POLICY KNOWLEDGE PACKAGE

Executive summaries

Cyprus

In the context of Cyprus, financial inclusion has been a topic of concern. Financial support for start-ups and growing businesses continues to be one of the main weaknesses of the island's ecosystem. As the GEM National Report 2019/2020[1] survey shows, such companies may have relatively adequate access to financial support from informal investors such as family members, friends, or colleagues, as well as government grants. However, access to privately supported funding, although improved, remains limited and lower than the rest of Europe's average. In Cyprus, the commercial and legal infrastructure, the physical infrastructure, and the government policies with regards to taxes and bureaucracy are the key strengths of the local ecosystem. Despite these strengths, this year's report identifies several entrepreneurial conditions which act as burdens to entrepreneurial activity.

Cyprus has implemented various microfinance policies to support the growth and development of microenterprises and underserved communities. These policies aim to enhance financial inclusion, reduce poverty, and promote economic stability by providing access to financial services and credit to those who lack access to traditional banking systems. One of the key microfinance policies in Cyprus is the establishment of Microfinance Institutions (MFIs) and the regulation of their activities. These institutions are designed to offer small loans, savings accounts, and other financial services tailored to the needs of low-income individuals and micro-businesses. The Central Bank of Cyprus regulates and supervises these MFIs to ensure compliance with prudential and consumer protection standards. Microfinance can play a crucial role in supporting enterprises in Cyprus, particularly small and medium-sized enterprises (SMEs), by providing them with access to much-needed financial services and credit. The implementation of microfinance initiatives has the potential to contribute to economic growth, job creation, and poverty reduction in the country. Cyprus has been exploring and implementing various alternative funding mechanisms to diversify its financial landscape and support businesses and projects beyond traditional banking channels. These alternative funding mechanisms aim to provide entrepreneurs, startups, and small and medium-sized enterprises (SMEs) with access to capital and resources to foster innovation and economic growth.

Promoting and lobbying for microcredit and microfinance schemes in Cyprus can significantly contribute to the economic development and financial inclusion of marginalized communities and small businesses. To effectively advocate for these initiatives, policymakers should consider recommendations – that are described in detail in the paper – on: i) Public Awareness Campaigns; ii) Collaboration with Financial Institutions, iii) Capacity Building and Training; iv) Transparent Regulation and Supervision; v) Incentives for Investors; vi) Support for Technology Integration; vii) Tailored Programs for Vulnerable Groups; viii) Research and Data Collection. It is essential to involve stakeholders from the public and private sectors to create a collaborative and sustainable approach to microfinance promotion and implementation.

[1] https://www.gemconsortium.org/report/entrepreneurship-in-cyprus-national-report-20192020

Greece

In order to build a highly competitive social market economy, European Union strategy aims to create more and better jobs, promote skills, vocational education and training, improve the functioning of the labour markets, fight inequalities, confront poverty and social exclusion, modernise social protection systems – including pensions –, health and long-term care, facilitate the free movement of workers, promote workers' rights, health and safety at work, and protect against discrimination in the workplace, as well as the rights of persons with disabilities.

In 2010 the European Union launched the European Progress Microfinance Facility (Progress Microfinance) to increase the availability of microcredit – loans below €25.000 – for setting up or developing a small business. Currently, support for microfinance is being implemented through the EaSI[2] programme (EU Programme for Employment and Social Innovation), which does not directly finance entrepreneurs, but enables selected microcredit providers (Financial Intermediaries under Progress Microfinance and EaSI) in the EU to increase lending, by issuing guarantees, thereby sharing the providers' potential risk of loss. In addition, the European Commission is providing support for building the capacity of selected microcredit providers. Microcredit providers may be private or public banks, non-bank microfinance institutions (NBFIs) and not-for-profit microcredit providers (NGOs). The conditions for microloans to entrepreneurs – amount, duration, interest rates and fees, timeframe to get a loan – depend on each microcredit provider. The rise of financial technology, digital transformation and crowdfunding platforms affects the regular banking and microfinance sectors alike. These trends present new challenges, especially in those countries and regions where there is less access to bank accounts and use of digital financial services (DFS) is rather low. Micro-enterprises in these countries will need more support to cope with the development of digital banking.

