths / weaknesses in entrepreneurship, etc.. Therefore this growth could lead MFIs to increased income and turnover
- Obtaining a better position in the ranking of significant economic and financial actors and also acting as a development driver at local and national level in the EU
- The opportunity to investigate and take advantage of the untapped economic potential of migrants in the EU.
- The opportunity to rise themselves as the leading actors of microfinance in Europe.

➔ **BB:** European MFIs have as much experience in financial as in non-financial services. That is probably an asset when dealing with migrants. Advising, training, encouraging clients has been the daily bread and butter of MFIs in Europe, much more so than of micro-finance institutions in Africa, Asia and Latin America. European MFIs had little choice: to make a start-up micro-enterprise a success in a competitive market, it takes more than just capital, namely technical, management and marketing skills.



The development of business by migrants mainly acts as a funding request, particularly microcredit. Indeed, the current lack of opportunities to access a bank loan suited for economic activities of migrants greatly limits their potential economic capacity in Europe.



Another asset of European MFIs is their connection to international micro-finance networks and - through them - to MFIs operating in the countries of origin of migrants. Affiliations and links to global networks are assets especially when it comes to designing financial services across borders¹, like remittances. Migrants would find MFIs attractive that offer a range of services. One advantage that most European MFIs do not have is the capacity to take deposits. Outside Europe many MFIs changed their legal form to be able to take deposits, others organized themselves as financial cooperatives, like "credit unions". The types of MFIs most prevalent in Europe, CDFIs and NGOs, on the other hand offer only credit

3

Do you think immigrant clients need a specific and different treatment than other potential clients of the microfinance sector?

➔ **PS:** Migrant entrepreneurs targeted by microfinance institutions in Europe have specificities that it is fundamental to take into account for ensuring successful activities and relationship between the two parties.

Indeed, it is also important to consider that migrant entrepreneurs are often people coming from countries whose development models, structure of the economy, business practices, nature of relationship between individuals and so many other socio-cultural aspects of their origin societies they have already absorbed, are very different from the business world and economic system in Western countries. A comprehensive analysis of these aspects should be taken into account by European microfinance institutions in order to have a better understanding and running of key drivers in the relationship with migrant clients.

On one hand the access to financial resources for investments via microcredit or credit certainly represents the main driver for the socio-economic participation of migrant entrepreneurs to the host society. On the other hand the success of his/her economic activity is influenced by the degree of knowledge on the socio-economic, institutional, legal, financial and intercultural framework among others, relating to entrepreneurship.

These considerations therefore bring to the need to link the intervention of European microfinance institutions in terms of microcredit with migrant population with capacity building training for migrant entrepreneurs on the topics above mentioned.

➔ **BB:** Migrants are more heterogeneous in their demand for finance and accompanying services than generally believed. There are those who migrate with their entire family and the intention to stay for good, there are also circular migrants who are determined to return to their country of origin once a political or economic crisis is over or once they have accumulated sufficient savings to make a new start at home. There are migrants with university degrees and there are

unskilled migrants. There are migrants with one or several bank accounts and one or several credit cards – indicating a high degree of financial inclusion. The latter subset is unlikely to call on the services of MFIs. Even unbanked migrants can send remittances in EU countries without having to have an account with a bank or an MFI².

MFIs might find opportunities in targeting the middle segment of migrants, with more complex financial needs than just remittances, but still on the margin of the financial and banking sector. Migrants who are hardly integrated into market mechanisms of the host society oblige MFIs to go out of their way to design services and products that meet their needs. Migrants facing language barriers or those with only rudimentary education certainly call for adaptations in the way a MFI approaches them.

4

Are Business Development Services key factors in designing/selling successful financial products addressed to immigrant clients?

➔ **PS:** The development of business by migrants mainly acts as a funding request, particularly microcredit. Indeed, the current lack of opportunities to access a bank loan suited for economic activities of migrants greatly limits their potential economic capacity in Europe. The proximity of MFIs with migrant entrepreneurs would promote a better understanding of the types of activities they develop, as well as the most appropriate way to fund them. So, the success of financial products that MFIs can offer migrant entrepreneurs will be determined by the degree of design/adaptation to their needs.

➔ **BB:** The inclination to create a small or very small business is generally thought to be higher amongst migrants of the first and second generation, compared to the host population. According to EMN's survey³ of 170 microfinance institutions in 21 countries on average 32% of loans went in 2009 to migrants (in absolute figures approx. 9000), in Spain even 45%, France 39% and Italy 38%. But inclination does not equal capacity. Being embedded in an informal network of friends, colleagues and neighbours of their community micro-entrepreneurs with a migration background may tend to believe that they can do without BDS, whilst in reality they have very incomplete information about supply channels, client demand, competitors, marketing and distribution avenues, costs and prices, in short: all the formal aspects of a micro-enterprise, not to mention the business environment, like information about licensing, regulation and other rules imposed by municipal and other administrations.

5

Which can be the role of immigrant association in accessing Diaspora by MFIs?

➔ **PS:** A partnership between MFIs and Diaspora associations could be the beginning of a bridge-building between migrant communities and financial institutions. Such connection seems necessary to know each other and to build trustful relationship between the two parties to promote business exchanges. In this respect, the role of migrant associations remains leading. Indeed, these organizations are very often the most suitable place for people within the same community, region, country or continent, to inform each other and make common and / or individual decisions concerning a specific topic. Moreover, these organizations can mobilize migrants for providing them information, collect their opinions and points of view and so that involve them in initiatives and dynamics directly related to them.

➔ **BB:** Migrant association can play key roles in improving the access to finance for migrants. They are ideal actors, for instance, to carry out financial literacy classes, or to give advice on over-indebtedness problems. In this configuration the MFI outsources some non-financial services to the association. Another possible role is sharing the default risk with the MFI with regard to a client migrant, i.e. some kind of group liability. Going one step further and capitalizing on their strong social cohesion, migrant associations could spawn informal savings and credit clubs that over time eventually transform into genuine financial cooperatives.

"Home Town Associations" in the US have been instrumental the remittance segment and in transferring substantial amounts of money to the village of origin for infrastructure works.

6

According to you, is financial literacy a real need of immigrant clients or more a preliminary approach by MFIs to sell financial products and services?

➔ **PS:** In times of downturn, financial education constitutes an important issue for people living in consumer societies such as in member countries of the EU.

Indeed, the impact of the consumption of certain products on the market, particularly the financial ones, can have negative effects for the consumer, as it can cause several advantages for him. This brings to the case of microcredit for investment and to the importance to provide all the related information to the contracting migrant in order to allow him/her a better decision making on engaging or not in the loan.

This type of activities, commonly known as "Financial Education (FE)", is a driver together with microcredit for solid and successful migrant entrepreneurship. Considering as main purposes the knowledge of the financial product/service offered (microcredit) and tailored capacity building for developing the business (technical, accounting and management skills), Financial Education represent a need within migrant communities on which MFIs should work more to integrate the provision of microcredit for investments.

➔ **BB:** Yes, there is such a need, and financial literacy courses will benefit the migrant and his household. An informed migrant capable of weighing the different options, for, say, a transfer operation, might become a loyal customer and stay with the financial institution that provided the course on financial literacy. Seen from the perspective of the MFI financial literacy courses are a more or less expensive customer service, more expensive if done on its own account, less costly if outsourced to a migrant association or a specialized NGOs. At any rate the benefits to the MFI in terms of greater customer loyalty and cross selling of other products and services accrue only in the medium term; and the possibility that a financially "literate" migrant client "migrates" to another financial service provider, cannot be completely ruled out.

1 The World Council of Credit Union (WOCCU), for example, captures migrants' transfers in the US and channels them via its own payment system to credit unions affiliated to WOCCU in Central America. Several MFIs in Africa developed partnerships with postal banks, money transfer organizations so as to get remittances to the migrant's family or community: National Microfinance bank (Tanzania), Uganda Microfinance Union, Equity Bank (Kenya), Teba Bank (S.Africa).

2 Leon Isaacs, Migrant Remittances and Linkage to Broader Access to Financial Services, UK Remittance Task Force 2008

3 Overview of the Microcredit Sector in the European Union 2008-2009



The inclination to create a small or very small business is generally thought to be higher amongst migrants of the first and second generation, compared to the host population. But inclination does not equal capacity.



Overview of the relationship between microfinance and migration in the European context





Globalization, economic development, poverty, financial and social inclusion, labour market institutions and human capital development all influence and are influenced by migratory flows.

Since the 1960s onwards migration has become an increasingly important phenomenon for European countries.

The EU as a whole has been an attractive destination for immigrants for many decades. The following data sustain the relevance of migratory flows at European level. In 2011 there were 33.3 million foreign citizens resident in the EU-27, 6.6% of the total population. The majority, 20.5 million, were citizens of non-EU countries, while the remaining 12.8 million were citizens of other EU Member States.

There were 48.9 million foreign-born residents in the EU in 2011, 9.7% of the total population. Of these, 32.4 million were born outside the EU and 16.5 million were born in another EU Member State. Only in Luxembourg, Ireland, Hungary, Cyprus and Malta did foreign-born from other EU countries outnumber those born outside the EU.

In 2008 the majority of EU27 Member States already reported more immigration than emigration even if, compared with 2007, immigration to EU Member States was estimated to have decreased by 6 percent and emigration to have increased by 13 percent.

