Microfinance partnership among MFIs, banks, guarantee funds and national states

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I would like to observe what kind of collaboration between microfinance institutions (MFIs), ethical banks, commercial banks, guarantee funds exist in terms of microfinance and how they can have an impact on business creation within the European Union. We can see how different national legislation can effect the practice of microcredit provision as well as the institutional background which resulted in establishing alternative banking or non-banking models such as the Growth Funding Scheme in Hungary, the institution of ethical banks and authorized MFIs in Italy or the trust-based partnership model in Germany.
Furthermore, the effective support of microenterprises has to originate from the combination of different attributes such as the support of innovative start-ups through legislative acts; creation of state-guaranteed national funds for enterprise support, usage of European funds (EaSI, ESIF, EFSI or COSME) as well as fiscal and monetary policy incentives for favourable (micro)loan provision or special capital requirements for commercial banks with SME loan lending.
These multi-level partnership models as well as the legislative background including relevant European regulations and directives could be seen as the first line of defence for the microfinance sector, decreasing the potential risks which form internationally against the effectiveness of microfinance, such as the potential indebtedness of the borrowers or high interest rates. In addition, those multi-level partnerships between institutions, MFIs, commercial banks on national and supranational level as well as the optimal usage of EU funds can result in a higher efficiency in the field of microfinance which can contribute to the establishment of start-ups or even family businesses and better access to finance in the initial phase of a young enterprise.
Finally, the research intends to contribute to awareness raising among commercial banks, encouraging them to add microfinance to their lending portfolio for instance as part of their Corporate Social Responsibility, sign further guarantee agreements with the relevant European funds or enter into partnership with authorized MFIs.
The research focuses mainly on country-specific examples of different partnership and collaboration models which evolved in Italy, Germany, Austria and Hungary as different legislation and different institutional background triggered diverse microfinance models (e.g.: Growth Funding Scheme in Hungary; the institution of ethical banks and authorized microfinance institutions (MFIs) in Italy; the trust-based partnership model in Germany or collaboration between ERSTE Bank Austria and EaSI) and can be therefore used for a comparative research.

Keywords: microfinance, partnership, banks, EU Funds

According to article 1 of the Universal Declaration of Human Rights from 1948 all human beings are born free and equal in dignity and rights. This principle forms one of the most essential pillars of basic human rights which was recalled in the International Convenant on Civil and Political Rights, International Convenant on Economic Social and Cultural Rights in 1966 and several other regional agreements such as the European Convention on Human Rights in 1950 or the Charter of the Fundamental Rights of the European Union (signed in 2000; entered into force in 2009.) But how can the human dignity be respected and protected by states if nearly 23.5 per cent of the population of the European Union (118 million people) lived at risk of poverty or social exclusion in 2016 according to the Eurostat? Would microfinance and financial education be a solution? Seeking the answer, the European decision-makers faced even more questions after the financial crisis while attempting to create an innovative and competitive economic area in line with Small Business Act (2008), Agenda 2020 (2010), European Semester of the Stability and Growth Pact (2011) or Entrepreneurship Action Plan 2020 (2013).

Moreover, according to the annual report of the European Commission on SMEs in 2016/2017 all but 0.2 % of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs. These SMEs employed 93 million people, accounting for 67 % of total employment in the EU-28 non-financial business sector, and generating 57 % of value added in the EU-28 non-financial business sector. Almost all (93 %) of the SMEs were micro SMEs employing less than 10 persons.

Therefore, it is essential to see how theoretical concepts on microfinance are put into practice in the member states of the EU. They elaborated diverse microfinance models which resulted in the variety of different parnership and cooperation models between microfinance institutions (MFIs), commercial banks, ethical banks, state-guaranteed national funds as well as different EU funds.

The first determining factor is that not all member states implemented a classical microfinance scheme in line with EU Regulation No. 1296/2013 according to which microfinance includes any guarantees, microcredit, equity and quasi-equity below 25,000 EUR. This explains why only a few member states authorize MFIs through national legislative act to provide microloans to the borrowers (e.g.: Italy, Portugal, France, Romania). This factor is of utmost importance as it can trigger completely different institutional background as well as partnership models.

As an example of different regulations, most member states set a different cap for the maximum amount of microcredit and only some of them set the maximum loan amount on the level of national (banking) law (e.g.: Italy: Testo Unico Bancario and Legislative Decree 141/2010 (reg. ceiling: 25,000 EUR for authorized MFIs and 75,000 EUR for cooperatives); Portugal: regulation by the Portuguese Central Bank (reg. ceiling: 25,000 EUR); Romania: Microfinance Law 240 (reg. ceiling: 25,000 EUR for MFIs and 7,000 EUR for credit unions).

Another group of member states decided to implement only a recommended ceiling instead of taking over the maximum loan amount set by the EU Regulation No. 1296/2013 (Austria: 30,000 EUR recommended by the Austrian Federal Promotional Bank; Germany: 25,000 EUR recommended by the Mikrokreditenfonds Deutschland; Sweden: 250,000 SEK recommended by state-owned ALMI Företagspartner AB).

A third group of EU countries can also be identified which neither authorize MFIs to lend microloan nor introduced any recommended ceiling for microloans such as Hungary which explains why there is no strong partnership between banks and MFIs in some countries.

Another important factor is to which extent a member state can apply for EU Funds (e.g. European Structural and Investment Funds (ESIF) or European Fund for Strategic Investment (EFSI)) or how national institutions or even commercial banks can benefit from European guarantee funds like the EU Programme for Employment and Social Innovation (EaSI). Even if this type of cooperation can evolve mainly between national institutions or commercial banks and EU Funds it might have a positive impact on start-up creation.

