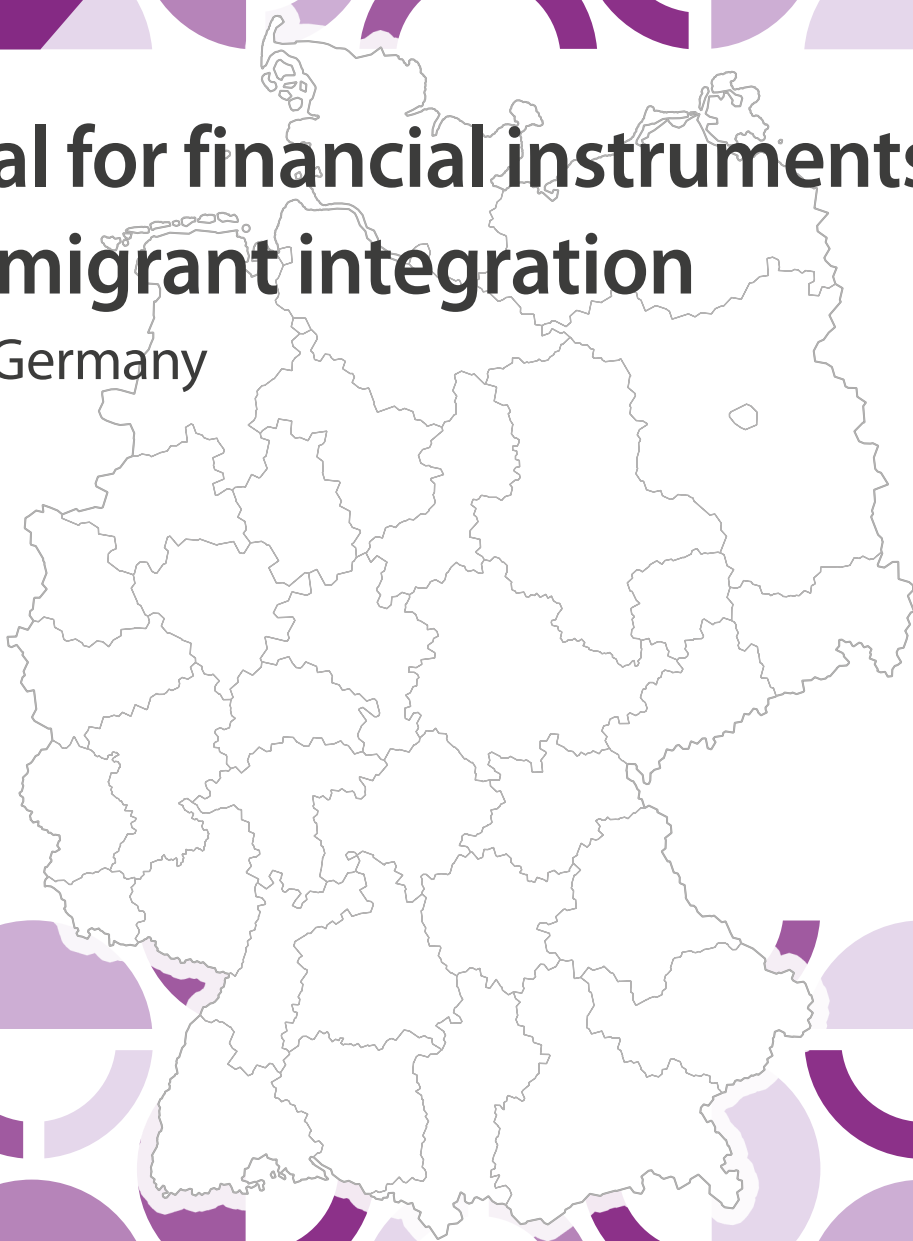




Market report  
June 2024

# The potential for financial instruments supporting migrant integration

Country report – Germany







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# 01 Context

## 1.1 Third-country nationals (TCNs) in Germany

The number of third-country nationals (TCNs) in Germany reached 6.4 million in 2022. Of these, 76% were of working age (15-64) and accounted for 9.1% of the working age population of the country<sup>1</sup>. Long-term residents (with permits issued for 5 or more years) constituted 58% of TCN residents with permits<sup>2</sup>. Turkish citizens constituted 27% of the third country nationals, followed by Syrian citizens (15%)<sup>3</sup>. The main reasons for migration among TCNs stated on the residence permit application was family reunification (50% of TCNs), followed by refugee and subsidiary protection status (12%)<sup>4</sup>.

In 2022, the number of asylum applicants increased by 28% to reach around 244 thousand<sup>5</sup>. Of the 198 thousand decisions taken in 2022, 65% of asylum seekers were granted refugee status while 35% had their applications rejected<sup>6</sup>. Additionally, as of the end of October 2023, 1.2 million Ukrainian refugees had been granted temporary protection after the outbreak of war on 24 February 2022<sup>7</sup>.

In Germany, the employment of TCNs is regulated by the Residence Act (Aufenthaltsgesetz), which mandates that non-European Union (non-EU) citizens secure a valid residence permit before seeking employment. Employers must demonstrate efforts to prioritise local and EU workers before hiring non-EU nationals. The Act emphasises stringent documentation, including employment contracts, qualifications and proof of specific job offers. Compliance with labour market regulations is crucial and penalties for non-compliance include fines and possible deportation. The Integration Act (Integrationsgesetz) regulates the integration measures of TCNs, such as language proficiency and cultural adaptation.

In November 2021, the German Government adopted the coalition agreement, which codified its objectives for the following four years. The agreement envisaged several measures aimed at facilitating labour migration.

On 29 March 2023, the Bundestag approved a draft bill for a law to further develop the immigration of skilled workers and passed an ordinance to this end. The amending law is intended to implement Directive (EU) 2021/1883<sup>8</sup>. For nationals of the Western Balkans, the Western Balkan Regulation, currently limited to 2023, will no longer be subject to this limit. According to this regulation, the Federal Employment Agency can allow nationals from the countries of the Western Balkans with a job offer to take up employment in Germany. The reform of the law, including a points system modelled on Canada and the introduction of the EU Blue Card, was passed by the Bundestag on 23 June 2023 and came into effect on 18 August 2023.

- 1 Eurostat, 2023, 'Population on 1 January 2023 by age group, sex and citizenship [MIGR\_POP1CTZ]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/MIGR\\_POP1CTZ\\_\\_custom\\_5955458/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/MIGR_POP1CTZ__custom_5955458/default/table?lang=en).
- 2 Eurostat, 2023, 'Long-term residents by age, sex and citizenship on 31 December of each year [MIGR\_RESLAS]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/migr\\_reslas/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/migr_reslas/default/table?lang=en).
- 3 Eurostat, 2023, 'All valid permits by reason, length of validity and citizenship on 31 December of each year [migr\_resvalid]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/migr\\_resvalid/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/migr_resvalid/default/table?lang=en).
- 4 Eurostat, 2023, 'First permits by reason, age, sex and citizenship [MIGR\_RESFAS]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/MIGR\\_RESFAS\\_\\_custom\\_3332249/bookmark/table?lang=en&bookmarkId=864af24d-7693-456b-9adc-97c5f8dfc647](https://ec.europa.eu/eurostat/databrowser/view/MIGR_RESFAS__custom_3332249/bookmark/table?lang=en&bookmarkId=864af24d-7693-456b-9adc-97c5f8dfc647). (Does not include Ukrainian war refugees arriving in the EU countries after 24.02.2022).
- 5 Eurostat, 2023, 'Asylum applicants by type of applicant, citizenship, age and sex - annual aggregated data [migr\_asyappctza]'; compiled by MFC [https://ec.europa.eu/eurostat/databrowser/view/migr\\_asyappctza/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/migr_asyappctza/default/table?lang=en).
- 6 Eurostat, 2023, 'First instance decisions on applications by citizenship, age and sex - annual aggregated data [migr\_asydcfsta]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/migr\\_asydcfsta/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/migr_asydcfsta/default/table?lang=en).
- 7 Eurostat, 2023, 'Beneficiaries of temporary protection at the end of the month by citizenship, age and sex - monthly data [migr\_asytspm]'; compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/migr\\_asytspm/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/migr_asytspm/default/table?lang=en).
- 8 Directive (EU) 2021/1883 of the European Parliament and of the Council of 20 October 2021 on the conditions of entry and residence of third-country nationals for the purpose of highly qualified employment, and repealing Council Directive 2009/50/EC available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32021L1883>.





The coalition agreement further seeks to offer integration courses to new arrivals immediately, and to shorten the qualifying period of prior residence for naturalisation and settlement permits to five and three years respectively. In addition, dual citizenship will generally be permitted.