At the beginning of 2011 more than 75% of the foreigners in the EU resided in Germany, Spain, Italy, the United Kingdom and France. In relative terms foreigners exceeded 10% of the resident population in Luxembourg, Cyprus, Latvia, Estonia, Spain, Austria and Belgium.

Since 2007 financial collapses have affected the migratory universe: the communities from which immigrants come, the countries where they have settled and their social and financial behaviour between these two worlds.

Within the global and economic crisis unemployment has reinforced as key factor in poverty risk as well as social exclusion and represents a concern for most EU Member States.

Indeed in two years from late 2007 to late 2009 unemployment rose 3 percentage points to 9.6 percent in the European Union. According to a survey of the Directorate General Enterprise and Industry of the European Commission, three groups result particularly vulnerable to long-term unemployment: immigrants and ethnic minorities; older male and female workers; men and women under the age of 25. Although "Europe 2020 poverty target"⁴ is to achieve at least 20 million fewer people in or at risk of poverty and social exclusion, defined as at risk of poverty severe material deprivation or low work intensity, the levels of poverty in many Member States are increasing.

By supporting self-employment and microenterprise development, microfinance can play an important role for contributing to the social and economic inclusion of underserved clients as immigrants living in the EU territory. For these reasons through the Magazine 2012 EMN wants to help members and microfinance stakeholders analyse and explore the potential role of European MFIs for immigrants' financial inclusion by a market segmentation approach and knowing current trends and strategies on financial supply to immigrants in the European context. EMN intends to provide an overview of best practices, innovative solutions and key lessons learnt by MFIs working with immigrant clients in the EU by exchanging key experiences among practitioners and other actors who already faced various challenges.

The Magazine is structured around an opening overview of migratory flows in the EU, a presentation of various field experiences and practices from EMN members and a thematic debate between a representative of the academic community and a practitioner.

4
Europe 2020 is the EU's growth strategy for the coming decade. Concretely, the Union has set five ambitious objectives - on employment, innovation, education, social inclusion and climate/energy - to be reached by 2020. EC website: http://ec.europa.eu/europe2020/index_en.htm

Migratory flows' features in the EU since 1960s onwards - composition of migration within EU population

The scale and patterns of migration flows to and within Europe have differed greatly over time and between different European countries.

Historical or linguistic links between countries have always affected migration. For some countries there were colonization history linked reasons.

Alternatively, as in the case of Germany in the 1960s, international agreements between countries that needed more workers and countries that were experiencing unemployment as Italy, Spain and Portugal influenced major migration flows. Migrants' choice of destination may be also influenced by the presence of already established communities from their

country of origin living in the host country.

These different migration flows have both short and long-term impacts on the evolution of characteristics, size and structure of the overall and immigrant population in the European countries (Figure 1).

Considering more recent past, some significant data on the 1990s and the year 2000 allow a deeper understanding of the recent trends between the microfinance sector and migration in European countries. Comparing 2000 with the 1990s, it appears that the annual rate of net migration in the EU in 2000 is lower than in the first half of the decade but equals the average level of the second half.

However, there are remarkable differences between countries in this regard. For example, in Germany, the crude migration rate fell by 80 percent (from 7.0 via 2.5 to 1.3).

Countries with decreases in the crude migration rate in the second half of the 1990s followed by substantial

increases in 2000 are Austria, Sweden, Greece, France and Belgium. By the early 1990s, Luxembourg had already achieved its position as the EU country with the highest crude migration rate.

The first decade of the 21st century has seen large waves of migration from both within the EU and from outside it.

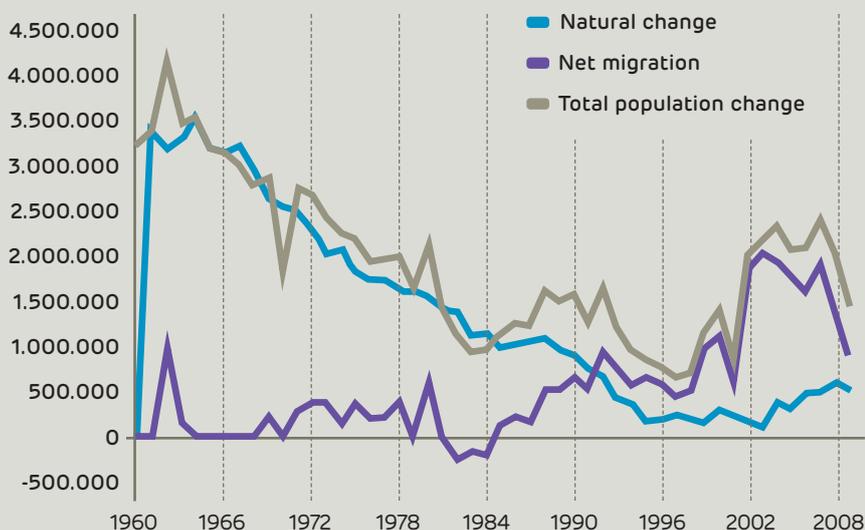
In fact during this period the net migration accounted for about 65 percent of the total population growth. Without international migration, many countries such as Germany, Greece, Italy and Sweden would have experienced a population decline.

"From 2004 to 2008 the EU population is totally increased by about 2 million per year, mainly due to the net migration rate".

These numbers should lead the European MFIs to a serious reflection on immigrants as market opportunity and incentive for assuming a segmentation and inclusive approach.

Figure 1

Population change by component, EU27, 1960–2009 (per 500,000 population)



By supporting self-employment and microenterprise development, microfinance can play an important role for contributing to the social and economic inclusion of underserved clients as immigrants living in the EU territory.

Figure 2

→ Population growth per EU-country, 2010-2011 (Eurostat)

	Tot Population on 1 January 2010	Tot Population on 1 January 2011	Natural change of population 2010	Natural change of population 2011	Net migration plus statistical adjustment 2010	Net migration plus statistical adjustment 2011	Tot Population change 2010	Tot Population change 2011
Austria	8,375,290	8,404,252	1,543	1,630	27,419	37,136	28,962	38,766
Belgium	10,839,905	11,000,638	24,079	25,000	89,260	15,628	111,361	40,628
Bulgaria	7,563,710	7,369,431	-34,652	-37,412	-24,190	-4,795	-58,842	-42,207
Cyprus	819,140	839,751	4,698	4,118	15,913	18,142	20,611	22,260
Czech Republic	10,506,813	10,486,731	10,309	1,825	15,648	16,889	25,957	18,714
Denmark	5,534,738	5,560,628	9,043	6,482	16,847	13,406	25,890	19,888
Estonia	1,340,127	1,340,194	35	-565	32	33	67	-532
Finland	5,351,427	5,375,276	10,093	9,376	13,756	16,615	23,849	25,991
France	64,694,497	65,048,412	282,285	272,700	71,630	76,800	353,915	349,500
Germany	81,802,257	81,751,602	-180,821	-189,643	130,166	281,784	-50,655	92,141
Greece	11,305,118	11,309,885	5,682	-3,952	-915	-14,998	4,767	-18,950
Hungary	10,014,324	9,985,722	-40,121	-40,746	11,519	12,755	-28,602	-27,991
Ireland	4,467,854	4,569,864	46,602	45,655	-33,598	-32,750	13,004	12,905
Italy	60,340,328	60,626,442	-25,544	-46,810	311,658	241,132	286,114	194,322
Latvia	2,248,374	2,074,605	-10,821	-9,715	-7,912	-23,127	-18,733	-32,842
Lithuania	3,329,039	3,052,588	-6,494	-6,652	-77,944	-38,178	-84,438	-44,830
Luxembourg	502,066	511,840	2,114	1,820	7,660	11,004	9,774	12,824
Malta	414,372	415,198	998	1,017	2,247	-105	3,245	912
Netherlands	16,574,989	16,655,799	48,339	44,319	32,471	30,230	80,810	74,549
Poland	38,167,329	38,529,866	34,822	12,915	-2,114	-4,334	32,708	8,581
Portugal	10,637,713	10,572,157	-4,572	-5,984	3,838	-24,333	-734	-30,317
Romania	21,462,186	21,413,815	-47,524	-55,197	-847	-2,769	-48,371	-57,966
Slovakia	5,424,925	5,392,446	6,965	8,910	3,383	2,966	10,348	11,876
Slovenia	2,046,976	2,050,189	3,734	3,248	-521	2,059	3,213	5,307
Spain	45,989,016	46,152,926	104,153	85,584	59,757	-42,234	163,910	43,350
Sweden	9,340,682	9,415,570	25,154	21,832	49,734	45,453	74,888	67,285
United Kingdom	62,026,962	62,498,612	245,606	255,546	226,042	235,392	471,648	490,938

During the 2000s the higher net migration of the total population growth dates at 2003 with 95%, decreasing to the lowest rate 62% in 2009 after the outbreak of financial downturn.

In 2008, 3.8 million people migrated to and between the EU27 Member States.