Thirdly, the role of the national state is also a decisive factor as the state decides to which extent it wants to involve state-guaranteed national funds potentially used by financial institutions offering (micro)loans. Even if there are certain EU restrictions on state aid in accordance with article 107 of the Treaty on Functioning of the European Union (TFEU) and the de minimis rule clearly sets in Regulation No. 1407/2013 the maximum amount of allowed state aid (200,000 EUR), member states can still use diverse fiscal policy and monetary policy incentives to enhance start-up creation. Furthermore, member states which have not met the Maastricht criteria[1] set for the adoption of Euro have even more opportunities to implement monetary policy incentives to encourage banks to extend their SME lending portfolio including microloans as their monetary policy is not determined yet by the European Central Bank.

Based on the above mentioned factors, different partnership models evolved with the ultimate goal of enhancing start-

1 Maastricht criteria: 1. Harmonized Index of Consumer Prices (HICP inflation) shall not exceed the HICP reference value as the average of the similar HICP inflation rates in the 3 EU member states with the lowest HICP inflation plus 1.5 percentage points; 2. The ratio of the annual general government deficit relative to gross domestic product (GDP) at market prices, must not exceed 3%; 3. The ratio of gross government debt relative to GDP at market prices, must not exceed 60% at the end of the preceding fiscal year; 4. Exchange rate stability: Countries should not have devalued the central rate of their euro pegged currency during the previous two years, and for the same period the currency stability shall be deemed to have been stable without "severe tensions". In addition, participation in the exchange-rate mechanism (ERM / ERM II) under the European Monetary System (EMS) for two consecutive years is obligatory; 5. Long-term interest rates shall be no more than 2.0 percentage points higher than the average of the similar 10-year government bond yields in the 3 EU member states with the lowest HICP inflation.

up creation. The three most common types of microfinance models in member states where MFIs are authorized to provide microcredit are:

- partnership between an MFI and a commercial bank
- establishment of a so-called ethical bank which can potentially collaborate and share best practices with commercial or other ethical banks
- Cooperation and best-practice sharing among MFIs

One of the best examples for partnership between an MFI and a commercial bank is a successful partnership initiative between Italian commercial banks and an MFI called PerMicro. PerMicro operates as the largest microfinance institution which is authorized to provide credit under art. 106 of Testo Unico Bancario. It was founded in 2007 and has already 16 local offices within Italy (PerMicro, 2019). They set financial inclusion and economic sustainability as their most important goal. Based on the estimations of PerMicro, approximately 21,660 microcredits were disbursed equal to the amount of 157 million EUR between 2007 and 2017 (PerMicro, 2019).

The MFI itself received a loan in 2013 from the European Investment Fund through the European Ethical and Alternative Financing Company (SEFEA) and another loan in 2014 from the Council of Europe Development Bank (Cozarenco, 2015). According to an impact assesment, their loan provision generally results in the reduction of public spending of the public administration in long-term by 3 million EUR and increase in government revenue of 12 million EUR what their microfinance programme generated yearly on aggregate level (De Angelis, 2017).

The MFI also borrows from banks based on a voluntary partnership with Monte dei Paschi di Siena (from 2007), Banca Regionale Europea (from 2009), BNL - Gruppo BNP Paribas (from 2011), Banca Prossima (from 2013) and CEB (from 2014) (Cozarenco, 2015). In addition, there are also some banks such as the BNL - Gruppo BNP Paribas which participates from 2012 in the equity of PerMicro so that the MFI could lure even more clients (BNL- Gruppo BNP Paribas, 2019). BNP Paribas assists PerMicro to find more funding instruments for their lending activity and PerMicro helps BNP Paribas to enter a new market in the microcredit sector and gain more future clients. In addition, the partnership has an important role in the Corporate Social Responsibility for BNP - Paribas and gives high visibility of the bank in terms of social sensitivity.

Furthermore, the success is based also on the cooperation between PerMicro and an NGO called MicroLab Onlus which means that the MFI itself outsourced its education activity to an external partner providing a non-financial service. MicroLab Onlus was establised in 2003 as a foundation which enhances the microcredit management and assists business activities which are carried out by people wishing to exit poverty. They offer different forms of financial education about legal forms of businesses, tax rules or creation of a business plan based on a sustainable business idea (MicroLab Onlus, 2019). Their target customers are entrepreneurs who already started their business, young people under 35 years wishing to create their own business; professional school students, graduates and unemployed people. They offer "one-one" mentoring programme which means that the mentor meets the new entrepreneur at least once a week and/or once a month in the later phase of the company creation. (Boah, 2017). This system aims at creating and strengthening the relation between the entrepreneur, the loan officer from PerMicro and the mentor from the PerMicroLab which means that financial and non-financial services are equally provided to the new entrepreneur.