In the area of humanitarian migration, the agreement foresees the removal of employment bans for people already living in Germany and an easier path to family reunification for persons under subsidiary protection. Several measures seek to facilitate residence for persons with a toleration status, i.e. a temporary suspension of deportation. For example, people with this status will be able to obtain residence permits when undergoing vocational training. The government also plans to implement several legislative and other measures to facilitate the return of persons who have no right to stay in Germany<sup>9</sup>.

To start a business in Germany, TCNs need to obtain either a residence permit (Aufenthaltserlaubnis) or a settlement permit (Niederlassungserlaubnis). A residence permit is for a limited time and depends on the individual's situation and business plan. A settlement permit is for an unlimited time and gives the person the right to live and work in Germany without any limits. Individuals need to apply for a permit by sending a business plan, a market analysis, a financial plan, a revenue forecast, and a proof of capital. The local immigration office (Ausländerbehörde) and the local trade office (Gewerbeamt) check the application and may ask for the opinion of other authorities, such as the chamber of commerce (Industrie- und Handelskammer) or the chamber of crafts (Handwerkskammer). The decision is based on the economic potential, social benefit, and regional need of the business<sup>10</sup>.

9 OECD, 2022, 'International Migration Outlook'.

10 Wise Business Germany, n.d., 'Starting a business as a non-EU citizen in Germany', <https://wisebusiness-germany.com/starting-a-business-in-germany/>.

# 02 Microfinance

## 2.1 Market analysis – Snapshot

According to the Global Entrepreneurship Monitor, the conditions for entrepreneurship in Germany are quite favourable<sup>11</sup>. The entrepreneurial ecosystem is well developed in several aspects such as government entrepreneurial programmes, physical, commercial, and professional infrastructure. It is, however, considered insufficient in other aspects, such as entrepreneurial education at schools, regulatory burdens and government policy support and relevance.

Over 227 000 TCN enterprises operated in Germany in 2022. 56% of them were solo entrepreneurs while 44% hired employees. The entrepreneurship rate among third country nationals was 4%, a bit lower than the entrepreneurship rate of the German citizens (6%)<sup>12</sup>.

The inclination of migrants in Germany to launch a business is above-average for the total German population, but due to below-average job prospects and language barriers, a higher percentage of them do so out of necessity (no other options for income generation), rather than opportunity (see an opportunity in business creation while other income generating options are also available), compared to lifelong residents<sup>13</sup>.

A study by German government-owned development bank Kreditanstalt für Wiederaufbau (KfW) has found that people with a migrant background launch businesses more often than lifelong German residents. Between 2013 and 2017, one in five founders (21%) in Germany either had foreign roots or a foreign nationality. Given their population share of 18 percent, this means migrants take the leap into self-employment far more often.

Among migrants, the share of ‘opportunity entrepreneurs’ — those who are hoping to capitalise on a business opportunity — is higher (47%) than those who take up self-employment out of necessity (38%) or a lack of better income alternatives. However, the 38% share of businesses started out of necessity among migrants was still higher than the general average of 31% in Germany. The high percentage of ‘necessity entrepreneurs’ among migrants is connected to the formal job qualifications and language skills required by the German labour market. Job prospects in Germany depend to a large degree on (formal) vocational training, where migrants are at a disadvantage: 46% of migrants between the ages of 18 to 64 either don’t have any training qualification or one that Germany does not recognise. Among the entire working population, that figure is only 22%. Aside from job qualifications, command of the German language is another determining factor for employment opportunities. Setting up a business out of necessity — rather than opportunity — is especially pronounced among those migrants speaking a language other than German in their homes. Often, those families have only recently arrived in Germany<sup>14</sup>.

11 GEM (Global Entrepreneurship Monitor), 2023, Global Entrepreneurship Monitor 2022/2023 Global Report: Adapting to a “New Normal”. London: GEM <https://gemconsortium.org/report/20222023-global-entrepreneurship-monitor-global-report-adapting-to-a-new-normal-2>.

12 Eurostat, 2023, ‘Self-employment by sex, age and citizenship (1 000) [lfsa\_esgan]’, compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/lfsa\\_esgan\\$defaultview/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/lfsa_esgan$defaultview/default/table?lang=en).

13 INFOMIGRANTS, 2019, ‘Migrants in Germany: More entrepreneurial, but often out of necessity’, <https://www.infomigrants.net/en/post/14643/migrants-in-germany-more-entrepreneurial-but-often-out-of-necessity#:~:text=However%2C%20the%2038%20percent%20share,of%2031%20percent%20in%20Germany.&text=The%20high%20percentage%20of%20necessity,by%20the%20German%20labor%20market>.

14 ibid.





## 2.2 Analysis of the demand side

### Demand for microfinance from entrepreneurial TCNs in Germany

Migrants typically experience financing problems more often than entrepreneurs in general. In the years 2013 and 2014, 28% of migrants claimed to have encountered difficulties in obtaining start-up finance<sup>15</sup>. By comparison, only one out of five new entrepreneurs overall had financing difficulties. Financing difficulties do not necessarily mean the failure to obtain any form of start-up finance. On the contrary, new entrepreneurs who ultimately used borrowed funds stated that there was a significant effort involved in accessing finance due to the necessity of convincing lenders that they were creditworthy. Self-employed persons and entrepreneurs generally display higher financial literacy than the rest of the population. Migrant entrepreneurs have significantly lower financial literacy than entrepreneurs overall. This finding may explain why migrants report financing problems more frequently. Moreover, language barriers may hamper migrants' negotiations with lenders<sup>16</sup>.

### Demand for Business Development Services (BDS) by entrepreneurial TCNs in Germany

TCNs face various challenges and barriers in starting or running a business in Germany. Therefore, they need different types of BDS that can support them in their entrepreneurial journey. Some of the most needed BDS are:

- Legal and administrative assistance for TCNs in complying with the various legal and administrative requirements for starting and running a business in Germany, such as obtaining a residence or settlement permit, registering a business, paying taxes, and following labour and consumer laws. Legal and administrative assistance can also help TCNs to protect their rights and interests in the case of disputes or lawsuits;
- Business training and education that can also help TCNs to update their qualifications and credentials, and to acquire new competencies and certifications;
- Support on access to finance: This service helps non-EU entrepreneurs to access funding sources and financial services for their businesses, such as loans, grants, subsidies, microfinance, or crowdfunding;
- Language and cultural training to support TCNs in learning the German language and culture, which are essential for communicating with customers, suppliers, authorities, and other stakeholders. Language and cultural training can also help non-EU entrepreneurs to adapt to the German business environment and norms, and to avoid misunderstandings or conflicts.

15 Metzger G. 'Migrants are more active entrepreneurs – mostly as a result of labour market conditions'. KfW Research. Focus on Economics. 2016.

16 Metzger G. 'Migrants are more active entrepreneurs – mostly as a result of labour market conditions'. KfW Research. Focus on Economics. 2016.



## 2.3 Analysis of the supply side

### Provision of microfinance for entrepreneurial TCNs in Germany

In Germany, banking law makes it impossible for non-bank lenders to operate in the market without a banking license: non-bank lenders can only offer loans under strict conditions related to a very small portfolio size, limited number of loans, and a 0% interest rate. As a result, non-bank Microfinance Institutions (MFIs) in Germany act as intermediaries or guarantors for micro-loans provided by banks or public institutions. They also offer other services, such as business training, coaching, or consultancy.

The following types of institutions offer microfinance in Germany:

- Public institutions

Government agencies or state-owned banks offer microfinance programmes or funding to support microfinance initiatives, as is the case with KfW or the regional banks. KfW is a public development bank owned by the federal government and the states, and it provides microfinance loan funds and guarantees through intermediaries such as local, savings, or cooperative banks. Similarly, the regional banks play an important role in supporting start-ups and micro, small and medium enterprises (MSMEs), by partnering with the KfW or EIF and facilitating access to microfinance via local partner banks or by providing direct financing to MSMEs. For example, the Saxon Development Bank disburses microloans co-financed by the European Social Fund (ESF). The programme targets start-ups and existing microenterprises of less than 5 years in operations. Until mid-October 2023, loans of up to EUR 20 000 were available for microenterprises unable to obtain commercial loans due to a lack of collateral, credit history or the perceived riskiness of their start-up. In the new programming period, loans of up to EUR 30 000 will be available from 2024 withing a new funding period. The programme does not specifically target TCNs, but it is open to all types of entrepreneurs regardless of their background.