The rate started again slowly increasing from 2009 to the 68% of

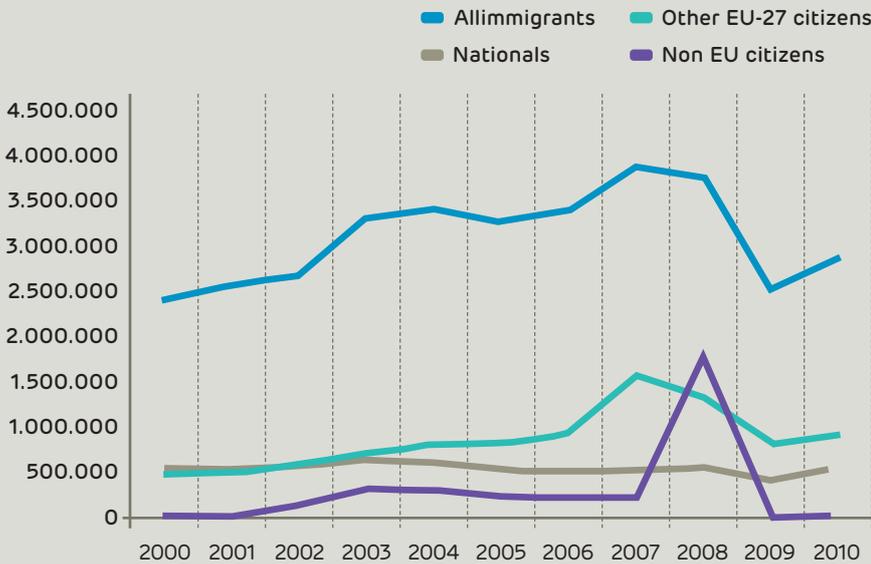
the total population growth in 2011, as shown in the table below where all data of the population changes of EU27 Member States in 2010 and 2011 are included (Figure II).

As already mentioned, the table highlights the important role of immigrant flows in the mitigation of the negative effects of population change in some European countries over the total population change (for instance in Germany, Italy and Hungary).

The figure shows how immigrant flows change between the two years, in particular with a significant increase for Germany and a sensitive decrease for Italy.

Figure 3

→ Relative change in migration inflows to EU Member States by citizenship groups, EU27, 2000–2010 (Eurostat)



For some migrants self-employment may be seen as a way of escape from long periods of unemployment and from discrimination in the labour market. Others could see comparative advantages in self-employment.



Concerning the composition of migration, non-EU nationals were the largest group in the immigration flows in 2000.

In the following graph some information are missing especially for extra EU citizens migrants since not all the European countries had these information available for all the years considered.

The presence of nationals in the emigration flows is more prominent than in the immigration flows.

At the beginning of the 2000s in five European countries more than half of the total number of immigrants were non EU-nationals. Italy had the highest proportion of such immigrants (71 percent), followed by Austria (66 percent), Germany (57 percent), Sweden (56 percent) and the Netherlands (52 percent). The percentage of nationals in the immigration flows varied from 8 in Luxembourg to 53 percent in Ireland. Italians and Portuguese appeared to be the most numerous groups of EU

nationals living elsewhere in the EU (well over 1.2 million and almost 0.9 million respectively). Most of the Italians who lived in a different Member State resided in Germany and most of the non-resident Portuguese were in France. This pattern reflects the labour recruitment from the south to the north that occurred during the 1960s.

In 2008, the EU27 Member States received nearly two million migrants of other EU nationalities. Romanians were the most mobile, followed by Poles and Germans (note that these migrants were not necessarily previously residing in their country of citizenship). Other 1.8 million immigrants to EU27 Member States were non-EU citizens. Among them, Moroccans were the largest group, the only one to exceed 100,000 persons, followed by citizens of China, India, Albania and the Ukraine. The majority of EU27 Member States in 2008 reported more immigration than emigration, but in Bulgaria, Germany, Poland, Romania and the three Baltic States, Estonia, Latvia and Lithuania, emigrants outnumbered immigrants.

The socio-economic conditions of immigrants

Looking at the socio-economic situation of the migrant population in the EU Member States, two different migrant groups should be considered and analysed in details. The first group is referring to foreign-born people, which are those born abroad who at some stage of their life migrated to their country of current residence, regardless of their citizenship.

The second one is composed by persons who do not hold the citizenship of the country of residence, regardless of whether they were born in that country or elsewhere. These people are sometimes called non-nationals.

The share of the population that is foreign-born varies substantially between different countries. In absolute terms, the largest numbers of foreign-born persons reside in Germany, France, United Kingdom, Spain and Italy. In 2009, a high proportion of foreign-born persons (15% or more of the total population) was also observed in Estonia, Latvia and Austria.

In absolute terms, the largest numbers of foreign citizens (second group) reside in Germany, Spain, the United Kingdom, Italy and France.

In 2009, a high proportion of non-nationals (10% or more of the resident population) was observed in Latvia, Estonia, Cyprus, Spain, Ireland and Austria, as well as in one of the EFTA countries, Switzerland.

According to a Study of "Eurostat – European Commission on indicators of immigrant integration", in 2009 within the age group 20-64 the unemployment rate of foreign born persons in the EU is much higher than the unemployment rate of the total population (14% compared to 9%). The effect is particularly remarkable for foreign born persons from outside of the EU for whom the unemployment rate is 16%.

Moreover, the unemployment rates of foreign born men and women coming from outside the EU are particularly high in comparison with the unemployment rates of all men and women in this age group (for men 8 percentage points higher; for women 7 percentage points higher). The higher unemployment rates of foreign-born in the prime working ages 25-54 are noticeable in almost all Member States with the exception of Hungary.

The highest gaps concern male third country nationals in the group 55-64, whose unemployment rate in the EU is 13 percentage points higher than the unemployment rate of all men in this age group.

Looking at the self-employment indicator suggested by the above mentioned study, for some migrants self-employment may be seen as a way of escape from long periods of unemployment and from discrimination in the labour market. Others could see comparative advantages in self-employment.

In the age groups 20-64 and 25-54, the self-employment rate of foreign born persons in the EU is slightly lower than the self-employment rate of the total population (12% compared to 15%). This is seen for both foreign born men and foreign born women.

For both age groups considered here, the rate of self employment is lower for foreign born persons from outside the EU than foreign born persons from other EU Member States.

The greatest difference between the self-employment rate of foreign-born and the total population is noticeable in case of 55-64 year old foreign-born persons (-7 percentage points).

Studying the situation of individual countries, the lowest self-employment rates of foreign born persons compared to the respective group of the total population are observed in southern Member States and in Ireland. In contrast, the highest self-employment rates (again compared to the corresponding group of the total population) for foreign-born persons are in Czech Republic, Hungary and Slovakia.

Considering all these factors in 2009 the proportion of foreign born persons aged 20-64 at the risk of poverty or social exclusion as pointed by Europe 2020 is higher than the proportion for the total population in this age group with a gap of 9 percentage points. This larger proportion at risk of poverty or social exclusion is generally more pronounced for persons born outside of the EU (a gap of 13 percentage



points relative to the overall population in this age group).

In five Member States (Belgium, Greece, France, Finland and Sweden), the proportion of foreign born persons aged 20-64 at risk of poverty or social exclusion is at least 15 percentage points higher than the proportion for the total population in this age group.

Some main findings on the social and financial situation of immigrants in the EU come out from a Eurostat Report "Migrants in Europe – a statistical portrait of the first and second generation", as follows:

- ➔ The immigrants' participation to the labour market compared with native-born and nationals is lower, especially looking at migrant women.
- ➔ Higher levels of unemployment are seen for both male and female migrants and for migrants of all levels of education, including those with the highest qualifications. The potential misuse of skills and qualifications of highly qualified migrants not finding jobs is amplified by the large number of highly qualified migrants working in jobs well below their educational qualification.

- ➔ Migrants also have a lower level of income and particularly those from outside the EU have a significantly increased risk of poverty or social exclusion, even if they are in employment. This risk is greater in households with children. In the second generation (native born persons with one or both parents born abroad), some of these disadvantages have been reduced or even, in the case of second-generation migrants with a mixed background (one parent born abroad), sometimes reversed.
- ➔ The situation of second generation migrants with a foreign background (both parents born abroad), while being more positive than that of first-generation migrants, still shows disadvantages compared to the situation of persons with a native background. Young second-generation migrants with a foreign background are generally at greater risk of exiting the education and training system without having obtained an upper secondary qualification.
- ➔ While the labour market participation of second-generation migrants is often very similar to that of their peers with native background, their risk of unemployment is still higher.

Financial and labour situation of immigrants in the EU

Millions of Europeans face an increased risk of financial exclusion through lack of access to basic financial services, according to a study presented by the European Commission in 2008.

"It reveals that 2 in 10 adults in EU-15 and almost half in EU-10 (47%) do not have a bank account while many more have no savings and lack access to credit.

A basic bank account is to be understood as a bank account which includes services like making and receiving electronic payments for goods and services (e.g. transfers, direct debits, standing orders) and making withdrawals, but excludes any overdraft facility".

Financial inclusion is considered as the access to the mainstream financial services in the host countries (cash transmission banking, savings, insurance, short-term consumer credit and long-term savings) needed to participate fully in society and the economy.

"Although a highly developed financial sector in the EU, 10% of the overall population is estimated to be financially excluded". According to a Report of the Special Eurobarometer 355, in 2010 "on average across the Europe 15% of people found it difficult to gain access to a basic banking account". These people are very often already in a vulnerable position in the society as in the case of immigrants – living on low incomes, unemployed, single parents or recipients of social assistance.

Financial exclusion forms part of a much wider social exclusion faced by these vulnerable groups who do not have access to housing, education or health care as well as employment.