As mentioned above, not only MFIs can be authorized to lend microloans but also ethical banks, as well, for which the best example is another Italian initiative. Banca Etica was the first financial institution in the country which can be regarded as ethical bank after the so-called MAG (Mutue di Auto Gestione) and 21 non profit-oriented organizations founded L'Associazione Verso la Banca Etica. As a result of a fund raising campaign conducted in December 1998, the Italian Central Bank authorized Banca Etica to start operating as a bank with the aim of functioning exclusively in sustainable and alternative finance so they could open their first office in Padua (EMN, 2019). The capital of the bank is accumulated by local shareholder groups which support ethical management of savings, build relation between individual members and the bank and enable the participation of shareholders in the decision making processes. According to the statue of the bank, it grants financing to organizations which represent socially oriented economic projects and have the legal form of co-operative societies, associations or social institutions (Banca Etica, 2019). Therefore the evaluation process of loan provision has always two components: a cost-benefit analysis and practical feasibility including the social impact of the project idea. The bank has an extremely extended institutional network within Italy and collaborates with institutions, cooperatives, platforms and associations engaged in the field of microfinance (Consortium of Gino Mattarelli (consortium of social co-operatives); Agency for Promotion and Development of Social Co-operation; Forum del Terzo Settore; Italian Workers Christian Associations (ACLI); National Association of Autonomous and Pluralist Social Promotion (ARCI); Associazione delle ONG Italiane; Caritas Italiana; Fairtrade Transfair Italia and EMMAUS (solidarity movement against poverty)). In addition, Banca Etica is one of the founders of the European Federation of Ethical and Alternative Banks (FEBEA) together with Caisse Solidaire Nord Pas de Calais (France), Crédal (Belgium), Crédit Coopératif (France), Hefboom (Belgium), La Nef (France), Tise (Poland). As further example of international engagement, Banca Etica managed to build a collaboration with FIARE (Foundation for Investment and Responsible Saving) in Bilbao, Spain. The Italian bank has signed an agency contract with FIARE and is providing training in order to create an operating bank able to financially support organizations in the Basque Region. Since October

2005, as a result of an agreement with Banca Etica, FIARE could start the subscription of deposits, half of which will be aimed at the financing of persons who are in financially difficult situations or invested in socially oriented projects (Banca Etica, 2018). Based on the above mentioned extended international network of ethical banks, we can conclude that cooperation between financial institutions might also be successful in the field of microfinance which is of utmost importance considering that commercial banks possess larger capital and can be a financially stable actor in a partnership model.

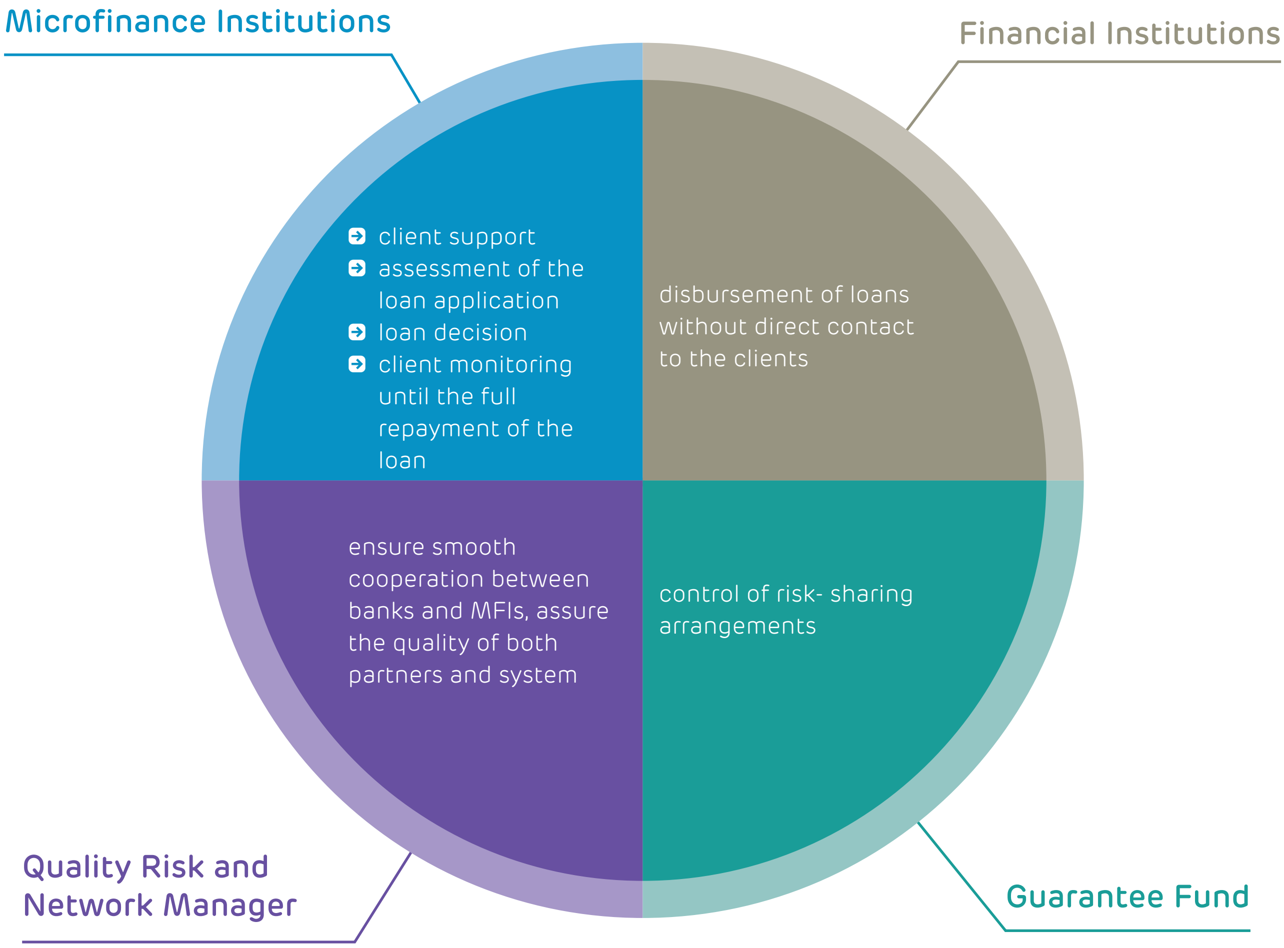
Beyond cooperation among commercial and ethical banks, best practice sharing is also possible among MFIs. As an example, Italy has a widely extended network of MFIs comprising ethical banks, classical MFIs and training centers. As of 1 January 2019, 22 MFIs are registered in Italy with EMN membership (examples: Banca Popolare Etica, Unicredit, Fondazione Risorsa Donna, Fondazione Don Mario Operti Onlus, PerMicro, Fondazione Giordano Dell'Amore, Etimos Foundation, Fondazione Pangea Onlus, Microfinanza srl, O Advisory – Centro Studi Finanza e Persona etc.) (European Microfinance Network, 2019).
This highly extended institutional network is coordinated by RITMI (Rete Italiana di Microfinanza e Inclusione Finanziaria) which was established in 2008 with the aim to provide advisory services for MFIs; enhance the dialogue for financial exclusion and microcredit according to the statute of the organization. In addition, RITMI works as an articulation channel between MFIs and the legislators. They have a lobbying power and this national institution is in collaboration with the administration in terms of new legislative drafts in the field of microfinance.
At the same time the Italian state also established the National Standing Committee for Microcredit (Comitato Nazionale Italiano Permanente per il Microcredito) in 2006 by decree-law 10 January 2006 n. 2 (converted into law by Law March 11, 2006 n. 81.) which was transformed during the first European Semester in May 2011 into the National Agency for Microcredit (Ente Nazionale per il Microcredito) with the aim of eradicating poverty and supporting the fight against social exclusion within Italy and, at international level, in developing countries. Therefore, the agency is responsible rather for preparing reports on the legislative activity in the field of microfinance and communication between the Italian government and other international actors which is also affirmed by an agreement signed between ENTE and the Italian National Bank (Banca d'Italia). Nevertheless, RITMI and ENTE can complement each other as RITMI is primarily focusing on the needs of MFIs and entrepreneurs within Italy whereas the main scope of ENTE is the external communication and international engagement of Italy through development policy. Both agencies provide example that a well-functioning network and best-practice sharing among MFIs require a coordinating body which can potentially represent their interests also in decision-making processes on national level.