Sustainability, climate change, gender-smart investing and refugee funding have moved up on the European, national and donor agendas, mirroring the priorities for the future of the EU in terms of carbon-neutral growth and gender equality. Regarding recommendations, the case of gender – smart investing is deeply described. Gender-smart investing refers to investment in companies, organisations and funds specifically aiming to have a positive impact on women. Policies and financiers will orient more towards sustainable enterprises and will provide more incentives for climate mitigation and adaptation, and gender equality. European financial institutions targeting microfinance may need financial and technical support to develop new products and services tailored to the: i) specific needs of micro-enterprises (MSMEs) using more energy efficient technologies; ii) women-specific needs (e.g. more flexible loan conditions due to lack of guarantees or irregular income streams); iii) viable loan products for migrant and refugee entrepreneurs who do not have a long track record in EU Member States and therefore require special attention.

[2] https://ec.europa.eu/social/main.jsp?catId=1081

Italy

The condition of financial exclusion involves a very large number of people and businesses in Italy. According to some estimates, around 25% of residents in Italy, and even more in Sardinia, experience structural difficulties in accessing essential financial services. Regarding the XVI Microcredit Report[3], microcredit initiatives are implemented at local level or at provincial or regional level. The more structured initiatives, however, are developed at national or multi-regional level (i.e. in at least two regions) generally by banks or Microfinance Financial Institutions.

Two cases, recognized as a best practice by the "ATM for SME" project[4], are presented in the paper. The first one is the MICROCREDIT FUND FOR ENTERPRISE CREATION USING ESF FUNDS[5]. The ESF Microcredit fund was set up to reduce the gap between supply and demand for access to finance and microfinance in Sardinia, supporting people that do not have the requirements to obtain funding from banks. Microloans are disbursed directly by the regionally owned financial institution SFIRS (Società Finanziaria Regione Sardegna SpA). Total founding capital was EUR 78.5 million, which supported some 3,700 projects in six calls; recently the revolving fund grew to EUR 89 million. As of January 2017, up to 40% of the budget granted as loans was paid back. The second case presented is the one of COOPFIN MICROCREDIT TO COOPERATIVES' MEMBERS[6]. In the 1990s, COOPFIN was set-up following a public-private agreement between the cooperative business organizations (partners of the company) and the Sardinian regional government. From 1998 to 2014, COOPFIN financed nearly 800 cooperatives and members of cooperatives through loans. The thin capitalization of micro cooperatives is one of the main constraints to growth due to the low financial capacity of cooperative members and their difficulty to access traditional credit channels. The scheme can be transferred to other areas, especially those with similar business models, but it is extremely important that a network of business support associations/organizations is already fully operational as they ensure the sustainability of non-financial services.

The paper concludes with some suggestions to Public Authorities to boost financial inclusion in Sardinia. Briefly these should: i) use the cohesion policy funds to reinforce financial inclusion; ii) define and implement a strategy based on the joint and coherent commitment of all the institutional actors, of the social economy and civil society, as well as of the economic and financial regional players; iii) strengthen the infrastructure of support services addressed to SMEs.

[3] Gruppo Banca Etica, c.borgomeo&co, Ritmi, 2022.
[4] https://projects2014-2020.interregeurope.eu/atmforsmes/
[5]Source: https://www.interregeurope.eu/good-practices/microcredit-fund-for-enterprise-creation-using-esf-funds
[6] Source: https://www.interregeurope.eu/good-practices/coopfin-microcredit-to-cooperatives-members

Lebanon

Lebanon has been facing a severe financial and economic crisis since 2019. The country's economy has been struggling for years, but the crisis intensified due to a combination of factors. This recent economic crisis has had a significant impact on access to finance in the country. The banking sector, which was once considered one of the most stable in the region, has been hit hard by the crisis, leading to a shortage of liquidity and restrictions on withdrawals and transfers. This has made it difficult for individuals and businesses to access financing from banks. Additionally, the devaluation of the Lebanese pound and inflation have further exacerbated the situation, making it even more challenging for people to obtain loans or credit. As a result, many individuals and businesses have turned to alternative sources of financing, such as microfinance institutions or informal lenders, which often come with higher interest rates and greater risk. Overall, the economic crisis has significantly reduced access to finance in Lebanon, making it harder for people to invest in their businesses or improve their standard of living.