In 2017, the Investitionsbank Berlin (IBB) which is the business development bank of the Federal State of Berlin, offered up to a EUR 25 000 loan to refugees<sup>17</sup> to finance new business projects. IBB was able to provide microloans to refugees, even in cases where they did not have permanent residence status. The duration of the loans was linked to the time that the refugee was allowed to stay in the country. The loans were financed by the European Fund for Regional Development (ERDF) and by the IBB. The programme was discontinued because of the difficulty in matching the loan term with the duration of the residence permits of refugees. However, it is possible that the reasons for discontinuation were more complex and multifaceted, involving administrative challenges, risk management and changes in the funding sources. This situation contrasts with the practices of some of the EU non-bank MFIs, such as Microstart in Belgium, which have been successful in providing microloans to refugees with temporary residence permits by offering flexible loan terms aligned with permit durations. They also use alternative risk mitigation strategies beyond traditional credit scores, or the requirement such as guarantees. This disparity underscored the need for regulatory frameworks that are conducive to the operation of non-bank MFIs and that allow for innovative practices, such as flexible loan terms and alternative risk mitigation strategies, to ensure that refugees and other TCNs have equitable access to financial services.

17 Available at: <https://www.berlin.de/ba-treptow-koepenick/ueber-den-bezirk/willkommen/bildung-arbeit/artikel.692435.php>.



- Private institutions

Commercial banks, cooperative banks, or savings banks offer microfinance products or services to their clients, either directly or through partnerships with other non-banking organisations. For example, Grenke Bank provides micro-loans of up to EUR 25 000 to small companies with economically viable concepts that are not receiving bank financing. These micro-loans are guaranteed by the German government through the 'Mikrokreditfonds Deutschland' initiative. Grenke Bank cooperates with 16 microfinance institutions, accredited by 'Mikrokreditfonds Deutschland' to perform client onboarding and walking them through the loan application process. Out of these 16 MFIs, the following work with TCN entrepreneurs and engage staff who speak the languages of the largest TCN diasporas (Turkish, Kurdish, Arabic, Russian): mein-mikrofinanzierer GmbH, Solidarity Finance & Consulting GmbH, Berrak Mikrofinanzinstitut, dut Mikrofinanz GmbH, MONEX Microfinance, Auximio AG, indaro Mikrofinanz GmbH, Microcredit Schleswig-Holstein. In 2022, Grenke's Bank microloan portfolio reached EUR 94 million.

- Job centers

Job centres offer financial support in the form of grants and loans. The aspiring entrepreneur, with support from a coach (as explained below), prepares a business plan and presents it to a jury during a pitch. The winners receive funding for business investment, equipment, and rental costs.

### Provision of BDS to entrepreneurial TCNs in Germany

The 16 MFIs accredited with the 'Mikrokreditfonds Deutschland' initiative provide various business development services to the start-ups and other entrepreneurs in Germany, such as training, consulting, support in writing business plans, or coaching. These services are offered by the MFIs either as part of their own programmes or in cooperation with other organisations, such as chambers of commerce or business associations. For example, mein-mikrofinanzierer GmbH offers online and offline training courses on topics such as business planning, accounting, marketing, or taxation. The Solidarity Finance & Consulting GmbH targets migrant entrepreneurs and provides consulting and support services on legal, financial, or administrative issues, as well as coaching and mentoring for entrepreneurs. The Berrak Mikrofinanzinstitut offers assistance in preparing business plans, applying for micro-loans, or accessing markets and networks for entrepreneurs from various backgrounds including TCNs from Türkiye and Middle East. Another example is WeiberWirtschaft AG, which is a cooperative that supports female entrepreneurship in Germany by providing affordable and flexible workspaces, networking opportunities and BDS. One of their services is the "Gruenderinnenzentrale – Navigation in die Selbständigkeit"<sup>18</sup>, which is a first contact point for women who want to start their own business and need information and guidance.

Some job centres offer entrepreneurship support to vulnerable groups, including TCNs on social benefits. The job centre – Pro Arbeit - Kreis Offenbach operating in the Offenbach County offers, as the result of an Asylum, Migration and Integration Fund (AMIF) Union Action grant, coaching to migrants with a business idea and strong entrepreneurship motivation. As starting a business is a risk, the job centre does not specifically motivate migrants to become self-employed, but rather it supports those who are serious about doing so and willing to take the risk.

Coaches from the job centre help the aspiring entrepreneur to build capacity in financial management, legal issues and other areas related to setting up and running an enterprise. At the end of the coaching assistance, the entrepreneur prepares a business plan with financial projections targeting the business activity to generate sufficient income for six months.

18 Available at: <https://weiberwirtschaft.de/informieren/unterstuetzung-fuer-gruenderinnen/#c2071>.



There are some non-governmental organisations (NGOs) which support migrant entrepreneurship and facilitate access to information on how to start a business, facilitate business creation or provide networking with investors and funders.

- Gruenderplattform<sup>19</sup> is a comprehensive portal which provides all the information and tools necessary for setting up a business. The resources include entrepreneurship aptitude tests, business plan development and financial modelling tools, legal and administrative information on registering a business, and advice on the optimal forms of financing, with links to the banks providing such financing for start-ups and microenterprises. Although the platform does not specifically target migrants, its content is available in six languages;
- Single Point of Contact (Einheitliche Ansprechpartner) located in each federal state offers information and advice on formal and administrative issues connected with setting up a business, running a business, and on recognition of foreign qualifications. In addition, it helps to contact relevant administrative bodies and complete formalities online;
- Smart<sup>20</sup> cooperative is a new working model for the solo self-employed in industries such as management consulting, the creative and cultural sectors, education, IT, and software, among others. By joining the cooperative, solo self-employed gain the benefits of the statutory health, pension, and unemployment insurance. The salary is paid from client orders which are processed through the cooperative. Smart also works in other European countries, such as Belgium, France, Italy, Spain, Austria, Sweden, and the Netherlands.

#### **Funding sources for microfinance institutions**

Mikrokreditfonds Deutschland was set up as a guarantee fund in 2010 under the framework of the ESF intervention of the Federal Government during the programming period 2007-2013. Since 2015, the funding programme has been continued with the help of revolving funds under national responsibility and has established itself as an assistance instrument. In the period 2021 to 2023, the funding programme was financed with the help of funds provided by Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU).

There are several objectives for the promotion of self-employment and entrepreneurship in the ESF+ federal programme 2021-2027, such as promotion of employment and self-employment, improving competences including entrepreneurship, upskilling and the development of digital skills. The objectives and priorities specifically addressing integration of third-country nationals include support in obtaining recognition of professional qualifications acquired abroad and in finding an educationally adequate and sustainable job. The ESF+ support is planned to be delivered through grants, and there is no funding dedicated to microfinance support for TCNs.

Although the regional ESF+ programmes have different objectives depending on the regions' priorities, there are some common themes across the regional programmes which include enhancing social inclusion and equal opportunities, supporting lifelong learning and skills development, fostering innovation and digital transformation, and promoting green and social economy. Some of the regional programmes also have specific measures to support migrant integration, such as language and cultural courses, mentoring and coaching, and access to education and employment.

AMIF, which is managed by the Federal Office for Migration and Refugees (BAMF), has so far not provided funding for microfinance institutions. The national programme 2021-2027 focuses on early integration measures, such as language proficiency, labour market orientation and integration with the host society. Labour market orientation is aligned with the objectives in the German Government's coalition agreement. Entrepreneurship is not mentioned in the programme. Concrete labour market and job-related advice and information offers, as well as professional qualifications are not funded by the AMIF, but by the ESF+.

<sup>19</sup> Available at: <https://gruenderplattform.de/>.

<sup>20</sup> Available at: <https://smart-eg.de/>.



## 2.4 Financing gap

The calculation of the financing gap follows the methodology presented in section 2.5.1 of Part 1 of the report: “Market Assessment Report”<sup>21</sup>, as applied by the study on the implementation of financial instruments in microfinance<sup>22</sup> carried out in 2019 for the European Commission Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL).

### Calculation of the financing gap for microcredit

There is no available data on the already met demand among TCNs in Germany, as financial institutions do not provide this data. It is however possible to provide figures on the total existing demand for microcredit by TCNs, as illustrated in table 1 below. The demand for microcredit among all target groups in need of microcredit translates to 37 500 loan applications per year at a value of EUR 315 million. The highest demand comes from potential new business founders out of social exclusion<sup>23</sup>.

Table 1: Financing gap calculation for each target group

Target group	Demand for microcredit (number)	Demand for microcredit (value in EUR)
TG 1a – Potential business founders out of social exclusion	21 573	181 210 307
TG 1b – New business founders	10 614	89 157 887
TG 2a – Existing solo entrepreneurs (no employees)	3 698	31 059 876
TG 2b – Existing enterprises with employees	1 662	13 962 840
<b>Total</b>	<b>37 547</b>	<b>315 390 910</b>

Source: Microfinance Centre

### Calculation of the financing gap for business development services

As there is no available estimation on the satisfied demand of TCNs’ for BDS services in Germany, the total demand is presented in the following table 2. The calculations presented in the table below show that the total of 37 500 TCN entrepreneurs will need support services of various scope and intensity. The total value of the demand for business development services is estimated at EUR 49 million.