However, we can briefly analyze what kind of partnership and cooperation models can evolve between institutions in those countries where MFIs are not authorized by national legislation to provide microloans. In my opinion, we can differentiate between five additional partnership models depending on the optimal usage of EU (guarantee) funds, state-guaranteed national funds and the involvement/engagement of (commercial) banks entering the microloan market. All of the below mentioned cooperation models might have a positive economic impact and can potentially trigger start-up creation:

- Trust-based partnership model based upon the cooperation between a bank and an accredited MFI
- Cooperation between a commercial bank and a relevant EU fund (mainly EaSI or EFSI)
- Cooperation between commercial (or development) bank and state-guaranteed national fund
- Cooperation between national institutions and ESI Funds (mainly through operative programs approved by the European Commission for the financial period between 2014-2020)
- Incentives given by a national bank to commercial banks with the aim to increase the willingness of commercial banks to provide microloans.

The trust-based partnership model which is one of the most important pillars of the German microfinance model was established by the German Microfinance Institute (Deutsches Mikrofinanz Institut; DMI). The institute coordinates German microfinance institutions (MFIs) under the framework of the national microfinance network. The MFIs have to accept a code of conduct if they wish to provide microcredits from 500 EUR to 25,000 EUR to entrepreneurs. Until 2014, there was an existing microcredit model where the DMI accredits German MFIs and in cooperation with the German Micro Loan Fund and GLS Bank provides the credits (Buchhaupt, Weidner, 2017). Regarding the operational model, the German Microfinance Institute implemented a unique credit provision and monitoring system called trust-based partnership model where the tasks and obligations are clearly defined for each actor during the credit lending process.

The model is based upon the partnership between the MFIs which are not allowed to lend microcredit and those investors, banks, funds which have financial assets but they do not have capacity to handle individual interest. The model comprises the following key actors with clear scopes assigned to them (DMI, 2018):



All in all, we can conclude that the German model is similar to the Italian model in terms of partnership between financial institutions and MFIs. However, the main difference is that the MFIs in Germany are not allowed to provide microcredit at all based on the provisions of the German banking law. Additionally, the model used by the DMI adds the Quality Risk and Network Manager (QRN) which acts as a facilitator and ensures the cooperation between banks and MFIs.

Beyond the above mentioned unique partnership model, there is an increasing tendency to make SME lending, including microloans, more and more attractive for commercial banks as well. In this term, the latest regulation on capital requirements for credit institutions might be mentioned which originates from Regulation No. 575/2013 (Capital Requirement Regulation; CRR) as well as Directive 2013/36/EU (Capital Requirement Directive; CRD) in accordance with the Basel III Accord.[2] The decision-makers at EU level have put an emphasis on access to finance for SMEs beyond the strict rules of CRR and CRD. It was realized in the implementation of a weight discount factor to SME lending which is applicable to all banks in their operations with any counterpart. It means that banks can decrease their own capital requirement by 25 per cent in case of SME lending activity. A so-called balancing factor is also added to the general principle which has a further effect in respect of risk exposures for SME loans in the retail portfolio. The above mentioned regulation indicates that the capital requirements for credit risk on exposures to SME enterprises can be further reduced from

2 Beyond the adoption of the Basel III framework, the EU implemented, further measures for example capital requirements based on the leverage ratio. In the light of the new regulations, the European Commission proposal contained the the Capital Requirements Regulation (CRR) adopted in 2013; the Capital Requirement Directive (CRD) adopted in 2013; Bank Recovery and Resolution Directive (BRRD) adopted in 2014 and the Single Resolution Mechanism Regulation (SRMR) adopted in 2014. Beyond these new measures, the EU put also an emphasis on SME lending by making it easier for banks to lend to SMEs and to support investments. In the light of this intention, the European Commission launched a public consultation on the impact of the CRR and the CRD IV on the financing of the EU economy with a particular focus on the financing of micro, small and medium-sized enterprises and of infrastructure and a Call for Evidence which could potentially cover all legislative proposals made after the crisis in the area of financial services.