The most challenging aspect of migration for the microfinance related actors is indeed the level of financial



Higher levels of unemployment are seen for both male and female migrants and for migrants of all levels of education, including those with the highest qualifications. The potential misuse of skills and qualifications of highly qualified migrants not finding jobs is amplified by the large number of highly qualified migrants working in jobs well below their educational qualification.





Financial inclusion is accounted as key factor for the access of immigrants to the labour market and integration in their countries.



exclusion of this target group between different European countries. Indeed financial inclusion is accounted as key factor for the access of immigrants to the labour market and integration in their countries.

Immigrants' numbers in EU show this group as a new source of demand for accessing banking and financial services.

In addition to quantitative features, some qualitative factors should be considered as specific reasons for which immigrants represent an attractive market segment and opportunity for financial institutions.

Hereby they are summarised as follows:

- ➔ High immigrant and spread presence within many European countries.
- ➔ Immigrants' families increase in number for family reunification with long-term and permanent stays in countries of residence.
- ➔ Great variety of jobs carried out, including an increasing volume of self-employed immigrants and small entrepreneurs in the country of residence, also in countries where

usually migrant tended to be company employees or have other subordinated jobs.

The migrant universe is very complex and made up of various ethnic groups which differ widely.

Immigrant groups are often characterised by attitudes and factors typical of other socially excluded groups, such as low skills or non-recognition of skills attained abroad, low income, weak language, technical, legal and financial knowledge, mistrust of suppliers and also psychological barriers. These features are partially related to specific migratory project's phases and levels of economic, social and education integration in the host country.

However immigrant groups may differ, for some specific conditions, from other socially excluded targets. For instance, second generation immigrants in the last phase of their migratory projects or immigrants from certain ethnic groups can gradually overcome initial economic exclusion when they obtain a regular job and start using more complex financial products and services.

Financial needs are largely esteemed

as "secondary level" needs, while the "primary level" basic needs are required for survival in a foreign country.

In order to properly assess the demand for financial inclusion by an immigrant group the following variables and how they look interconnected should be examined by the sector practitioners:

- ➔ Migratory project (phase and objectives of migration plan, with some other factors as country of origin, personal attitudes and ethnic group).
- ➔ Priority of basic needs and resulting prioritisation of intervention by social and governmental institutions.
- ➔ Structure of banking systems and markets in the country of residence.

The benefits of access to a basic bank account rightly identified in a cost-benefit analysis undertaken for the European Commission include:

- ➔ The ability to take jobs or rent property where a bank account is required.
- ➔ Increased security through lower level of cash transactions.
- ➔ Access to money transmission services.

- ➔ Lower transaction costs on payments and receipts.
- ➔ Access to discounts for electronic payment.
- ➔ Quicker access to funds.
- ➔ Increased choice of goods and services through the internet.
- ➔ Reduced sense of financial exclusion.

In some countries where it is becoming more commonplace for employers to pay salaries directly into bank accounts, one of the most significant advantages of having access to a basic payment account is that it makes easier to gain employment. Indeed, individuals without access to bank accounts are effectively frozen out of the job market.

A number of welfare payments, such as pensions and social security, are now being paid directly into bank accounts in some Member States. Without access to a basic bank account, individuals who are entitled to these welfare payments may not be able to claim them.

According to the paper "Migrants and financial services", migratory project could be subdivided into four different phases related to specific financial needs:

- ➔ **1.** "Initial settlement", when immigrants first enter the host country. Within this phase basic needs are the main ones, and relate to labour, housing and language. Financial needs are mostly connected to the use of money for survival at this time. A key variable of this phase is the issue of legal or illegal entry. Usually illegal immigrants have no official access to the services provided by financial institutions. Housing problems may relate to financial needs, such as the need to obtain a bank guarantee for renting a house. Illegal entry in a country often leads immigrants to incur large debts to finance the journey.
- ➔ **2.** The second phase is featured by some basic needs, in particular in the case of illegal entry, to formalize immigrants' status obtaining a residence permit, having a regular job and working to the family reunification.

Basic and financial needs are here depending on which is the objective of migration plan, whether the immigrant wants to stay permanently or on a temporary basis in the host country. Financial needs may consist mostly on saving and transferring money to the families in the origin country through remittances, personal loan or consumer credit to buy furniture, business equipment for the self-employed and household appliances in the host country. Often this demand remains latent due to the failure of immigrants to meet banks' requirements to grant a loan to a person for the first time.

- ➔ **3.** "Stable settlement" foresees a higher level of integration in the host country. Priorities may shift to setting up business or commercial activities, to buying "superfluous" goods or services and in some cases even to buying a house. During this phase immigrants tend to look for more medium-long term savings products. Credit services concern micro or consumer credit, mortgages for house purchase and business loans. The amount and frequency of remittances' transfer decrease since many immigrants, who have already faced the family reunification in the



country of residence, prefer to invest most of their resources in improving their life in the host country.

- ➔ 4. "Consolidation", as fourth phase, depends on the initial migratory project and objective. If the immigrant project aims to a "transit stay" in the destination country, needs seem similar to the previous phases except for an untapped area of offer that can address savings and transferable schemes to this target group. If the immigrant plan points at a "final settlement and succeeding generations", financial needs become

more structured and complex while remittances services become less relevant than in the previous phases.

Further stages concern second and succeeding generations, especially in countries with a long tradition of incoming migratory flows, such as UK, Germany and France.

However remittances represent a specific and important service for migrant population, even though its relevancy tends to decrease as other financial needs increase over the different phases.

The following pattern, reviewed extract from the study "Migrants and financial services" from the University of Milan – Italy, intends to explain the linkage between migrant life phases and financial needs as an opportunity for the supply design by microfinance sector, as shown in the chart below.

Migratory flows and immigrants' level of financial inclusion have been also affected by the financial collapse occurred in late 2007 with signs and effects which differ widely between European countries depending on the origin and nature of the recession in each context.

One of main effects of the financial crisis is related to the unemployment rate registered in the European Union, which shot up 3 percentage points to 9.6 percent from 2007 to 2009.

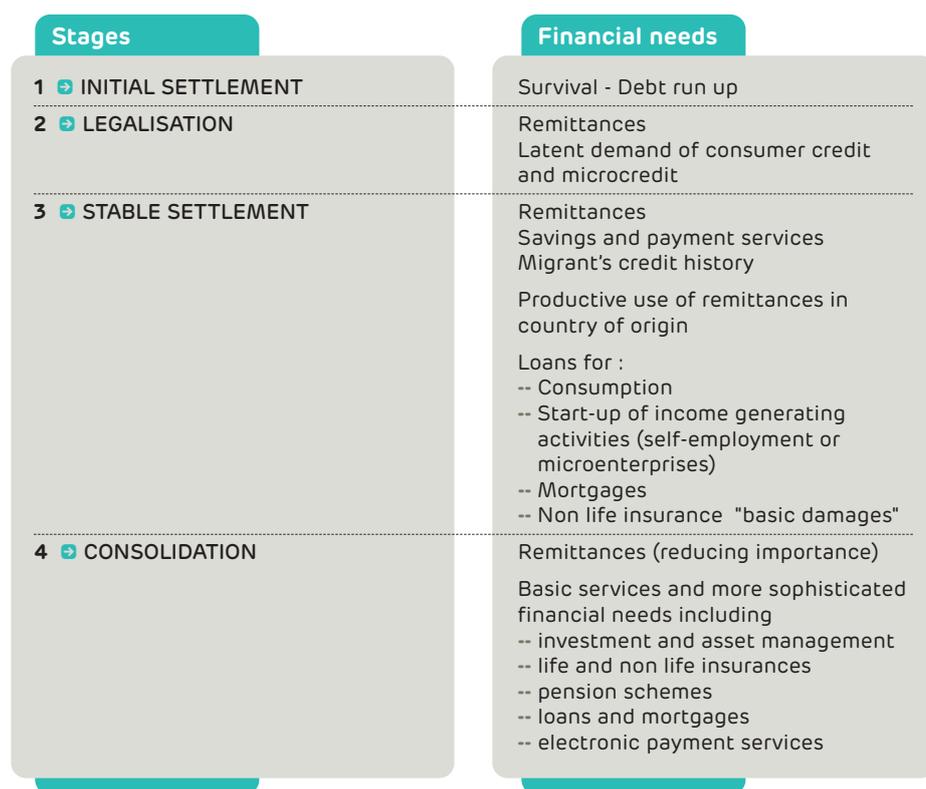
Employees have been adversely affected also by some other negative forms of recession, such as involuntary part-time workers due to the decrease of requested work and demand. "The financial crisis' effects are also related to main factors which led countries to the economic growth before 2007, for instance some countries prospered due to innovation and expanding markets while others grew due to price bubbles or public subsidies".

The impact of economic crisis has fallen unevenly on population groups. Immigrants and their families often faced the worst impacts, in many cases with more dramatic effects than native born people.

In 2009 foreign born youth experienced unemployment rates of 41 percent in Spain, 37 percent in Sweden and 24 percent in EU-15.

There are some interrelated factors between immigrants' situation and unemployment rates:

- ➔ Immigrants tend more easily to lose their jobs because of some demographic characteristics, such as language barriers, sometimes low education levels, difficulty in using their qualifications in the country of residence.