21 EIB, 2023, ‘Market Assessment Report’ in ‘Market study- the potential for financial instruments under AMIF and other Funds in the area of integration of migrants’.

22 Frankfurt School of Finance and Management, European Microfinance Network (EMN) and Microfinance Centre (MFC), 2019, ‘Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027’.

23 The term ‘out of social exclusion’ has been used in: ‘Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027, Final Report’, prepared in 2019 for DG EMPL by Frankfurt School of Finance and Management, European Microfinance Network (EMN) and Microfinance Centre (MFC).



Table 2: Financing gap calculation for business development services for each target group

Target group	Number of TCN businesses in need for external financing	% in need of BDS	Demand for BDS (Number of TCN businesses)	BDS unit cost <sup>24</sup>	Demand for BDS (value in EUR)
TG 1a - Potential business founders out of social exclusion	21 573	50	10 787	3 000	32 361 000
TG 1b – New business founders	10 614	50	5 307	3 000	15 921 000
TG 2a – Existing solo entrepreneurs (no employees)	3 698	50	1 849	400	739 600
TG 2b – Existing enterprises with employees	1 662	50	831	400	332 400
<b>Total</b>	<b>37 547</b>		<b>18 774</b>		<b>49 354 000</b>

Source: Microfinance Centre

## 2.5 Conclusions and recommendations

TCNs have a high entrepreneurial potential in Germany but, despite much public and private sector effort, they face many barriers and difficulties in accessing finance and starting or running a business. The ecosystem for migrant entrepreneurship support is well developed in Germany but the microcredit component is relatively small. At the same time, the market assessment indicates a relatively sizable gap for microfinance and BDS for TCNs in Germany and suggests more public investment for both.

To apply for a loan from a German bank, TCNs must meet certain conditions to verify their creditworthiness. These include providing full proof of identity, having an official residence in Germany, possessing a valid residence permit that allows them to live and work in the country, and holding a work permit. Additionally, proof of regular income sufficient to cover the monthly loan instalments is required. As already noted, MFIs operating in other countries have found ways to reduce such requirements for TCNs and other vulnerable populations. These MFIs employ alternative risk mitigation strategies that go beyond traditional requirements and credit scoring methods making it much easier for entrepreneurial TCNs to access credit. Microfinance in Germany, despite the legal and regulatory constraints, can play a more prominent role in providing affordable and accessible loans to TCNs. There are several microfinance and BDS providers that already support TCNs in Germany, such as the MFIs affiliated with the German Mikrokreditfonds Deutschland. However, for microfinance in Germany to truly realize its potential and expand impact, addressing and lifting key regulatory constraints is essential.

<sup>24</sup> In absence of the national-level data, the EU average cost of BDS is used in the calculation.





Key measures to improve the effectiveness and availability of microfinance and BDS for TCNs in the regulatory environment for microfinance in Germany:

- The current regulatory framework as it regards microfinance could be revised to create a separate, less stringent regulatory environment for non-bank MFIs. This would allow them to operate more freely, develop innovative and flexible loan products, and ultimately serve a larger number of customers;
- The current restrictions on portfolio size and the number of loans that non-bank lenders can offer should be reconsidered to enable non-bank MFIs to increase their loan portfolios and increase the number of entrepreneurs they serve. At the same time, the requirement for non-bank lenders to offer loans at a 0% interest rate could be reviewed. While it is important to protect borrowers from predatory lending practices, allowing MFIs to charge reasonable interest rates could make their operations more sustainable and enable them to serve more clients;
- An alternative option would be to create a regulatory sandbox<sup>25</sup> to allow MFIs to test innovative products, services, and business models under the supervision of regulators. This would provide a safe space for innovation while ensuring that consumer protection is in place.

Other measures to improve the effectiveness and availability of microfinance and BDS for TCN could include:

- Providing more credit risk coverage for the current microfinance providers through guarantees or risk-sharing loans (potentially including a BDS component), to reduce their losses and encourage them to lend more to entrepreneurial TCNs;
- Providing dedicated BDS grant support to enable the BDS providers offer more and better services to TCNs such as guidance and support in navigating legal and regulatory requirements for starting and running a business in Germany, access to networks and language support services;
- Reducing the barriers that TCNs face when setting up businesses. This includes simplifying the process of obtaining the necessary permits and licenses, which are often seen as a major hurdle for TCNs. The current process can be complex and time-consuming and may require a level of familiarity with the local administrative system that TCNs do not possess. Streamlining this process and providing clear, accessible information could make it easier for TCNs to navigate this aspect of setting up a business;
- Reducing some of the requirements related to the recognition of foreign qualifications. At present, TCNs may find that their foreign qualifications are not recognised, which can limit their ability to start certain types of businesses. Improving the recognition of foreign qualifications, perhaps through a more flexible and inclusive system, could enable TCNs to leverage their skills and experience when starting a business;
- Reducing some of the restrictions associated with residence permits, particularly those that restrict the ability of TCNs to engage in self-employment and business activities. These restrictions can limit the entrepreneurial potential of TCNs and may discourage them from pursuing self-employment or business opportunities. Reducing these restrictions, while still maintaining necessary safeguards, could create a more enabling environment for TCN entrepreneurship.

<sup>25</sup> A regulatory sandbox is a term well-known by regulators. It serves as a testing ground for new financial services or technologies. It allows companies (for example fintech companies or MFIs) to experiment and innovate while being monitored by regulators before implementing specific regulatory measures.







# 03 Housing

## 3.1 Market analysis – Snapshot

Due to the political developments of recent years, migrant housing has become a pressing issue in Germany. As one of the top destinations for migrants in Europe, the country has recognised the importance of providing adequate housing for TCNs. The German housing sector is characterised by a mix of regulation and market-driven dynamics, with laws and policies such as the Tenancy Law, the Social Housing Promotion Act<sup>26</sup>, and the Federal Building Code shaping the landscape. Migrant housing in Germany is primarily governed by the Asylum Seekers' Benefits Act<sup>27</sup>, which outlines the provision of accommodation for asylum seekers, and the Residence Act<sup>28</sup>, which regulates the allocation of housing for recognised refugees since 2016<sup>29</sup>. In 2015, the government introduced the Alliance for Affordable Housing and Building (Bündnis für bezahlbares Wohnen und Bauen)<sup>30</sup>, aiming to increase the availability of affordable and social housing for all residents. The Alliance also foresees the possible establishment of a federal programme to support refugees. Germany's housing policy also emphasises integration by promoting mixed neighbourhoods, with efforts such as the socially integrative city programme<sup>31</sup>, targeting urban development and social cohesion.

According to Eurostat indicators, TCNs face severe challenges in access to housing in Germany as the market is saturated. More than 700 000 units may be lacking nationwide as of 2023, with social housing units for both nationals and TCNs lacking most acutely<sup>32</sup>. In 2020, 23.9% of foreigners and 54.2% of nationals (aged 18 years or over) living in Germany were owners<sup>33</sup>. In 2020, 76.1% of foreigners and 45.8% of nationals (aged 18 years or over) living in Germany were tenants<sup>34</sup>. The housing cost overburden rate<sup>35</sup> was 13.8% for foreigners (aged 18 years or over) and 8.6% for nationals (aged 18 years or over) in Germany in 2020<sup>36</sup>. The overcrowding<sup>37</sup> rate stood at 27.2% for foreigners (aged 18 years or over) and at 6.2% for nationals (aged 18 years or over) in Germany in 2020<sup>38</sup>.

26 Bundesgesetzblatt, 2001, 'Gesetz zur Reform des Wohnungsbaurechts', [https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger\\_BGBl&jumpTo=bgbl101s2376.pdf#\\_bgbl\\_\\_%2F%2F\\*%5B%40attr\\_id%3D%27bgbl101s2376.pdf%27%5D\\_\\_1683057089464](https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBl&jumpTo=bgbl101s2376.pdf#_bgbl__%2F%2F*%5B%40attr_id%3D%27bgbl101s2376.pdf%27%5D__1683057089464).

27 Bundesministerium der Justiz, n.d., 'Asylbewerberleistungsgesetz', <https://www.gesetze-im-internet.de/asylblg/BJNR107410993.html>.

28 BAMF, n.d., 'Steht die Wohnsitzauflage einer Arbeitsaufnahme entgegen?', <https://www.bamf.de/SharedDocs/FAQ/DE/ZugangArbeitFluechtlinge/011-wohnsitzauflage-arbeitsaufnahme.html?nn=282388%20>.

29 Meaning that a person granted protection and receiving benefits is required to live for the first three years in the region responsible for his or her asylum application.