75 to 57% using a discount factor equal to 0.7619. The new calculation methodology for capital requirements were welcomed also by the European Small Business Alliance (ESBA) stating that the risk weight of 75% * a supporting factor of 0.7619 can be acceptable for Small and Medium Sized enterprises (up to EUR 2 million) (ESBA, 2012). Nevertheless, the mere intention to encourage banks to extend their SME lending portfolio is still not a satisfactory condition and the willingness of commercial banks to enter the microloan market is also essential.

However, there is a possibility of creating partnerships between European funds and the banking sector in the field of microfinance, too. As an example, the European Investment Fund and the ERSTE Group signed a social entrepreneurship guarantee agreement in June 2018. The guarantee agreement is a 50 million EUR deal to finance social enterprises in seven Eastern-European countries where the ERSTE Bank Group performs financial activity (Austria, Croatia, the Czech Republic, Hungary, Romania, Slovakia and Serbia) (Erstegroup, 2018). The initiative is not unprecedented for the ERSTE Group as Erste Bank Serbia and ERSTE Bank Austria already signed guarantee agreements with the EaSI in 2016 to cover a loan portfolio of microborrowers (4.7 million EUR for 850 microborrowers in Serbia and 10 million EUR for 500 micro- and social enterprises in Austria (European Investment Fund, 2016)). Based on the current agreement, all seven ERSTE Group member banks can offer loans at reduced interest rates and with lower collateral requirements to different social businesses and non-profit organizations. At least 500 social enterprises would be offered this type of loan in the coming five years. As the agreement is seen as strategic investment, a guarantee is given by the EFSI through the EaSI as part of the Juncker Plan for enhancement of investments within the EU (Erstegroup, 2016). The more favourable conditions including the lower interest rate offered by the ERSTE Group member banks would not be possible without the guarantee of the EFSI rated AAA by the Fitch, Moodys and Standard and Poor's (European Investment Bank, 2018).

Social entrepreneurs and non-profit organisations can benefit from this loan as ERSTE Bank will finance socially-oriented organisations engaged in education, health and social services sector, or employing disadvantaged or marginalized groups. The Commissioner for Employment, Social Affairs, Skills and Labour Mobility, Marianne Thyssen said that "the European Commission is fully committed to promoting inclusive entrepreneurship as part of the fight against social and financial exclusion. (...) Thanks to this agreement, social enterprises will get support in starting up and developing their business, thereby creating jobs and inclusive growth at the grass-roots level (Erstegroup, 2018). The ERSTE Group CEO also commented on the launch of the new guarantee agreement that with the help of instruments such as the EaSI Guarantee Scheme we can now reach more social organizations offering financing and capacity building (Erstregroup, 2018).

Beyond the incentives given by the different EU Funds, the member states of the EU can also grant guarantees for loans in line with their macroeconomic policy. As an example, we can mention that Italy also set up a state-guaranteed national fund (Fondo di Garanzia per le PMI) controlled by the Italian Ministry for Economic Development which focuses on the enhancement of small businesses led by female entrepreneurs. In case of a loan request, the national found can provide a guarantee up to 80 per cent of the loan (Romano, 2016).[3]

Additionally, state guarantee is even more critical for the German development banks. According to the Federal Association of Public Banks in Germany (Bundesverband Öffentlicher Banken Deutschland; VÖB) development banks in Germany have an especially important economic role (VÖB, 2018). The basic rules for German development banks were laid down in 2002 which are expressly confirmed by state guarantees based on the so-called Verständigung II.[4] In accordance with these rules, they must concentrate on their promotional tasks such as business development with special focus on MSMEs and start-up companies, housing promotion, urban development, environment protection, research and development and infrastructure support (VÖB, 2018). Due to the state guarantee, German development banks can easily refinance themselves on the capital market. These benefits combined with banking know-how allow them to efficiently and effectively offer discounted financing for start-ups.

Beyond the federal development banks which operate on state level (Bundesländer), there is one development bank in Germany which has national geographic scope: Kreditanstalt für Wiederaufbau (KfW) which is the third largest bank in Germany.[5] The bank was established in 1948 with the aim to foster the German economic development. After the economic recovery, the financial institute gradually took over the scope of enhancing

3 The fund seems to be very effective due to its well-functioning internal governance structure which is consisted of a Managing Committee and a collaboration of five banks headed by Medio Credito Centrale, the so-called Private Manager, who manages the fund on behalf of the Ministry of Economic Development. The scope of the Private Manager is to analyse and process the guarantee requests in advance, on behalf of MSMEs, by the banks or financial intermediaries that will grant the loans. The Managing Committee is always chaired by the Ministry of Economic Development and has a weekly meeting where they can make decisions on the provision of guarantees. There are also other members of the Committee such as representatives from the Ministry of Economy and Finance, Ministry of Agriculture, Ministry of Transport, Italian Bankers' Association and several SME associations.
4 As part of a dispute over Anstaltslast and guarantor liability of German public banks with the EU Commission, the maintenance of state guarantees for development banks was agreed (agreement II; Verständigung II). Nevertheless, maintaining state guarantees for promotional banks was linked to a determination of business activities that focus on their respective promotional activities and thus do not affect competition.
5 Kreditanstalt für Wiederaufbau and its subsidairies, DEG, KfW IPEX-Bank and Fuß form KfW Bankengruppe.