Due to the recent crises that have plagued Lebanon, this Microfinance sector suffers from a significant decline in the assets of microfinance institutions as a result of: i) seizure and subsequent shortage of these assets in Lebanese banks, specifically liquid assets; ii) mismatch between these assets and liabilities in foreign currency; iii) difficulty returning these liabilities to investors; iv) no possibility of polarizing loans or deposits, especially from international bodies; v) a decline in the portfolio of small loans in the Lebanese market; vi) a decline in the returns of small credit institutions; vii) a decrease in the number of employees. With the banking sector’s activities reduced, especially their credit services, access to finance to most MSMEs and the public is very scarce. The Microfinance Institutions have suffered as much as the other sectors from this crisis. Specifically, a significant decline in the assets of microfinance institutions has reduced their capacity to give access to larger numbers of borrowers or to give bigger loan sizes. The banking crisis in Lebanon is a major challenge for the country. The crisis will need to be resolved before Lebanon can hope to return to economic growth.

The paper concludes with some suggestion addressing to: i) overcoming Funding challenges; ii) exemptions and laws for MFIs to support the MSMEs; iii) limiting requirements for MFIs; iv) risk analysis for agriculture sector; v) comprehensive data-based definitions; vi) support for social enterprises; vii) digital Finance; viii) health micro-insurance; ix) support for women-owned businesses. Expected reforms or laws could affect the ability of financing: Capital control, haircuts on savings in banks, new taxations. The possible programming of interventions is affected by this type of volatility, which is exacerbated by the inability of the government bodies (Government and Parliament mainly) to set a plan of action, not to mention implementing it.

Palestine

The situation in Palestine is a very particular one, as the Israeli-Palestinian conflict possesses additional threats, and much higher risk factors than any other similar financing initiatives in the Middle East (Qasrawi 2018). This is paralleled with a dire need for entrepreneurship initiatives in a struggling economy, where self-employment lends a lifeline for income (Qubbaja 2019). Both risk financing and accelerated entrepreneurship come as a result of restrictions on many types of businesses in Palestine, as there is a lack of border control, which extrapolates the need for improved local microfinance services (Mia et al. 2019), and the essential requirements for financial inclusion (Harker 2021).

There are various Microfinance Institutions MFIs in Palestine, with varying legal statuses, mainly NGOs. The most recent mapping by Leaders International under the Restart project, reveals that there are 18 active MFIs in Palestine today. The data reflects that there has been quantifiable acceleration for the Palestinian Microfinance industry, as by the end of 2010, the most active MFIs were FATENN and UNRWA, and individuals and MSEs benefiting did not exceed $43K (Sanabel 2012). Start-up financial support comes in many forms, including through support entities, crowdfunding, venture capitals, banks, and surely MFIs as described previously. The amount of investment received depends on the stage the start-up is in. In Palestine, it is generally divided into pre-seed, seed, launch and growth, as rarely did any start-ups reach series A or B[7] of funding. Usually after the start-ups launch, and test their products, through initial customer acquisition is when VCs, MFIs, and banks express higher interest and willingness to invest. However, the situation is very difficult for start-ups, especially as they do not fall within the traditional small business category that allows them to receive funding, such as lack of adequate collaterals and guarantees. This has created vast hesitation from banks and MFIs to invest in early-stage start-ups. Microfinance policies should cater better to foreign investors to increase trust, and ease access to doing business, via reducing risks and facilitating better tax incentives. In this regard, there should be clearer instructions presented by the PMA, like what is used with the banking industry.

In the past few years, the Palestinian Monetary Authority (PMA) has kicked-off projects related to microfinance policies, including a secondary component for start-ups. The PMA has exerted various efforts to create a regulatory sandbox, and prepare the financial inclusion plan, encompassing start-ups and entrepreneurs. Furthermore, the Palestine Authority has improved the new companies' law[8], to address more prominent issues. Yet, there are still vast efforts required for the microfinancing of start-ups and various problems and gaps to address.

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[7] https://www.investopedia.com/articles/personal-finance/102015/series-b-c-funding-what-it-all-means-and-how-it-works.asp#:~:text=Companies%20that%20have%20gone%20through,meet%20these%20levels%20of%20demand.

[8] https://shorturl.at/aqxI6