FURTHER STAGES Depending on migratory project

➔ "TRANSIT"

coming back to the country of origin

If well marketed with tailored products :
-- Savings and transferable pension schemes
-- Formation of deferred annuities
-- Credit history for accessing credit in the origin country

➔ "FINAL SETTLEMENT"

succeeding generation

Similar to those of the comparable local population in the country of residence

- ➔ Immigrants tend more likely to work in cyclical industries and jobs; because usually they respond more quickly to economic industries and workforce demand during economic growth and are very concentrated in certain sectors. This factor can heavily affect the drop in foreign born employment, as happened in Ireland and Sweden.
- ➔ Contingent and temporary labour force is often requested to immigrants who are more likely to provide higher level of flexibility and less labour regulation requirements for employers.
- ➔ Recent hires can be more vulnerable to job losses due to their lower firm knowledge and employer-provided training, so that recently arrived immigrants just employed are more vulnerable to job cuts.

From late 2007 to late 2009 in most major immigrant-receiving countries unemployment increased faster among immigrants than among native born people.

Immigrant groups who mostly suffered from the unemployment in the EU have been the ethnic groups from Pakistan and Bangladesh in the United Kingdom and from North Africa and Andes in Spain.

MFIs and immigrant clients

In order to understand the potential market demand of migrants it is important to firstly consider current data on immigrant target group's outreach of the European MFIs.

According to the last "Overview of the Microcredit Sector in the European Union for the Period 2010 – 2011" published by EMN, "12 percent of the microloans were disbursed to ethnic minorities or immigrants in 2011, considering the MFIs who responded to the survey. Compared to their distribution in the total European population, ethnic minorities and immigrants are overrepresented as micro-lending clients, as only 6.5 percent of the overall EU-27 member states population is resident non-national population. The highest share of microloans disbursed to ethnic minorities and immigrants can be identified in Croatia (40%), followed by Austria (35%), Macedonia (29%) and Italy (26%). Ethnic minorities and immigrant clients were overrepresented as clients of religious institutions and savings banks, of which only a few institutions provided the respective information".

In 2006 EMN published a Working Paper on "Immigrant Participation in Microloan Programmes in Western Europe 2006" on 27 member institutions of microfinance inquired. Although the data referred to 2002, 2003 and 2004 they represent a valuable basis for further remarks and reflections. Some main findings came out from the survey:

- ➔ As the MF field already expanded at that time, there was a clear growth in the number of microloans made to immigrants and ethnic minorities. The demand for loans over the three years survey increased so micro lending seemed to be relevant for many immigrants.
- ➔ A majority of respondents (73%) believed that immigrants were facing specific difficulties at least at one stage between accessing microloans, running their business, and repaying their loan. Although 65% of respondents suggested that special measures would have been effective to increase immigrants' access to loans, in reality, very few of them are undertaking such measures.
- ➔ Respondents had no specific policy on the access to microloans for immigrants, most of them could have been said to be implementing "citizenship-neutral" policies. Specific loans products for immigrants result scarce and only 35% of respondents had developed non-loan services specific to immigrants such as personal coaching, business plan preparation and business management training.
- ➔ The fact that conversion rates were often lower for immigrants than for other applicants suggests that immigrants and ethnic minorities do face specific difficulties in accessing microloans. This could of course be due to external factors, for which it may be possible to find solutions in the form of tailor-made services or methodology, or to discrimination on microlenders' part, whether conscious or not conscious, which could be reduced by raising awareness.
- ➔ Regarding the barriers accessing loans from micro lenders, it has been remarked by member MFIs inquired that it's difficult to generalize about immigrants since they represent a



diverse group. The specific problems they face often depend on which community they belong to and how long they've been in the host country. Half of respondent MFIs believe that immigrants face specific barriers to accessing microloans from micro-lenders because of some conditions and difficulties related to their particular status of immigrants. Perceptions of difficulties are higher among organizations serving higher numbers of immigrants. Most respondents agree about language difficulties followed by cultural barriers and lack of access to information. Lack of legal status, lack of business training and lack of collateral come next.

- ➔ The most effective measures to manage these difficulties would be specific services as pre-loan assistance with business planning followed by legal assistance.

In conclusion the demand for microloans from immigrant and ethnic minority groups was growing fast and even faster than the number of microloans disbursed.

One of the main results was the fact that micro lenders needed to scale up before thinking of developing specific services for specific target groups, although it is also possible that targeting specific groups might have helped them grow more rapidly. The survey results have shown that significant numbers of immigrants

were reached through regular micro lending activities.

Increasing the scale of activities would in itself enabled lenders to address the demand.

Most of EMN's members inquired resulted in providing micro-loans to immigrants for business creation. Immigrants often tend to chose self-employment rather than other forms of work because of a complex combination of different factors.

These factors can be related to the difficulties encountered in the labour market, where immigrants are often more affected by unemployment, under-qualified, irregular and temporary jobs than native born people.

In the last ten years the contribution of migrant entrepreneurship has been growing in Europe. In 2011 the European Commission issued a communication called "European Agenda for the Integration of Third-Country Nationals" highlighting the importance of entrepreneurial role of migrants in the European Union.

In the period 1998-2008 the number of new migrant entrepreneurs doubled on average in Germany (over 100,000 per year) and UK (reaching almost 90,000 per year). In Spain and Italy they respectively increased by six and eight times.

Despite these positive numbers, the sustainability of these businesses still remains a challenge as underlined in a study published by OECD. In fact, "migrant enterprises have 27% lower chances of survival than businesses managed by native born people, even considering qualification, experience and other factors".

Migrants' propensity to develop businesses is related to several social, cultural and economic factors. Immigrants often look for higher independency and earnings compared to their current situation, taking advantage of their strong entrepreneurial culture and the remarkable level of self-employment in their countries of origin and community traditions.

Market opportunities in the country of residence and activities linked to the origin country should be considered as another cause commonly identified for leading the immigrant to start a business, together with the importance of ethnic resources and community networks in managing workforce, suppliers, clients and funding.

The main problems faced by immigrant population when starting a business in the host country concern:

- ➔ Accessing start-up or development finance on reasonable terms
- ➔ Dealing with a range of administrative and regulatory requirements
- ➔ Insufficient management skills and access to an appropriate business support
- ➔ Limited knowledge of markets and marketing

A particular aspect that should be accounted as cross priority is the access to information. Immigrants are often unaware of existing support and may be distrustful towards institutional actors.

They can also result discouraged by the complexity of information provided.

Some cultural differences may potentially influence the need to trust the advisor and so the business support process, such as reluctance in dealing with institutions, relation to rules, gender issues and time management.

Taking into consideration all these arguments a wide market opportunity seems to be available to the European MFIs.

In particular they could play a crucial role to meet specific needs of immigrants with tailored products as microcredit for self-employment and microenterprise creation properly designed for addressing national barriers to the labour market and economic inclusion, business development services for serving the lack of specific skills and knowledge required by national labour markets and regulations, multinational programs for transnational financial and business needs between origin and host countries.



12 percent of the microloans were disbursed to ethnic minorities or immigrants in 2011.



Field experiences and good practices from EMN's members





Taking into consideration the previous section on specific market demand of migrant people, EMN intends to encourage a reflection among its members on segmentation and targeted approaches.

In this section three field experiences promoted by EMN's members to meeting immigrants' needs will be in-depth illustrated and analysed.

Each MFI will be presented by a short overview of the institutional profile and strategy and a thorough description of its own operational approach to migrant clients. Some good practices from their field experiences are highlighted in order to provide operational inputs and remarks to EMN's members and other European MFIs.

Microcredit and Productive Remittances



FUNDACIÓN NANTIK LUM, SPAIN

Institutional profile and mission

Founded in 2003, Fundación Nantik Lum, www.nantiklum.org, is an innovative non-profit organization in both development projects and research in the field of microfinance. Its mission is:

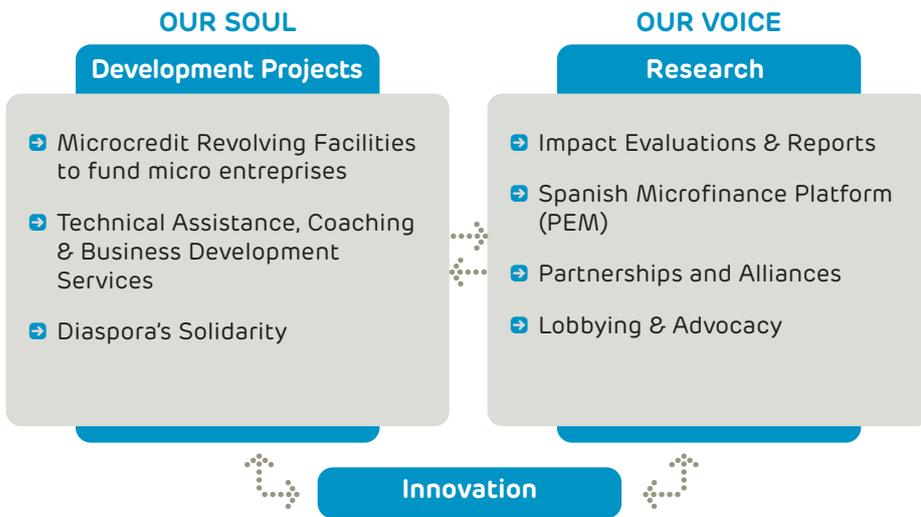
- Work with the most disadvantaged people in their fight against exclusion and poverty through the promotion of microproductive activities, using microfinance as a tool for financial inclusion, job creation and sustainable development.