SMEs especially after KfW Mittelstandbank and Deutsche Ausgleichsbank merged in July 2003 (KfW Bankengruppe, 2019). The lending activity of the KfW is customized for all types of businesses which makes credits available both for companies in the development phase and start-up companies in the initial phase of the enterprise. Even if the maximum loan amount to be offered as a starting financing (ERP-Gründerkredit - Startgeld) is higher (100,000 EUR) compared to the official definition of microcredit on EU level (25,000 EUR), the general conditions of applications as well as repayment conditions show similarities with the concept of microfinance. The interest rate imposed on the repayment is set as 1.87 per cent and the bank does not require own financial assets from the entrepreneur applying for the business loan (KfW Bankengruppe, 2019).

Additionally, the lending activity of the Bankengruppe gives us a good example how development banks and EU Funds can also collaborate to make an impact on start-up creation. The loan Startgeld offered by the KfW is made possible by a guarantee provided by EU's programme for the Competitiveness of SMEs (COSME). In technical terms, the European Investment Fund (EIF) and KfW Bankengruppe have signed a COSME agreement in 2015. The deal is also supported by the European Fund for Strategic Investments (EFSI). The agreement allowed KfW Bankengruppe to support loans with a framework of 1 billion EUR to promote start-ups in Germany over a period of two and a half years. The agreement is supposed to make possible for KfW to support additional financing at favourable conditions to over 15,000 start-ups and young small enterprises under KfW's StartGeld programme. European Commission Vice-President Jyrki Katainen, responsible for Jobs, Growth, Investment and Competitiveness, said that with the EFSI backing, €1 billion of loans will reach those individuals who want to grow their businesses and boost employment locally. This is exactly what the Investment Plan was created for. (European Investment Fund, 2015). In financial terms, KfW offers guarantees up until to 80 per cent of the overall amount of the loan and ensures through the COSME agreement that this loan product is offered only to microenterprises and start-up businesses.

Beyond the above mentioned partnership models, I believe that further EU funds should also be analyzed in terms of effectiveness of microfinance because EaSI and COSME are not the only funds which might have an impact on business creation. Therefore, the European Structural and Investment Funds (ESIF) should also be taken into consideration. It should be analyzed to which extent they have an impact on the business creation on national level. The reason for it is that 454 billion EUR has been allocated from the EU budget under the ESI Funds (Cohesion Fund (ECF): 63 billion EUR, European Regional and Development Found (ERDF): 198 billion EUR, European Social Fund (ESF): 83 billion, European Agricultural Fund for Rural Development (EARFD): 99 billion EUR, European Maritime and Fisheries Fund (EMFF): 5.7 billion EUR, Youth Employment Initiative (YEI): 8.8 billion EUR) in the financial period between 2014-2020 to be invested in more than 500 national programmes approved by the European Commission. Together with national co-financing of EUR 183 billion, the total amounts of investment might reach 637 billion EUR (European Commission, 2019). Based on estimation, the ESI Funds are supposed to directly support two million enterprises including microenterprises throughout Europe to increase their competitiveness within the EU and on the world market.[6]

In the framework of national operative programmes, the member states can cooperate with EU funds through national institutions aiming to trigger start-up creation. One example could be mentioned in Hungary within the Economic Development and Innovation Operative Programme (Gazdaságfejlesztési és Innovációs Operatív Program; GINOP-5.2.2.-14 and GINOP-5-2.3-16). The aim of the initiative is to support those young people at the age between 25-30 with entrepreneurial skills who would like to set up their own company and have already obtained a university or college degree.
After a successful application and approval of a valid business plan, the would-be entrepreneurs are entitled to get a non-refundable financial support of up to 3 million HUF (equal to appr. 9,000 EUR) which in concept is similar to the Italian economic initiative of the government to provide zero rate loan for young entrepreneurs under the age of 35 (Decree 140/2015) although in the case of Hungary, the existence of the operative programme ensures a non-refundable grant instead of a zero-rate mortgage.
In addition, the applicants can turn to so-called mentoring organizations which can provide them with the necessary information regarding the business plan to be approved by the selected mentoring organization. A further condition is that the applicant cannot have share in an existing business entity and must have the status of registered jobseeker at the authority of the local community. All in all, the initiative benefits primarily from European Funds but the small amount of the grant can ultimately contribute to business creation and to decrease the unemployment rate so the impact might be similar to the concept of microfinance.

Another good example for the usage of EU funds for enterprise creation is the so-called EXIST Programme in Germany. Since 1998, the Federal Government has been supporting the initiative cofinanced by the ESF. Aim of the programme is to establish a culture of entrepreneurial

6 In terms of the ECF, ESF and ERDF, Poland received 21.8 % of the EU's total funding for cohesion policy. The next highest allocations are for Italy (9.7 per cent) and Spain (8.6 per cent), while Portugal, the Czech Republic, Hungary and Romania should each receive between 6.0 per cent and 6.5 per cent of total cohesion policy funding during the programming period of 2014-2020. It has to be emphasized that the ERDF and the ESF eligibility is based on the NUTS II regional divisions.

independence and to strengthen the entrepreneurial spirit at universities and research institutions. Students, graduates and scientists are supposed to be motivated to create their start-ups. An initial financing for the start-up phase is also provided. The EXIST program is part of the high-tech strategy of the Bundesministerium für Wirtschaft (BMWi) and consists of three program pillars: EXIST Founding Culture (EXIST Gründungskultur), EXIST Research Transfer (EXIST Forschungstransfer) and EXIST Startup Scholarship (EXIST Gründerstipendium).
In the framework of EXIST Gründungskultur, the Federal Ministry for Economic Affairs and Energy has been supporting 22 universities in the EXIST Start-up Culture - Entrepreneurship College competition in forming a comprehensive strategy for more start-up culture and entrepreneurship since 2011. Based on a competition, three universities with the most promisig concepts are awarded the title EXIST – Gründerhochschule (BMWi, 2019).