30 Bundesregierung, 2022, 'Schneller, modern und kostengünstig bauen', <https://www.bundesregierung.de/breg-de/suche/bezahlbares-wohnen2133706#:~:text=Mit%20190%20vorgeschlagenen%20Ma%C3%9Fnahmen%20des,bauen%2C%20so%20Bundeskanzler%20Iaf%20Scholz>.

31 FES, 2016, 'The Social City Programme', <https://library.fes.de/pdf-files/bueros/indonesien/12540.pdf>.

32 AIDA, 2023, 'Housing- Germany', <https://asylumineurope.org/reports/country/germany/content-international-protection/housing/>.

33 Eurostat, 2023, 'Distribution of population by group of citizenship and tenure status- population aged 18 and over [ILC\_LVPS15]', compiled by Technopolis, [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_lvps15/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_lvps15/default/table?lang=en).

34 Ibid.

35 Housing costs represent 40% or more of their disposable income.

36 Eurostat, 2023, 'Housing cost overburden rate by age, sex and group of citizenship- total population aged 18 and over' [ILC\_LVHO25] compiled by Technopolis, [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_lvho25/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho25/default/table?lang=en).

37 Meaning that these households do not have at their disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age, source of the definition: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Overcrowding\\_rate](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Overcrowding_rate).

38 Eurostat, 2023, 'Overcrowding rate by age, sex and group of citizenship- total population aged 18 and over) data, datasheet [ILC\_LVHO15]', compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_lvho15/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho15/default/table?lang=en).



According to the Hans Böckler Stiftung<sup>39</sup>, on average, households with an immigrant background (meaning persons who do not have German citizenship by birth or who have at least one parent who does according to the definition of the German federal statistical office)<sup>40</sup>, have only 34 m<sup>2</sup> of living space per person, compared to 50 m<sup>2</sup> for non-immigrant households. However, despite living in smaller units, people with an immigrant background pay higher rents and must allocate a larger percentage of their income towards housing expenses, according to the study. The risk of poverty or social exclusion stood at 36.2% for foreigners (aged 18 years or over) and at 17.6% for nationals (aged 18 years or over) in Germany in 2020<sup>41</sup>.

According to the European Federation of National Organisations working with the Homeless (FEANTSA)<sup>42</sup>, the first nationwide count of homeless persons in accommodation was established by law in 2020 and statistical results were published in 2022. While there is extensive data prior to that date, it is not comprehensive since Germany is not legally required to collect it on a national basis. FEANTSA reported that in 2018, 678 000 people were homeless out of which 441 000 were refugees (65%). After the first count, the official German statistics agency reported 178 000 persons were accommodated in public emergency premises as of 31 January 2022 due to homelessness, 64% were third country nationals and 5% could not evidence proof of nationality or were stateless<sup>43</sup>.

## 3.2 Analysis of the demand side

### Housing financing needs and barriers of TCNs

TCNs have distinct housing finance and non-financial needs as they progress through their integration journey in Germany. TCNs require a financial guarantee for access to housing finance similar to nationals, though TCNs may encounter greater difficulties in securing or putting this guarantee forward. They also need funds for a deposit, rent, durable goods, and insurance. During their stay at reception centres, asylum seekers who possess income or capital are legally mandated to utilise these resources before becoming eligible for benefits under the Asylum Seekers' Benefits Act. Nevertheless, this stipulation appears to be infrequently enforced in reality<sup>44</sup>. If they succeed in finding private accommodation, TCNs receive EUR 354 to cover living costs, with rent being reimbursed<sup>45</sup>. A deposit, which is typically equivalent to three months' rent, may also be required. According to the Organisation for Economic Co-operation and Development (OECD), TCNs may face difficulties in building up reserves for housing finance since they are not allowed to work when housed in first reception facilities which may last between 6 weeks and 6 months. OECD also reports that past this period work placements can last up to six months, with a weekly workload of up to 30 hours. As a result, asylum seekers who work full-time receive a maximum lump sum of EUR 96 per month in addition to social assistance. Participation can be made compulsory and asylum seekers who refuse to participate face cuts in social benefits<sup>46</sup>. Upon recognition, TCNs are eligible for housing benefits (Wohngeld), EUR 391 of social benefits<sup>47</sup> and may also apply for interest-free loans for housing deposits in some regions.

39 Hans Böckler Stiftung, 2021, 'FAST 13 PROZENT DER MIETERHAUSHALTE IN DEUTSCHEN GROSSSTÄDTEN HABEN NACH ABZUG DER MIETE WENIGER ALS DAS EXISTENZMINIMUM ZUR VERFÜGUNG', <https://www.boeckler.de/de/pressemitteilungen-2675-13-prozent-haushalte-stadten-miete-existenzminimum-34612.htm>.

40 Available at: <https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Migration-Integration/Methoden/Erlauterungen/migrationshintergrund.html#:~:text=Zur%20Bev%C3%B6lkerung%20mit%20Migrationshintergrund%20z%C3%A4hlen,haben%2C%20auf%20das%20dies%20zutritt.>

41 Eurostat, 2023, 'Persons at risk of poverty or social exclusion by group of citizenship- population aged 18 and over data, datasheet [ILC\_PEPS05N]', compiled by MFC, [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_peps05n/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_peps05n/default/table?lang=en).

42 FEANTSA, 2020, 'Germany', [https://www.feantsa.org/public/user/Resources/country\\_profiles/DE\\_-\\_Country\\_Profile\\_2020\\_\(1\).pdf](https://www.feantsa.org/public/user/Resources/country_profiles/DE_-_Country_Profile_2020_(1).pdf).

43 DESTATIS, 2022, 'Pressemitteilung Nr. 299 vom 14. Juli 2022', [https://www.destatis.de/DE/Presse/Pressemitteilungen/2022/07/PD22\\_299\\_229.html](https://www.destatis.de/DE/Presse/Pressemitteilungen/2022/07/PD22_299_229.html).

44 AIDA, 2021, 'Country Report: Germany', [https://asylumineurope.org/wp-content/uploads/2022/04/AIDA-DE\\_2021update.pdf](https://asylumineurope.org/wp-content/uploads/2022/04/AIDA-DE_2021update.pdf).

45 Brookings, 2016, 'Cities and refugees: The German experience', <https://www.brookings.edu/research/cities-and-refugees-the-german-experience/>.

46 OECD, 2017, 'Labour Market Integration of Refugees in Germany', <https://www.oecd.org/els/mig/Finding-their-Way-Germany.pdf>.

47 BAMF, 2014, 'Social Security for Third-Country Nationals in Germany', [https://www.bamf.de/SharedDocs/Anlagen/EN/EMN/Studien/wp57-ern-soziale-absicherung-drittstaatsangehoeriger.pdf?\\_\\_blob=publicationFile&v=15](https://www.bamf.de/SharedDocs/Anlagen/EN/EMN/Studien/wp57-ern-soziale-absicherung-drittstaatsangehoeriger.pdf?__blob=publicationFile&v=15).



According to the Saarland Refugee Council<sup>48</sup> and other sources<sup>49</sup>, social housing is less affordable than the private rental market since buildings are constructed more recently, in a more modern style and thus are in a higher-price range<sup>50</sup>. TCNs in Germany encounter several challenges while accessing housing finance and housing itself, which include inadequate documentation<sup>51</sup>, language barriers, difficulties in navigating the bureaucratic system, discrimination, and a lack of knowledge about financing options. In addition, TCNs in Germany mostly face housing unavailability due to shortages across the country, high costs, and discrimination<sup>52</sup>. Even though local job centres generally pay rents for persons with a refugee status until they find work, the amount is capped and, therefore, sometimes not enough to compete for cheap housing and a thriving black market where brokers give priority to richer TCNs<sup>53</sup> or TCNs coming from Ukraine.

### Housing financing needs and barriers of housing providers

In the initial stage of the asylum process, the primary housing providers belong to the public sector. The German Federal Office for Migration and Refugees (BAMF) administers the nationwide accommodation system for asylum seekers, distributing housing spaces accordingly. The responsibility for initial reception in Germany is under the Länder, while the daily management for subsequent reception can be delegated by the Länder to either local authorities, civil society organisations, private operators, or non-governmental organisations<sup>54</sup>. There is no specific information available on financial barriers faced by reception facilities in Germany. According to the OECD<sup>55</sup>, since January 2016, the federal government has paid EUR 670 per asylum seeker per month to the Länder, which is then passed on to the municipalities. The amount added to this lump sum varies from region to region. In December 2016, an additional EUR 2 billion per year, until 2018, was earmarked for integration measures, further increasing funding to the Länder. In addition, the federal government reimbursed accommodation costs for refugees until the end of 2018. Further, reception centres are granted EUR 85 per month per placement. For placements outside reception centres, the lump sum is EUR 250 to cover the municipalities' costs.