- Research the microfinance field and share our knowledge with the objective of strengthening the sector and supporting key stakeholders in order to maximize the impact and outreach of microfinance.

Fundación Nantik Lum's governing bodies include a Board of Directors and an Advisory Board.

Strategy

Nantik Lum promotes development projects that seek to improve the quality of life of the most vulnerable people via the creation of micro enterprises and the use of microfinance tools in the depressed regions of the following countries: Chiapas - Mexico, Dominican Republic and Haiti. Its strategy combines a Microcredit Revolving Facility with training, coaching and technical assistance tailored to the communities they work with. In the field of research, FNL aims to be one of the leading institutions in Europe promoting microfinance and entrepreneurship as a tool for job creation and financial inclusion.



PROGRAMA IMPULSA

OPERATIONAL APPROACH: MICROCREDIT + PRODUCTIVE REMITTANCES

In 2008, following several years of work with vulnerable communities in the Dominican Republic, we identified the need of the Dominican diaspora in Spain to be actively involved in the economic development of their country of origin. Our analysis also noted that a solution in this field would need to address the apathy and dependency from remittances of the recipients with the aim of converting these financial resources into productive investments. Thus in 2009 Nantik Lum launched an innovative line of work, co-development projects (Programa IMPULSA®), which links remittances from immigrants in Spain to the provision of microcredit in their countries of origin to start small family businesses. The initiative was initially promoted and implemented as a pilot project in the city of Madrid and was subsequently replicated in Barcelona with the Dominican community. As of November 2012 Programa IMPULSA has financed over 60 microenterprises. In 2011 the default rate was 0%.

The program has been financed by a private donor, Fundación Obra social "la Caixa", and a public donor, the Department of Social Affairs of the regional government of Madrid. Under this programme, jointly with its local partner Fundación Sur Futuro Nantik Lum disburses a microcredit to selected participants in the Dominican Republic who will establish or expand a small business initiative.

The novelty of the project lies in the repayment process: remittances sent monthly by the family member working in Spain are channelled directly to the microcredit under a joint liability agreement between them and their relative in the country of origin who received the microcredit.

It is important to highlight that Fundación Nantik Lum focuses mainly on women who regularly send remittances home: Nantik Lum's research has demonstrated that women are inclined to allocate a greater percentage of their salary to support their families and therefore are more committed to reducing poverty and fostering development. In Nantik Lum's experience, direct beneficiaries of remittances have been

children, parents and other close relatives and they have been spent primarily on education and health.

The chart below illustrates how the IMPULSA works between Spain, where the immigrant relative works and sends remittances and the Dominican Republic, where the family lives and manages the micro-business.

Working in Partnership

Programa IMPULSA is developed in partnership with associations of Dominican citizens in Spain and a local IMF, Fundación SurFuturo, based in Santo Domingo but with offices in the regions of origin of the immigrant population to Spain.

The role of the Dominican associations is essential to the success of IMPULSA. More specifically, the associations help connecting immigrant citizens with Fundación Nantik Lum through the following activities organized in Spain under the project:

- ➔ Training sessions, workshops and advice on job in Barcelona and Madrid.

- ➔ Dissemination of the Programme within the Dominican community in order to raise awareness on the potential impact of remittances if invested in a small business initiative and to attract new participants.

The Dominican partners associations are:

- ➔ FRAPROVI, Madrid: socio-cultural association of Dominicans from the region of Vicente Noble, in the South of the Dominican Republic, fostering social and cultural integration of immigrants living in Madrid.
- ➔ Morde, Madrid: cultural association that runs cultural centre that organizes immigrant labour market integration for Dominicans but that also welcomes immigrants of other nationalities. In addition, they organize several cultural activities and the celebration of national Dominican holidays.
- ➔ Spanish-Dominican CEPI (Centre for Community Integration in Madrid): they organizing workshops and activities encouraging the integration of immigrants from the district of Tetuan, Madrid.
- ➔ Dominican Community Association in Catalonia.

- ➔ Social and Cultural Rivers Association, Barcelona: association of immigrants from the rivers area in the South of the Dominican Republic

Fundación Sur Futuro is the local MFI working with Fundación Nantik Lum in the Southern Region of the Dominican Republic, the poorest in the country, selecting the potential microcredit recipients through a viability study and an evaluation of the applicants' reliability, experience and references from the community. In parallel, Fundación Nantik Lum employs a credit agent in Spain who works directly with the Dominican immigrants. The role of the credit agent is to conduct the evaluation of immigrants' job situation and kinship with the recipient of the microcredit in order to assess their creditworthiness and commitment to repayments.

Strict eligibility criteria are foreseen by the Programme for the involvement of a relative resident in Madrid and Barcelona, as shown in the list below:

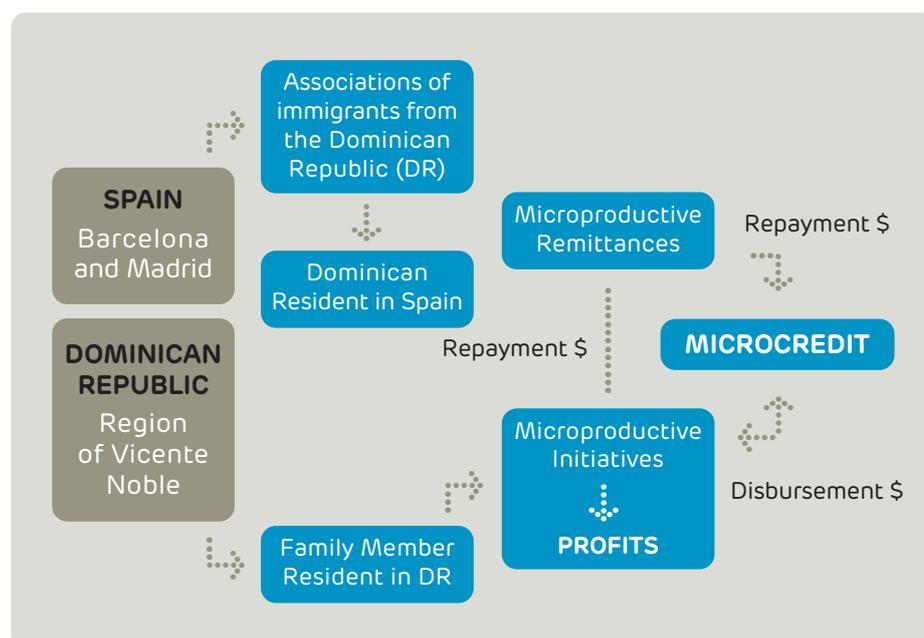
- ➔ Legal status: at least two years of legal residence in Spain
- ➔ Spanish identity card or Foreign National Certificate
- ➔ Employment contract in Spain:

she/he has to have been employed during the last six months (job contract or a letter of reference signed by an immigrant association who knows the person and her/his employment status)

- ➔ Remittances history: regular transfers of money to their family in the Dominican Republic
- ➔ Family members in the Dominican Republic looking to start up a small business

If all the above criteria are met, the microcredit is granted following approval by the two credit committees: one based in the Dominican Republic and one in Spain. As a consequence two linked but separate contracts are signed: one between Fundación Nantik Lum and the immigrant, the other between Fundación Sur Futuro in the Dominican Republic and the immigrant's family member (the entrepreneur).

The first contract regulates the repayments by the immigrant in Spain (on average is 50% of the total amount). The immigrant can select the money transfer operator to send its remittances directly to Sur Futuro. The second contract provides the delivery



« Non-financial services and thorough technical assistance in both countries are also offered to the participants in order to address their multiple needs and enhance their business skills. »

of the microcredit to the entrepreneur and establishes several rules for the repayment of the remaining quota of the microcredit. The chart below explains the whole process until the final decisions on credit disbursement and repayment through remittances.

Non-financial services and thorough technical assistance in both countries are also offered to the participants in order to address their multiple needs and enhance their business skills. Examples are: training on self-employment for the relative resident in Spain, management of micro-business and basic skills on financial and accounting literacy in the Dominican Republic.

These activities are provided in order to enhance the impact of the whole project on the communities involved, while at the same time promoting the social and financial inclusion of the family member living in Spain.

Good practices in a Nutshell

- ➔ Role of Dominican Diaspora's associations in Spain in contacting immigrants and understanding their needs.
- ➔ Strong partnership with a local and reliable IMF in the country of origin.
- ➔ Independent evaluations of the eligibility criteria on remittances' sender and recipient.
- ➔ Women targeted as micro-entrepreneurs in the country of origin.
- ➔ Financial literacy and business training for borrowers in the country of origin as well as for family member immigrant in the country of residence.
- ➔ Shared responsibility for loan repayments between immigrant living in Spain and family member in the country of origin.
- ➔ MTOs selected by immigrants for remittances transfers to their country of origin.

Microcredit Investment Test and BDS by volunteers



MICROSTART, BELGIUM

Institutional profile and mission

microStart is a group of innovative socially-oriented firms created in 2010 and operational since March 2011.

microStart's mission is structured around the three following axis:

- ➔ Finance people excluded from the banking system who wish to start or develop a micro business⁵.

- ➔ Follow-up clients before, during and after their business project set-up by providing tools and tailored support for their needs.
- ➔ Contribute to develop an improved regulatory framework for business creation in Belgium.