The EXIST Forschungstransfer program is focusing on technically advanced start-up projects from universities and non-university research institutions. Research teams at universities and non-university research institutions can submit applications via the respective university or research institution. Up to 250,000 EUR in resources are available for the preparation of the foundation which can be used for capital goods, industrial property rights, market research and coaching measures. This requires a company headquarters in Germany and a technology-oriented project. Additionally, the university also has an opportunity to receive 20,000 EUR under the approved start-up projects (BMWi, 2019).
Finally, the EXIST Gründerstipendium supports students, graduates wishing to prepare a business plan and produce marketable products. The focus is on innovative technology-oriented projects with good economic prospects. The grant offered in the form of a scholarship to students who have completed at least half of their studies, scientists from universities and research institutes as well as graduates of all nationalities whose degree was obtained not more than five years ago and who would like to realize their project with a German university. The programme made also possible to support start-up teams of up to three people. Funding is provided through scholarships for a period of up to 12 months. For approved start-up projects under the EXIST start-up scholarship, the university can also be funded with 10,000 EUR. Students who are supported by EXIST through a start-up scholarship receive 1,000 EUR per month, technical staff 2,000 EUR per month, graduates 2,500 EUR per month and doctorate founders 3,000 EUR per month. The maximum funding period is one year. In addition, there are funds for coaching and administrative expenses. For teams of at least two founders, this can result in a total of 35,000 EUR.
The examples from Hungary and Gemany might proove that enterprise creation can be supported not only in classical tems of microfinance but through multiple collaboration models between national institutions and EU funds.

Our last model to be analyzed shows us how collaboration between a national bank and other commerial banks can make an impact on creation of enterprises based on the example of the monetary policy incentives of the Hungarian National Bank. The reason for the possibility for the high-level involvement of the notary bank in the development of the SME sector is that even if every non-eurozone member of the EU has to take efforts to adopt the Euro and meet the Maastricht criteria, the monetary policy of Hungary is still not controlled by the European Central Bank compared to 19 Eurozone members. As such, the monetary policy incentives can be also used to impact the enhancement of the SME sector through the determination of the base rate which also determines the interest rates applicable by commercial banks for credit provision. Beyond the low base rate, the Funding for Growth Scheme (June 2013 - March 2017); Market-based Lending Scheme (March 2017 - December 2018), Funding for Growth Scheme FIX (starting in January 2019) form the cornerstones of the monetary policy incentives in terms of the enhancement of credit provision by commercial banks.

The Funding for Growth Scheme was launched in June 2013 as the volume of loans requested by entrepreneurs gradually decreased since the beginning of the financial crisis (2008) resulting in the possible danger of creditless economic recovery[7] or credit crunch.[8] The Funding for Growth Scheme of the Hungarian National Bank, which showed similarity with the Funding with Lending Scheme launched by the Bank of England in 2012 in the United Kingdom, ensured better conditions for borrowed loans compared to the market conditions (Vonnák, 2015). The Funding Scheme enabled banks to provide loans with fixed interest rates instead of floating interest rates with the maximum cap of 2.5 per cent. In addition, the continuous reduction of the base rate had a positive effect for credit provisions in a business environment where commercial banks wanted to avoid high-risk credit provision.
In the first phase (2013), the companies used the loan to achieve better repayment conditions for previous loans which was mainly requested and provided in foreign currency. All in all, we can state that the first phase of the Funding for Growth Scheme aimed at decreasing the exposure to the volatile currency exchange. Nevertheless, 95 per cent of credits borrowed in the second phase was completely new credits provided (Hidasi, Plajner, 2015) whereas in the third phase only the provision of new

7 Creditless economic recovery means that the economic system especially the SME sector goes through a slow economic recovery in an economic environment where the commercial banks are reluctant to lend credits to SMEs due to the possible high risk of insolvency of SMEs.
8 Credit crunch means that the businesses are not capable of expanding or maintaining their business activity without access to finance and commercial banks are not willing to lend credit to the businesses. The combination of those negative factors can even have a negative effect for the GDP growth.

credits was allowed (Plajner, Pulai, 2016). According to the Hungarian National Bank, the micro-, small- and medium-sized companies could use this funding opportunity as a complementary tool beyond the financial support through the operative programs from EU Funds. Based on estimations, the intiative most probably generated a 2 to 2.5 per cent GDP growth in the period between 2013 and 2017 alone as more enterprises could use the opportunity to borrow business loan for their enterprise with fixed interest rates instead of floating interest rates. Additionally, 77,000 SMEs incluing 46.000 microenterprises could benefit from the initiative and applied for a loan (Magyar Nemzeti Bank, 2018).