48 INFOMIGRANTS, 2022, 'Saarland suffers housing shortage for refugees', <https://www.infomigrants.net/fr/post/42490/saarland-suffers-housing-shortage-for-refugees>.

49 CITEGO, 2008, 'Why has social housing in Germany become more expensive than private housing?', [https://www.citego.org/bdf\\_fiche-document-2425\\_en.html](https://www.citego.org/bdf_fiche-document-2425_en.html).

50 According to Housing Europe, social housing in Germany is not limited to specific providers but involves public subsidies to any type of housing provider that offers social housing with lower rents and income limits on a temporary basis. Providers of publicly subsidised housing include municipal housing corporations and cooperatives, private landlords, commercial developers, and investors, which in total accounts for about 5% of the national housing stock. The government provides public subsidies (grants or tax relief) to cover the difference between the perceived rent and the cost rent, and the subsidies decrease as the rent increases. At the end of the amortisation period, the dwelling can be rented or sold at market rates, although local authorities often continue to operate the units as de facto social housing. The federal government is responsible for housing subsidies to individual households and for regulating rents. Since 2006, social housing has been the responsibility of the Länder, which have implemented different programmes and funding schemes. The target groups for social housing are defined as households that are unable to secure adequate accommodation and need support. Available at: <https://www.housingeurope.eu/resource-107/social-housing-in-europe>.

51 Reuters, 2015, 'Germany to oblige banks to offer accounts to refugees', <https://www.reuters.com/article/us-europe-migrants-germany-banking/germany-to-oblige-banks-to-offer-accounts-to-refugees-idUSKCN0SM15120151028>.

52 For example, when landlords inform the accommodation is no longer available but is still featured online or even say they do not wish to rent to foreigners outright.

53 Reuters, 2018, 'Germany's housing crisis fuels black market for refugees', <https://www.reuters.com/article/us-germany-refugees-housing-feature/germanys-housing-crisis-fuels-black-market-for-refugees-idUSKCN1MW1H9>.

54 EASO, 2022, 'Overview of the organisation of reception systems in EU+ countries', [https://euaa.europa.eu/sites/default/files/publications/2022-01/2021\\_situational\\_update\\_issue8\\_reception\\_systems\\_EN\\_0.pdf](https://euaa.europa.eu/sites/default/files/publications/2022-01/2021_situational_update_issue8_reception_systems_EN_0.pdf).

55 OECD, 2017, 'Labour Market Integration of Refugees in Germany', <https://www.oecd.org/els/mig/Finding-their-Way-Germany.pdf>.



Upon recognition of the refugee status to asylum seekers, TCNs are mostly reliant on non-governmental and local organisations<sup>56</sup> to find apartments on the private rental market as many private owners find the time-consuming administrative processes to obtain rent covered by the job centres inconvenient<sup>57</sup>. This constitutes a housing financing barrier. TCNs who do not find accommodation on the private market or in the social housing system, remain in collective accommodation centres over a prolonged stretch of time, which may hamper integration long-term and wellbeing in the short term, since they are mixed with other groups with various degrees of willingness to integrate<sup>58</sup>. Therefore, housing providers such as municipalities may face the barrier of an insufficient legal basis to regulate which institution is supposed to cover the costs<sup>59</sup>.

### 3.3 Housing finance supply side analysis

#### Products and services available for TCNs

A range of products and services are available to TCNs in Germany to support them in securing housing finance:

- Jobcentres<sup>60</sup> is the employment agency that subsidises, among other things, rent for people on low-income. The amount varies from city to city in Germany. In Munich, a family of three can get a subsidy for an apartment up to 75 square meters and up to EUR 1084. In Berlin, for example, the subsidy is EUR 634 for a home of no more than 80 square meters. In Cologne, the area subsidised is up to EUR 939. There are also grants for electricity and heating costs<sup>61,62</sup>;
- Social housing subsidies<sup>63</sup>: Social housing in Germany is supported by subsidies from federal and state governments. These subsidies help reduce rents for eligible low-income households, including TCNs, making housing more affordable for them. According to the OECD, “housing subsidies substantially reduce the gap between immigrants and the native-born in Germany”<sup>64</sup>;
- Housing benefit (Wohngeld)<sup>65</sup>: German government contribution towards both renters and owners who cannot afford their housing expenses like rent and utilities or upkeep and mortgage. It can be combined with other social benefits like unemployment (Arbeitslosengeld I<sup>66</sup> but not with Arbeitslosengeld II<sup>67</sup>);
- Housing cooperatives<sup>68</sup>: Housing cooperatives in Germany offer an alternative financing option for TCNs. By becoming members of a cooperative, TCNs can access housing at more affordable rates, as these organisations operate on a non-profit basis and are a popular alternative in Germany.

56 Such as: LivingTogetherWelcome (Zusammenleben willkommen - formerly RefugeesWelcome/Flüchtlinge willkommen). Available at: <https://zusammenleben-willkommen.de/>.

57 INFOMIGRANTS, 2022, 'Germany: Finding housing as a refugee - an obstacle course', <https://www.infomigrants.net/en/post/42840/germany-finding-housing-as-a-refugee--an-obstacle-course-13>.

58 Reuters, 2018, 'Germany's housing crisis fuels black market for refugees', <https://www.reuters.com/article/us-germany-refugees-housing-feature/germanys-housing-crisis-fuels-black-market-for-refugees-idUSKCN1MW1H9>.

59 AIDA, 2023, 'Housing - Germany', <https://asylumineurope.org/reports/country/germany/content-international-protection/housing/>.

60 INFOMIGRANTS, 2022, 'Germany: Finding housing as a refugee - an obstacle course', <https://www.infomigrants.net/en/post/42840/germany-finding-housing-as-a-refugee--an-obstacle-course-13>.

61 Stadt Berlin, n.d., 'Übernahme von Miet- und Heizkosten - Informationen für Ukraine-Geflüchtete', <https://www.berlin.de/sen/soziales/soziale-sicherung/grundsicherung-fuer-arbeitssuchende-hartz-iv/kosten-der-unterkunft/uebernahme-von-miet-und-heizkosten-informationen-fuer-ukraine-gefluechtete-1205665.php>.

62 Jobcenter Koeln, 2022, 'MERKBLATT ZUM WOHNUNGSWECHSEL', [https://www.jobcenterkoeln.de/wp-content/uploads/2022/01/merkblatt\\_zum\\_wohnungswechsel\\_50-01-127\\_stand\\_01-01-22\\_neu.pdf](https://www.jobcenterkoeln.de/wp-content/uploads/2022/01/merkblatt_zum_wohnungswechsel_50-01-127_stand_01-01-22_neu.pdf).

63 Brookings, 2021, 'Strong tenant protections and subsidies support Germany's majority-renter housing market', <https://www.brookings.edu/essay/germany-rental-housing-markets/>.

64 OECD, 2023, Indicators of Immigrant Integration 2023, <https://www.oecd-ilibrary.org/docserver/d303c268-en.pdf?expires=1708966389&id=id&accname=guest&checksum=A2CE25E43E99D2D0E4584A81C2BAC07F>.

65 OECD, 2020, 'The OECD Tax-Benefit Model for Germany', <https://www.oecd.org/els/soc/TaxBEN-Germany-2020.pdf>.

66 Unemployment benefit 1 is the main unemployment insurance benefit. It is intended to help prevent financial hardship in the event of unemployment and is paid for three to a maximum of 24 months, depending on the qualifying period and age (Available at: DGB: <https://www.dgb.de/themen/++co++4f82db0c-fca4-11df-7cf4->).

67 The Arbeitslosengeld II was the basic income support for people in need of assistance who are capable of working (Available at: DGB: <https://www.dgb.de/themen/++co++ef171378-cbfb-11ea-af64-001a4a160123>).

68 Die Wohnungsbau Genossenschaften Deutschland, n.d., 'How Housing Cooperatives work', <https://www.wohnungsbaugenossenschaften.de/genossenschaften/how-cooperatives-work>.





In the framework of this case study, no data was found on the existence of personal loans for the housing finance of TCNs. Generally, these types of products and services seem to target the business sector. In Germany, public banks such as Sparkasse and Volksbank have a high concentration and reach, making them the preferred option for newcomers opening bank accounts. These banks have also opened special branches in selected cities with staff are trained in verification and language support to help refugees open accounts. For example, Berliner Sparkasse opened a special branch and opened 35 000 accounts, but later closed it due to a drastic drop in the number of new arrivals. Refugees can open a Giro account, which is a normal current account that allows them to pay bills, send and receive money and withdraw cash. There is also a growing fintech space in Germany, with seven e-money institutions and 57 payment institutions licensed under the ZAG 2018. Although none of these institutions focus on refugees as a segment, they have the potential to do so in the future<sup>69</sup>.