The microStart Group is made up:

- ➔ A cooperative company for social purposes offering microcredit services, and
- ➔ A non-profit microStart association that supports the cooperative's customers with free of charge business development services.

In 2010, Adie and BNP Paribas Fortis – one of the leading banks in Belgium and the European Union – set up together microStart in the form of a pilot programme with the aim to provide an innovative answer to micro entrepreneurs in Brussels. Currently, microStart has two branches in Belgium, one in the Northern and another in the Southern part of Brussels and is currently on its way to

set up two new branches in other regions of Belgium – precisely in the city of Ghent in Flanders and in the city of Liège in Wallonia.

Strategy

The MFI provides the following financial and non-financial services:

- ➔ Funding, via microcredits that range from €500 to €10,000. The microcredit can be used for the purchase a professional vehicle, professional equipment or inventory, as well as for the creation of a cash reserve.
- ➔ Individual or collective support in different fields such as finance and accounting, business management, legal aspects, use of social media etc., that helps the launch and development of a sustainable activity.

One of microStart's priorities is to ensure the quality of dialogue with the businessperson, the project he or she wishes to launch and human aspects.



OPERATIONAL APPROACH: MICROCREDIT INVESTMENT TEST AND BDS⁶ PROVIDED BY A NON-PROFIT ORGANIZATION WITH VOLUNTEERS

When looking at microStart's figures and more particularly at the composition of microStart's customer portfolio a significant percentage issues from clients born in foreign countries. Indeed 90% of them was born in countries outside the EU, with a strong predominance of people from the Democratic Republic of Congo (DRC).

It's important to highlight that some of them might have obtained Belgian nationality after some years of residence in the European country but it still remains a remarkable ratio.

Even if the MFI's mission is not explicitly targeting immigrants⁷, it becomes a fact for the MFI given the local market reality. Migrant people generally face more severe social and economic barriers than native born people. They have increased difficulties in finding a job or making their own way through the local system (administrative, fiscal, social, economic, legal, etc. hurdles).

microStart provides two categories of financial microcredit products, the core and specific products. Within the second group the **Microcredit Investment Test** results to be the most effective in terms of capacity to face constraints at the regulatory

framework level when starting a business.

By the field work and context analysis microStart reveals three main barriers to business creation in Belgium:

- The obligation to prove knowledge of basic business management by passing a specific examination to obtain a certificate on knowledge on basic management foreseen by national law⁸ (in addition to that showing certificated training and previous experience as entrepreneur).
- Costly social contributions when starting a business (about 230 Euro per month).
- Immediate interruption of social benefits' reception, such as unemployment benefits.

The main purpose of the **Microcredit Investment Test** product is to enable people to promote income generating activities (IGA) that cannot be formally registered due to one of the three reasons mentioned above.

The loan is usually aimed at treasury provision, stock creation or increase and micro-investments for their enterprises.

This product allows the entrepreneur to develop his/her economic activity while being part of a follow-up programme. On the basis of performance indicators established with microStart, the final goal is to officially register the enterprise. Some examples of these performance indicators are shown below, even if

⁵ "Commission Recommendation 2003/361/EC of May 6th, 2003" concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124 of 20.05.2003].

⁶ Business Development Services (BDS) are generally defined as: services that improve the performance of the enterprise, its access to markets and its ability to compete. The definition of "business development service" includes an array of services such as training, consultancy, marketing, information, technology development and transfer, business linkages, etc., both strategic (medium to long term issues that improve performance) and operational (day-to-day issues).

⁷ Immigrants are defined here as people not born in the European Union and/or not possessing European citizenship.

⁸ "Royal order of October 21st, 1998" carrying execution of the law and program of February 10th, 1998 for the promotion of the independent company, for micro and SMEs.



One of microStart's priorities is to ensure the quality of dialogue with the businessperson, the project he or she wishes to launch and human aspects.



their definition depends on each specific business project and personal situation of the borrower:

- ➔ Attend the training session on "Access to the basic business management" in order to successfully pass the examination and get a VAT number.
- ➔ Build up a treasury for paying social contributions (for instance by providing precautionary savings equivalent to social contribution for a three months period).
- ➔ Plan his/her business project with an adequate turnover in order to handle and compensate the loss of social benefits.

The maximum loan amount is 2,100 Euro with a maximum duration of 12 months.

microStart provides training and follow-up services to the borrower for the entire loan duration until the fulfilment of the exam on basic business management, a certain degree of turnover and autonomy, and the formal registration of the enterprise. The formal registration of the enterprise allows the entrepreneur to gain social and government benefits such as a regular and

respectable professional status in the society and social protection through health insurance, maternity and family allowances etc.

This credit product with its linked non-financial services represents a sort of incubator for micro businesses that aims at a formal launch to the market. This microcredit has been tailored especially for migrant entrepreneurs who often are facing social, linguistic and economic barriers before starting a business.

Besides the **Microcredit Investment Test** credit, microStart offers another innovative and remarkable approach by its outstanding capacity of mobilisation and involvement of volunteers for the coaching, follow-up and training activities coordinated by the non-profit microStart association. The volunteers are 40 while the MFI's staff is composed by 9 people.

46% of volunteers know and decide to join microStart by word of mouth or press articles, other 46% of them through BNP Paribas Fortis while the rest gets in touch with the MFI by means of the Belgian Association of the Voluntary Work and the European Microfinance Network.

Among volunteers 48% are women and 52% are men; their age is from 27 to 77 years old.

All of them have at least a professional experience in their background and the majority result employees.

Concerning their professional situation, most of them (67%) have full-time jobs and support micro entrepreneurs in their spare time for sharing their own experience and skills. 15% of volunteers are retired while 9% have no jobs; they desire to make other people benefit from their previous professional experience in specific matters as marketing, ICT, accounting etc. and meanwhile keep acting and learning in a professional network.

It is important to highlight that other 9% of volunteers are looking for a job or recipients of public benefits. These volunteers are going through a temporary phase and want to dedicate themselves to social initiatives.

Volunteers are in charge of the implementation of all non-financial services, the individual permanent coaching and tailored-made group training. microStart tries to involve

Good practices in a Nutshell

- ➔ Design and provide microcredit tailored on clients' needs for meeting national labour market requirements and overcoming the barriers in the business creation process.
- ➔ Staff commitment to the development of a tailored financial offer.
- ➔ The "hybrid" organizational structure that foresees the establishment of a non-profit organisation responsible for planning and provision of business development services through volunteers in parallel to a cooperative company in charge of the commercial credit offering.
- ➔ High capacity to mobilize volunteers for their non-financial services.
- ➔ Migrants are not targeted specifically, but represent 90% of microStart's clients given the capacity to adapt its own offer to the market reality.



volunteers with a specific profile who already experienced difficulties and challenges related to these topics besides having professionally worked on that, therefore they can share with participants a field oriented approach to the issues.

The individual coaching deals with topics such as bookkeeping, regulatory framework, marketing, administration, project design, online and social network while the provides skills and capacity building on the preparation for the examination in basic business management, organization and time management, how to manage personal credits and budget, how to increase the number of customers, basic accounting, etc.

An "individual step by step coaching" is also provided by the volunteers who support the entrepreneur in all his/her needs during the business creation and development process. In this case, microStart ensures that the volunteer has the necessary skills to respond to the needs. For these type of tasks they prefer volunteers with a wide experience and know-how on micro-business in Belgium.



Constant follow-up, social networks as moral collateral and customer segmentation

PERMICRO, ITALY

Institutional profile and mission

PerMicro is an Italian company specialized in microcredit established in 2007.

PerMicro is the first and only Italian microcredit company that professionally manages all the different phases of a microcredit project: scouting, preliminary inquiry, risk assessment and assumption and follow up.

The company is sponsored by Fondazione Paideia, Oltre Venture, Fondazione Sviluppo e Crescita – CRT, PhiTrust Active Investors, Fondazione Giordano Dell'Amore – FGDA, European Investment Fund – EIF and BNL - an Italian bank belonging to BNP Paribas.

PerMicro's mission is to meet the increasing demand of financial services by people without access to mainstream banking system with fair and transparent conditions.

Strategy

PerMicro considers microcredit as a tool for local development and an opportunity for individual and household's growth of people with temporary economic difficulties.

The MFI wants to provide financial services to not bankable people, while attaining financial inclusion and supporting individuals and households in their development. The company intends to achieve its mission, while reaching financial self-sustainability in the medium term and combining ethical purposes with an effective organizational model.



An "individual step by step coaching" is also provided by the volunteers who support the entrepreneur in all his/her needs during the business creation and development process. In this case, microStart ensures that the volunteer has the necessary skills to respond to the needs.



THE OPERATIONAL APPROACH: MICROCREDIT FOR MICRO-BUSINESS WITH CONSTANT FOLLOW-UP AND SOCIAL NETWORKS AS MORAL COLLATERAL + MICROCREDIT "CANALE"

PerMicro provides two main products: one for micro-businesses⁹ ("Microcredit for companies") and another one for households ("Microcredit for families"). These products are designed for people without collateral and lacking an easy access to the banking credit. The microcredit for micro-businesses is suitable for Italian and foreign citizens who wish to start or further develop a micro-business. The microcredit for households is addressed to freelance workers and employees in response to family financial needs.

The novelty of the operational approach of PerMicro lies in both process and products of its organisation.