After phasing out the NHP Programme, on 31 March 2017 the Hungarian National Bank launched the Market-based Lending Scheme (Piaci Hitelprogram; PHP) taking into consideration the needs of entrepreneurs in a fragile and vulnerable economic post-crisis environment by gradually decreasing the base rate. The most essential achievement of the Market-based Lending Scheme was the implementation of the floating rate payer Forint interest rate swap conditional on lending activity. One of the elements of the interest rate swap is that the participating institutions can sign an interest rate swap arrangement with the Hungarian National Bank, in which they can diminish their risk arising from the provision of fixed interest loans (Varsányi, 2017). The transaction is based on the condition that these institutions have to increase their loan provision to the SME sector at least up to one quarter of the overall nominal value of their interest rate swap agreement signed with the Hungarian National Bank. The initiative impacted 21 financial institutions until May 2017. In technical terms, the Hungarian National Bank decreased the capital requirement to the extent of the bank's SME lending activity within its overall lending portfolio. The average risk weight calculated for credit provision for an SME was set at 150 per cent by the Hungarian National Bank which resulted in an average 12 per cent capital requirement based on original "basic" capital requirement of 8 per cent in line with the Basel Accords. This percentage has to be multiplied by a proportionality factor which is related to the performance of the lending activity of the bank compared to its credit provision commitment. The value of the capital requirement benefit is zero until 50 per cent performance. However, banks which are able to meet their credit provision commitment on the level of between 50% and 106% performance ratios, the multiplier increases the proportion of their capital requirement benefit from 20% to 100% (Varsányi, 2017). The incentive encouraged commercial banks in Hungary and high proportion of institutions has fulfilled its commitment with significant surplus. The average performance rate of the participating institutions was close to 200% which means that the Hungarian National Bank managed to contribute significantly to the financing situation of the SME sector including microenterprises (Varsányi, 2017). However, PHP programme focused mainly on the increase in the volume of credits but the Hungarian National Bank, unlike in the case of the NHP Programme, did not determine rules regarding the interest rate or the repayment period of the credits. As such, less microenterprises borrowed loan under the PHP programme in spite of the overall success of the PHP in terms of overall volume of credits (Magyar Nemzeti Bank, 2018). Therefore, the National Bank of Hungary decided to launch the NHP FIX Programme from 1 January 2019 which shows similarities with the original NHP Programme in terms of fixed interest rates of maximum 2.5 per cent. In addition, the interest rate of refinancing provided to the participating commercial banks from the National Bank is 0 per cent which makes the initiative attractive also for the commercial banks. The loans can be spent only for new investments which will potentially trigger further GDP growth and will have a positive impact on job creation as well. Furthermore, the low, fixed interest rate can facilitate access to finance for microborrowers who probably did not want to apply for a loan under the PHP Programme.

Based on the above mentioned model, we can see how a national bank can be potentially involved in the economy policy and can encourage banks to extend their SME lending portfolio with an impact on the market of microloans as well.

We have seen how the concept of microfinance can be put into practice within the European Union and how the enhancement of start-up businesses became an integral part of economic policy incentives in line with Agenda 2020. We could also see how the EU is continuously trying to find the most appropriate and most effective ways to enhance microenterprises. It can be concluded that microfinance is not the only economic policy tool on the level of the Union although the guarantee provision of the EiF for MFIs and banks through the EaSI can be seen as an important supporting tool beyond the ESI Funds, EFSI as well as the loan-guarantee or equity-based business support of COSME. Furthermore, we could also see how different national legislation can impact the practice of microcredit provision as well as the institutional background which resulted in the establishment of different partnership and collaboration models such as the Growth Funding Scheme in Hungary, the ethical banks and authorized MFIs in Italy or the trust-based partnership model in Germany. After evaluating all of the models, we can see that an effective support of microenterprises cannot rely on only one economic or legal factor but it has to originate from the combination of different attributes such as the support of innovative start-ups through legislative acts; creation of state-guaranteed national funds for enterprise support, usage of European funds (EaSI, ESIF, EFSI, COSME, "angel" funds), monetary incentives and/or funding scheme initiated by notary banks for favourable (micro)loan provision or special capital requirements for banks with SME lending portfolio.

However, we can also conclude that it is inevitable to create a stable regulatory background both for credit provision practice of commercial banks as well as MFIs authorized by national legislative acts to offer microcredit. These European regulations as well as national legislation can guarantee that all financial institution and banks have a reporting obligation about their financial activity (mainly towards the notary bank of the specific member state) and prevent banks to set extremely high interest rates for the repayment of the loan. This regulatory background including relevant European regulations and directives as well as banking law could be seen as the first line of defence of the microfinance sector which can decrease the potential risks formed internationally against the effectiveness of microfinance, such as the potential indebtedness of the borrowers (Aslam Mia, 2017) or high interest rates (Morduch, 2008). The legal definition of microfinance as a credit provision up to 25,000 EUR on European level could potentially serve also as a tool to prevent international investors with meaningful capital to enter this market benefiting from the grants, low-amount loans, guarantees or better repayment conditions compared to loans offered by commercial banks on the credit market which is also a critique leveled against microcredit (Nimal, 2006). However, we have to consider that not all of the member states took over the European definition and therefore, they combined other above mentioned models to enhance, strengthen and defend enterprises in their initial phase which are more vulnerable and exposed due to the lack of financial assets or shortcomings in the field of financial and business experience.

On institutional level, we can see that it might be essential to create a well-functioning network of MFIs which can articulate the real need of the borrowers towards the legislators as well as to commercial banks and can, therefore, provide best-practice sharing for other MFIs or offer trainings to the entrepreneurs. Beyond the above mentioned conclusions, it might be also considered that the banking sector should enter or eventually intensify its activity in the microfinance sector based on the example of Banca Popolare Etica in Italy, the trust-based partnership model of the German DMI or the social enterprise guarantee agreement signed between the ERSTE Bank, EIF (EaSI) and EFSI for strategic support of social enterprises. As a final conclusion, we can state that the high-level political declarations have to be combined with real policy measures, detailed legislation, economic incentives, well-functioning institutional network and tiredless efforts to collaborate with commercial banks, microfinance institutions to assess the real needs of those who are wishing to exit poverty through the creation of their business and be financially independent and self-sufficient. We should not forget the words of Stefan Harpe of the MasterCard Foundation that microfinance gives vulnerable, marginalized clients their dignity back (Harpe, 2017).

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