### Products and services available for housing providers

In Germany, various financial products and services are available for housing providers to facilitate the construction, renovation, and maintenance of affordable housing. Key stakeholders, such as the public sector, private landlords, and NGOs, can access these financial solutions.

Some of the most important financial products and services available for housing providers in Germany include:

- KfW<sup>70</sup> loans: The KfW Banking Group offers long-term loans with low-interest rates and favourable terms for housing providers. These loans can be used for constructing new housing units, renovating existing ones, and implementing energy-efficient measures. KfW also provides grants and subsidies for housing projects that meet specific environmental and social standards;
- State subsidies: Federal states in Germany may offer their own subsidies and grants to housing providers for the construction, renovation, and maintenance of social and affordable housing. These subsidies aim to promote the development of affordable housing and cater to the needs of low-income households and vulnerable populations;
- European Investment Bank (EIB)/Council of Europe Development Bank (CEB) loans<sup>71</sup>: Both the EIB and CEB offers loans to housing providers in Germany for investment in social infrastructure, including affordable housing projects. These loans can be accessed through partnerships with institutions like KfW or directly from the EIB/CEB, depending on the size and scope of the project;
- Municipal funding: Local governments in Germany may provide funding for housing providers, particularly for projects focusing on social and affordable housing. Municipal funding can take the form of direct financial support, land allocation, or other forms of assistance, depending on the local government's resources and priorities.

69 EMN, 2018, 'Financial Inclusion of Germany's refugees: Current Situation and Road Ahead', <https://www.european-microfinance.org/sites/default/files/document/file/Financial%20Inclusion%20of%20German%20Refugees.pdf>.

70 In Germany, the KfW Banking Group (Kreditanstalt für Wiederaufbau) plays a pivotal role as the primary financial intermediary for financing schemes targeting housing providers. KfW is a German government-owned development bank that offers long-term financing solutions for various sectors, including housing. KfW's mission is to support the German government's goals of promoting social, economic, and environmental development. As a crucial financial institution, KfW offers funding to social housing providers, municipal housing companies, and private landlords to finance the construction, renovation, and maintenance of affordable housing units. KfW's loans have long maturities and low interest rates, making them a vital source of long-term financing for housing providers. Additionally, KfW offers grants and subsidies for housing projects that meet specific environmental and social standards, thus encouraging the development of energy-efficient and inclusive housing. KfW also provides guarantees for housing loans, enabling housing providers to access funding from other sources.

71 EIB, 2022, 'Germany: InvestEU-EIB supports social and affordable housing in Hannover with €60 million', <https://www.eib.org/en/press/all/2022-349-investeu-in-germany-eib-supports-social-and-affordable-housing-in-hanover-with-eur60-million>.



### 3.4 Financing gap

There is no available estimation on the financial gap for TCNs' access to finance for housing in Germany. A study conducted by the German Federal Office for Migration<sup>72</sup> in 2016 examined the accommodation situation of asylum seekers who arrived between 2013 and 2016, and found that as of 2019, only 75% had moved into private housing. About 25% of asylum seekers who arrived during that period were still residing in collective centres, some for up to six years. Furthermore, the report revealed that half of those who were granted protection status took more than a year to secure private housing. As a result, the focus is on providing financial assistance to TCNs to facilitate their access to housing in the private rental market.

Following the same methodology detailed in Part 1 of the report: "Market Assessment Report"<sup>73</sup>, it can be estimated that the total value of unmet demand from TCNs for financing their housing is estimated to be approximately at EUR 169 million. The indicators, data, assumptions, and estimations used to calculate this amount are stated in the table below.

Table 3: Financing gap calculation for TCNs entering the private rental market in Germany

Proxy indicator	Source	Year	Value
Number of first single residence permits	Eurostat, migr_resfirst	2021	185 570
Number of first residence permits issued for family formation and reunification			70 812
<b>Sub-total (Number of TCNs entering the rental market)</b>	<b>114 758</b>		
Rate of TCNs in overcrowded conditions in %	Eurostat, ilc_lvho15	2021	27.2
<b>Total number of TCNs entering the rental market without access to finance</b>	<b>31 558</b>		
Average rent price for a single-person unfurnished accommodation in city centre in EUR	Numbeo <sup>74</sup>	2023	843
Durables in EUR <sup>75</sup>	Countryeconomy.com <sup>76</sup>	2023	1 987
<b>Sub-total amount for one deposit<sup>77</sup>, three months of rent and durables in EUR</b>	<b>5 359</b>		
<b>Total financial gap in EUR for TCNs entering the rental market</b>	<b>169 119 322</b>		

Source: Technopolis Group

72 BAMF, 2022, 'Die Wohnhistorie Geflüchteter in Deutschland', [https://www.bamf.de/SharedDocs/Anlagen/DE/Forschung/Kurzanalysen/kurzanalyse1-2022-iab-bamf-soep-befragung-wohnhistorie.pdf?\\_\\_blob=publicationFile&v=7%20%20](https://www.bamf.de/SharedDocs/Anlagen/DE/Forschung/Kurzanalysen/kurzanalyse1-2022-iab-bamf-soep-befragung-wohnhistorie.pdf?__blob=publicationFile&v=7%20%20).

73 Given the lack of data on the household composition of the TCNs entering the housing market, for the purpose of the calculation it is assumed that these TCNs are a majority of single men since most women and children have been deduced when subtracting the residence permits issued for family formation and reunification.

74 Numbeo, n.d., 'Cost of Living in Germany', [https://www.numbeo.com/cost-of-living/country\\_result.jsp?country=Germany](https://www.numbeo.com/cost-of-living/country_result.jsp?country=Germany).

75 It is estimated that durables for an unfurnished apartment equal one minimum wage monthly salary using second hand items.

76 CountryEconomy, 2023, 'The minimum wage goes up in Germany', <https://countryeconomy.com/national-minimum-wage/germany>.

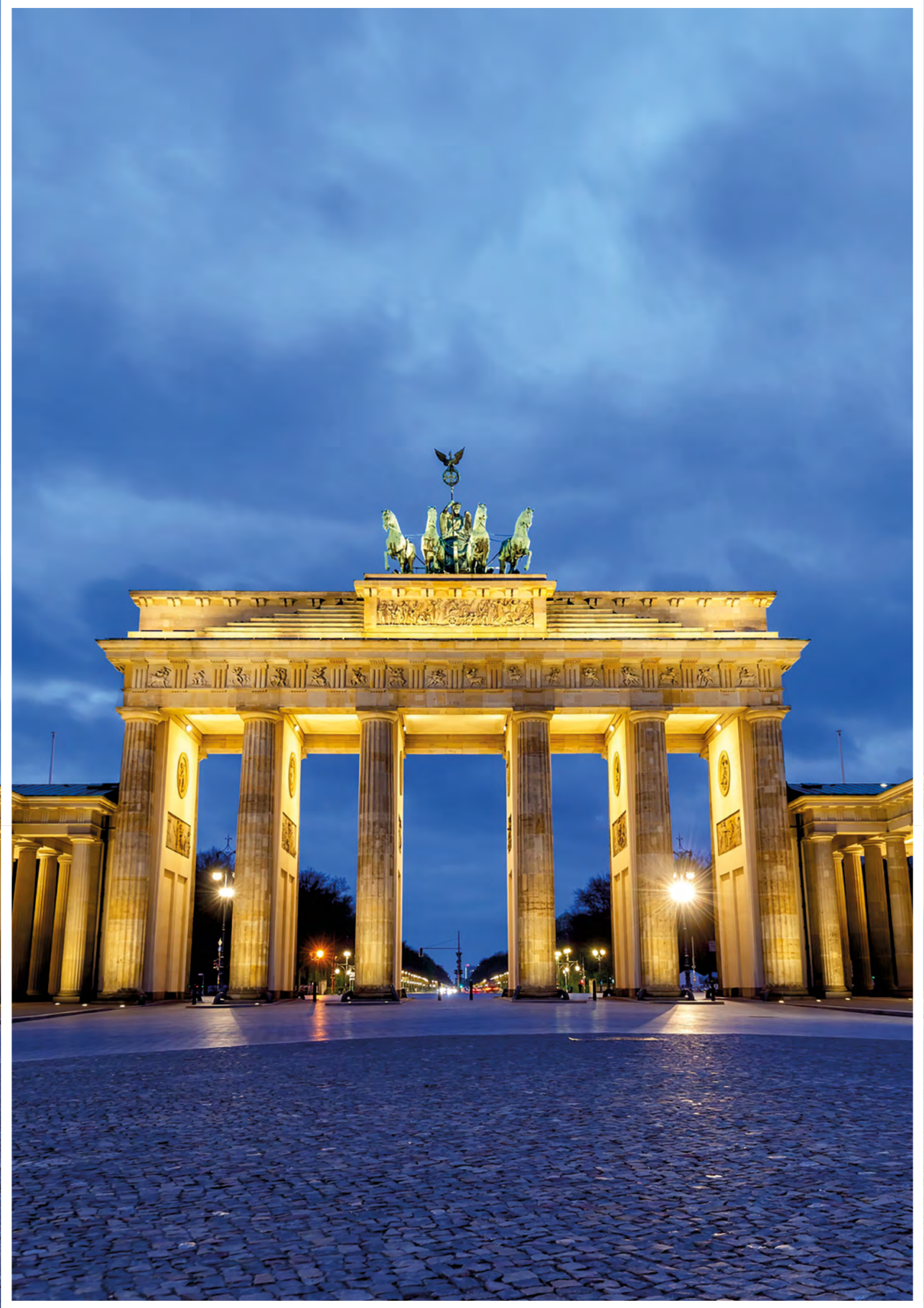
77 It is estimated that one deposit equals one month of rent.