In particular regarding the process, PerMicro's methodology is mainly based on the idea that monitoring and following-up of clients is a key factor for successful microcredit for micro-businesses.

The MFI believes also that the involvement of active social networks, if possible, in supporting PerMicro for the delivery of monitoring and non financial services makes microcredit an innovative financial tool with higher potential for social impact.

Concerning the products, PerMicro offers a particular loan tailored on targeted migrant communities with specific conditions.

Immigrants¹⁰ constitute a large majority of PerMicro's clients. Indeed 9 out of 10 clients of "Microcredit for companies" are immigrants while for the "Microcredit for families" the number is slightly lower (8 out of 10)¹¹.

The microcredit for companies seems the most innovative tool due to the constant monitoring support provided by PerMicro with the reference social

« The moral collateral refers to the concept that the loan applicant must be part of an association, a church or an ethnic community who is ready to guarantee the applicant's reliability and seriousness and who is available to work together with PerMicro to help the micro-entrepreneur developing and fostering the activity. »

network which represents also the moral collateral of the borrower.

The loan is provided to foreign and Italian citizens who wish to start or develop a micro-business.

The following requirements are needed:

- ➔ To have a viable business plan.
- ➔ To have the appropriate technical and entrepreneurial skills to develop the business.
- ➔ To have an own capital to invest which has to be at least 20% of the total investment.

For loan amounts over 6,000 Euro a guarantor is also requested; the loan amount is up to 25.000 Euro and repayable in monthly instalments.

Counting on a reference social network that can morally guarantee the micro-entrepreneur is an optional but really appreciated requirement by PerMicro.

The moral collateral refers to the concept that the loan applicant must be part of an association, a church or an ethnic community who is ready to guarantee the applicant's reliability and seriousness and who is available to work together with PerMicro to help the micro-entrepreneur developing and fostering the activity. This occurs when social networks result fully committed to the development and integration of

migrant communities and well-aware of their financial and non financial needs.

A fundamental feature of this product is the continuous support provided by the MFI to the entrepreneur. Initially this support consists of coaching oriented to the elaboration of the business plan and cash flow analysis requested by the loan application and then, in case of disbursement, follow-up, monitoring and financial education are offered in all the business development phases for the duration of the loan. The follow-up service foresees a monthly call and a quarterly visit by PerMicro's loan officer to the entrepreneur at her/his workplace.

Performance monitoring and follow-up are deeply needed especially by migrant entrepreneurs. In fact, according to the MFI's field experience and perception, immigrants need extensive financial literacy and business development services to start up or to foster the existing business, in order to stick to the business plan and cash flow forecast and to properly manage their micro-business. PerMicro provides also structured training on the development of business ideas and financial literacy thanks to specific programs funded by international donors in order to integrate its monitoring services to clients.

Immigrants, willing to start up a business, have to face legal barriers



that often result to be even more complicated to overcome for them than for native born people. In addition, the regulatory framework for the micro-enterprise sector is not always homogeneous in Italy due to the different political and economic environments at regional level, so that people dealing for the first time with such administrative requirements can easily get confused.

Looking at the microcredit for families, the MFI has been offering for two years specific commercial conditions to targeted migrant communities for facing family emergencies and professional purposes, such as children education, health related expenses, purchase of furniture, housing renovation work, purchase of a car to be used for reaching the place of work, training expenses but also purchase of lands and support to economic initiatives in the country of origin.

The design of this financial product called **Canale** was developed on the basis of the MFI's field experiences and close contact with migrant communities showing specific characteristics and behaviours on their financial resources' management.

Target groups of this loan are specific immigrant communities such as diasporas from Ukraine, Georgia, Moldova, Philippines, Bangladesh and Peru due to their low risk profile and high commercial interest perceived by PerMicro.

Indeed, the MFI decided to address this product only to these communities because some of them, in particular the population from Ukraine, Georgia, Moldova and Peru, have showed remarkable punctuality and reliability in the loan repayment and in the overall relationship with the MFI. At the same time people from Philippines and Bangladesh show well-established and long-term migratory projects in Italy.

The main conditions of this financial product are the basic requirements: a minimum monthly income of 600 Euro, a past two years working experience and residence in Italy for at least 24 months. The loan applicant does not need any guarantor or social network as moral collateral for loan amounts up to 5,000 Euro. In this situation, only the applicant's signature is requested. The maximum loan amount is 10,000 Euro with a interest rate of 11,90% per year.

Good practices in a Nutshell

- ➔ Providing constant follow-up activities for the development of business plan within the "Microcredit for companies" during the entire loan repayment
- ➔ Considering intense financial education and coaching as key factor for attaining financial and social mission since the first contact with sales leads
- ➔ Involving local active and reliable immigrant associations or social networks as moral collateral for clients and key players in the monitoring of clients' business activities
- ➔ Promoting loan products that meet financial needs as emergencies and investment purposes of migrants' families resident in the origin country by fostering a global perspective of the management of financial resources between origin and host countries

9 Commission Recommendation 2003/361/EC of May 6th, 2003 concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124 of 20.05.2003].

10 Immigrants are defined here as people not born in the European Union and/or not possessing European citizenship.

11 PerMicro's data on customer portfolio

Bibliography

- Anderloni, L. and Vandone, D. 2006. *Migrants and financial services*, University of Milan, Milano.
- Centre for Enterprise and Economic Development Research (CEEDR). 2000. *Young entrepreneurs, women entrepreneurs, ethnic minority entrepreneurs and co-entrepreneurs in the European Union and Central and Eastern Europe*, Middlesex University Business School, UK.
- Comitato economico e sociale europeo sul tema. 2012. *Parere del Comitato economico e sociale europeo sul tema «Il contributo degli imprenditori migranti all'economia dell'UE»*, Gazzetta ufficiale dell'Unione europea on 15th November 2012
- European Commission/Eurostat. 2002. *Migration keeps the EU population growing*, European communities.
- European Commission Directorate-General for Employment and Social Affairs. 2004. *Joint report on social inclusion*, Belgium.
- European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities. 2007. *Joint Report on Social Protection and Social Inclusion - Social inclusion, Pensions, Healthcare and Long Term care*, Belgium.
- European Commission Directorate-General Internal Market and Services. 2009. *Financial inclusion: ensuring access to a basic bank account consultation document*, MARKT/H3/MI D, Brussels.
- European Commission Special Eurobarometer 355. 2010. *Poverty and Social Exclusion Report*, Brussels.
- European Commission. 2011a. *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, Brussels.
- European Commission/Eurostat. 2011b. *Indicators of Immigrant Integration A Pilot Study*, Luxembourg.
- European Commission/Eurostat. 2011c. *Migrants in Europe A statistical portrait of the first and second generation*, Belgium.
- European Commission. 2011d. *Progress report on the Europe 2020 Strategy*, COM (2011) 815 final VOL. 2/5 - ANNEX I, Brussels.
- Guzy, M. 2006. *Nurturing immigrant entrepreneurship A handbook for microcredit and business support - Executive Summary*, European Microfinance Network.
- Muller, P. et al. 2011. *Basic banking services*, Brussels: European Parliament Directorate - General for Internal Policies Policy Department A: Economic and Scientific Policy.
- Münz, R. 2008. *Migration, Labor Markets, and Integration of Migrants: An Overview for Europe*, Social and Protection & Labor The World Bank.
- Oblak Flander, A. 2011. *Immigration to EU Member States down by 6 % and emigration up by 13 % in 2008*, European Commission/Eurostat, Statistics in focus 1/2011.
- OECD, 2010. *Open for business: Migrant Entrepreneurship in OECD Countries*, European Union.
- Office for Official Publications of the European Communities. 2002. *European social statistics Migration*, Luxembourg.
- Papademetriou, D.G. and Sumption, M. and Terrazas, A. 2010. *Migration and immigrants two years after the Financial Collapse: Where Do We Stand?*, Migration Policy Institute and BBC World Service.
- Vasileva, K. 2009. *Citizens of European countries account for the majority of the foreign population in EU-27 in 2008*, European Commission/Eurostat, Statistics in focus 94/2009.
- Vasileva, K. 2011a. *Population and social conditions - 6.5% of the EU population are foreigners and 9.4% are born abroad*, European Commission/Eurostat, Statistics in Focus 34/2011.
- Vasileva, K. 2011b. *Nearly two-thirds of the foreigners living in EU Member States are citizens of countries outside the EU-27*, European Commission/Eurostat, Statistics in focus 31/2012.

This publication is supported by the European Union Programme for Employment and Social Solidarity - PROGRESS (2007-2013). This programme is managed by the Directorate-General for Employment, social affairs and equal opportunities of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.

PROGRESS mission is to strengthen the EU contribution in support of Member States' commitment. PROGRESS will be instrumental in:

- providing analysis and policy advice on PROGRESS policy areas;
- monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas;
- promoting policy transfer, learning and support among Member States on EU objectives and priorities; and
- relaying the views of the stakeholders and society at large

For more information see:
<http://ec.europa.eu/progress>

"The information contained in this publication does not necessarily reflect the position or opinion of the European Commission"



EMN

📍 EUROPEAN MICROFINANCE NETWORK aisbl
Rue de la Presse 4 - 1000 Brussels - Belgium
Tel: +32 (0)2 227 27 08 - Fax: +32 (0)2 227 27 80
emn@european-microfinance.org
www.european-microfinance.org

