MICROFINANCE AND SOCIAL ENTERPRISES WORKSHOP

Paving the road for an efficient social finance community In Greece: Tips for turning lessons learned into good practice

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Event: Microfinance AND Social Enterprises

- Microfinance is understood as the provision of financial services with alternative collateral arrangements to groups with limited access to the conventional credit market.
- The aim is to increase access to finance for micro, small and social enterprises with particular focus on unemployed and disadvantaged people.
- Microfinance stands at the crossroads between economic and social preoccupations. It contributes to economic initiative and entrepreneurship, job creation and self-employment, the development of skills and active inclusion for people suffering disadvantages.

↳ SEs a subset target group for MF

Social Enterprise

Understood as an undertaking, regardless of its legal form, which (EMES, SBI, EaSI):

- They are **entrepreneurial**, meaning that they are engaged in regular trading activity;
- They are social, meaning that they have **a primary and explicit social aim**; and,
- They have **specific governance rules**, to anchor social objectives into the organisation (e.g. **participatory** and **democratic**, **transparent** and **accountable**, **profits** mainly **re-invested** and/or **assets locked**, **independent** from **State** and **for-profit organisations**)

Microfinance is a process not just a product…

Employs a different delivery system:

more **labour-intensive** loan process, **assessment** and **monitoring** services, through providing **mentoring** and general **business support**, **involving** greater **knowledge** of borrower capacity **and** a **close relationship** with the **borrower**

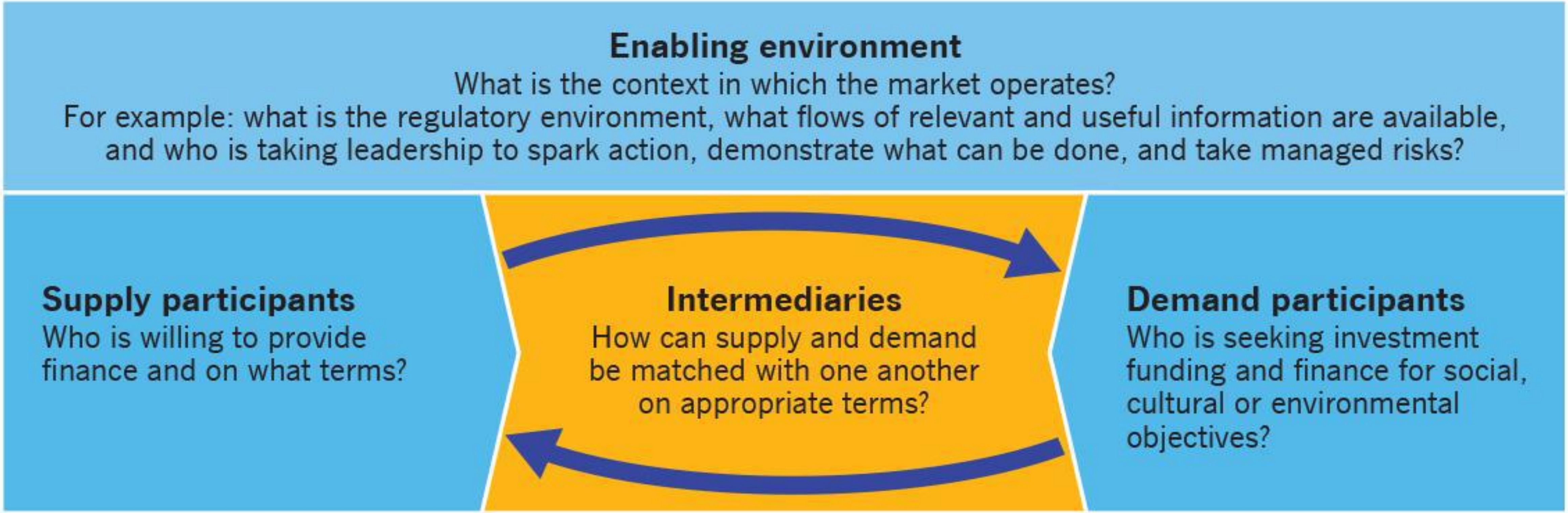
Challenges to overcome by any provider or supporter of microfinance services

- Lack of understanding of the concept of microfinance
- Lack of (suitable regulation on) new sources of finance
- Reluctance of banks to grant microloans a) to disadvantaged people because of the high risks perceived and b) because of the relatively high transaction costs
- Lack of capacities to deliver microfinance in close cooperation with NGOs providing assistance to move from unemployment to self-employment
- Lack of skills in submitting a loan application, business planning, business management as well as financial literacy
- Cultural barriers, complicated, and expensive registration procedure of newly formed businesses

Microfinance is one of the means to improve access to finance for SE

Social finance

- understood as a broad area wherein various forms of capital are structured in ways that consider and value both social value creation and financial performance



Blockers that prevent social enterprises from accessing funding

Vary according to needs and stage of development of SE:

- Missing entrepreneurial mind-set and, skills, lack of networks/resources, inadequate or lack of investment readiness support
- Lack of identity and reduced visibility
- Small market size (and fragile…)
- Social enterprises are **perceived by investors as high risk**
- Social enterprises often need smaller amounts of funding than would be efficient for investors to provide, which leads to **high per-deal transaction costs**.
- Grant dependency
- Mismatch between funding/financial needs and available funds and instruments
- Lack of co-ordination between public/private funders

Steps and options to address challenges

- Analyse and understand the ecosystem for social finance (knowledge gap – financing gap – regulatory gap)
- Enhance development of the demand side (assess needs & engage SEs in all stages)
- Work to build identity and increase visibility
- Build on non-public social finance initiatives and providers
- increase the availability of funds by building a system of guarantees
- Improve transparency of design and implementation (procedures, contracts, code of conduct) by involving stakeholders – ensure complementarity of roles
- Introduce tailor-made financial instruments (better understanding of which financial instrument/funding model would be most effective for SEs at various stages of development)
- Require the use of *appropriate* impact assessment methodologies and reporting systems
- Secure that **«money support» will be coupled with «step-by-step non-financial support»** but also that **«investment readiness» programmes will be supported by a «pool» of potential investors** (minimise the «death valey» effect…)

What about Greek SEs? Results of a recent survey…

- Access to finance seems to be a very tough course: market liquidity, inappropriate bank loans (size and terms), lack of sources to support their working/operational capital and reduced understanding of the business model and character of SEs, inadequate market – public and private- demand for SEs’ products and services
- Every other social enterprise (53,4%) estimated its funding needs to be up to 30.000 € (in the next 1-5 years) while an additional 19, 1% at a level between 35.000 € and 80.000 € for the overall development of their business plans and to reach their goals.
- The research team confirmed that initially, a considerable 48% of respondents was not in the position to identify and calculate the funding needs for developing their business model.
- social enterprises were expecting essential and tangible assistance mostly from a financial organisation specialized on social economy enterprises, then from local authorities (through public grants and less through public tenders/procurements), followed by mainstream banks

Discussion…

Smart public money can play an important role in catalysing social investment; however, it is important for public actors to

- clarify the role of the EU/MSs versus private and social investors.

- avoid too much involvement as it can impede the development of the social finance community (non-suitable standard rules of PAs, limited expertise, risk of political interventions, etc.)

- keep in mind that public support should be a catalyst and avoid “crowding out” of the private sector in order to ensure the creation of a sustainable market

- **Understand** the **process:** work **bottom up** and use (or build/invest on) **networks**

- **build the evidence base** and create **learning networks - Build Identity and increase visibility!**

- If **strategies** are to be **developed**: **engage** SE **actors in all** possible **stages**!

- Lets turn now to the “doers” and try to sneak into the Coop Bank Of Karditsa approach and initiatives a) to improve access to finance for social economy enterprises and b) microfinance.

Thank you for your attention !