### 3.5 Conclusions and recommendations

Germany is one of the most important countries of destination for TCNs in Europe, therefore its housing for TCNs is under pressure, particularly since the beginning of the war in Ukraine, following which Germany welcomed many Ukrainian nationals. While many efforts are being made (language classes, professional training, social and cultural integration), there is still a considerable number of TCNs who have neither access to housing nor easy access to finance for housing. Similarly, to other European countries, there is too little data available to conduct a deep analysis of the financial gap at pre-recognition state since none is available on the costs of reception centres or the financial means of asylum seekers. While TCNs are supported by an active local NGO network, they face social barriers to access housing even though finance is secured through public government subsidies, in addition to an absent micro personal loan offer targeting them and their need of a guarantor, for example. TCNs primarily find housing in the private rental market while the stock of affordable social housing is much smaller compared to other European sectors and can substantially vary in terms of expense. Providing sufficient affordable housing to TCNs may help foster their integration in Germany.





# 04 Social impact investing

## 4.1 Market analysis – Snapshot

In its country report<sup>78</sup>, the European Commission (EC) identified, according to the EU operational definition of social enterprises<sup>79</sup>, several types of social enterprises operating in Germany: traditional organisations, welfare organisations, “operational” foundations, cooperatives, mutuals, work integration social enterprises, new-styles social enterprises (such as the public benefit company with a non-profit status *gGmbH*), neighbourhood and community enterprises. Overall, the EC country report estimates that there were more than 77 400 social enterprises in Germany in 2017<sup>80</sup>. Most of them were legally registered associations (95%), foundations (3%), and *gGmbH* (2%).

However, there is no dedicated legal framework for social enterprises in Germany. The EC report reveals that there are ten distinct legal structures available in order for social organisations to conduct their operations<sup>81</sup>. This situation creates a challenge for those seeking to combine non-profit and commercial aspects in their operations, as there is no ideal solution available. Social entrepreneurs in Germany, in fact, face a complex challenge in choosing the appropriate legal structure that allows them to pursue both social impact and financial stability. This can be particularly difficult as social entrepreneurs often prefer non-profit status, but they encounter many obstacles in obtaining this. In contrast to traditional start-ups, social enterprises frequently use hybrid legal structures that combine various forms to cater to the needs of all stakeholders. These challenges are supported by the Euclid Network country report on Germany<sup>82</sup>, which shows that social enterprises use a broad range of legal forms. Contrary to the EC’s estimation of registered association as the dominant legal form, the survey indicates that social enterprises use a diverse set of legal structures. According to the study, non-profit registered associations (18.4%) and commercial GmbH (22.8%) are legal forms that are used by a similar proportion of social enterprises. The survey also found that around 19.5% of social entrepreneurs opt for a hybrid form in the shape of *gGmbH*. When solo self-employed individuals operating as sole proprietors (9.5%) are excluded, the proportion of social enterprises with non-profit status (45.4%) is almost the same as those without it (47.1%).

Disaggregated data provided by the Euclid Network<sup>83</sup> highlight that, regarding the target group of German social enterprises, children and young people are the most common group, with a percentage of 37.3%. Other groups that are most commonly addressed include women (28.1%) and individuals with low income or experiencing poverty (20.7%). Migrants and refugees and asylum seekers are targeted by 25.3% and 23.5% of social enterprises, shares higher than the EU averages (19.3% and 19.2% respectively). These, therefore, represent the third and fourth target group supported by German social enterprises.

78 European Commission, 2020, *Social Enterprises and Their Ecosystem in Europe – Country Report – Germany*.

79 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Social Business Initiative – Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation*, COM/2011/0682 final.

80 A similar quantification is provided by: Evers & Jung, IQ Consult, ISM, Zeppelin University, 2016, *Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?*.

81 Registered association (eingetragener Verein, or e. V.), sole proprietorship, civil law partnership (GbR), limited liability partnership (KG), limited liability company (GmbH), public benefit company (gGmbH), entrepreneurial company (limited liability, UG), stock corporation (private/public company limited by shares), registered cooperative, mutuals, foundations.

82 SEND and Euclid Network, 2022, *Deutscher Social Entrepreneurship, Monitor 2021/2022*.

83 Based on: Dupain, W., Scharpe, K., Gazeley, T., Bennett, T., Mair, J., Raith, M., Bosma, N. *The State of Social Enterprise in Europe – European Social Enterprise Monitor 2021-2022*, Euclid Network. 2022. See also SEND and Euclid Network, 2022, *Deutscher Social Entrepreneurship, Monitor 2021/2022*.



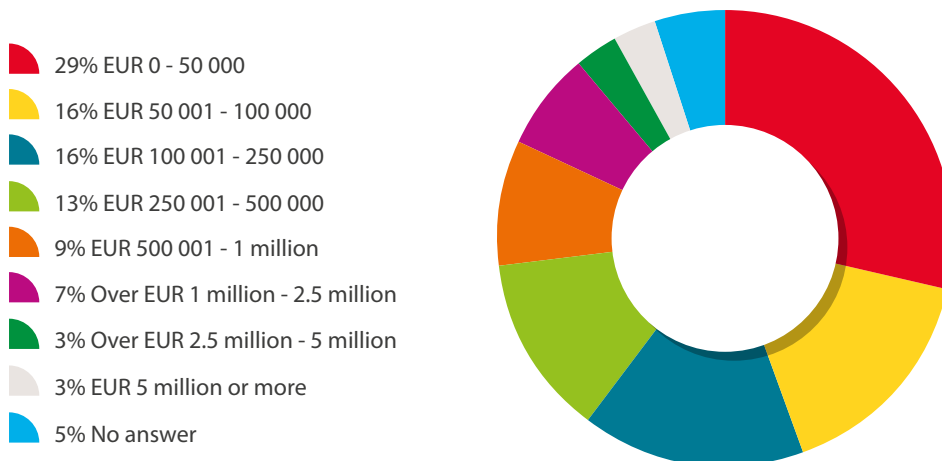


Regarding the social impact investment (SII) market in Germany, there is currently no precise data available on its size, however, it is estimated to be one of the most performing and developed market in the EU<sup>84</sup>. Overall, the impact investing market is thriving and saw significant growth in investors and volume in recent years, but it is predominantly driven by the environment, energy, and health sectors while social issues are less addressed by impact investors<sup>85</sup>.

## 4.2 Analysis of the demand side in financing

According to the Euclid Network, 44.5% of social enterprises in Germany declared financial needs of up to EUR 100 000 (29% up to EUR 50 000). However, a large proportion of social enterprises has a financial need greater than EUR 250 000. This data shows a higher need of finance from the German social enterprises with respect to the European average (52% declared a need lower than EUR 100 000). The German social enterprises source financing mainly from own savings (55.7%, higher than the EU average of 39.4%), public funding (47.9%), self-financing (i.e., cash-flow, 37.9%), private donations (32.9%) and foundation funding (30.9). Additionally, 7.8% demanded impact investment, a percentage higher than the EU average (5.5%).

Figure 1: Social enterprises' financial needs in the last 12 months (2022 as reference year)



Source: based on Dupain, W., Scharpe, K., Gazeley, T., Bennett, T., Mair, J., Raith, M., Bosma, N. (2022), The State of Social Enterprise in Europe – European Social Enterprise Monitor 2021-2022, Euclid Network.

According to the Euclid Network report on Germany, the biggest hurdles faced by social enterprises are the complex and difficult access to public finance and the low acceptance of social entrepreneurship in society. Moreover, there is a dearth of tailored funding opportunities and limited access to startup financing options, along with inadequate support from the financial policy framework.

Moreover, it was found that in 2021, only 22.3% of these made a profit, lower than the EU average of 28.9%<sup>86</sup>. On the other hand, 24.5% were able to cover their costs, while 29.5% of them incurred losses, which is similar to the EU average. However, this data should be interpreted against the exceptional economic situation caused by the COVID 19 pandemic, which significantly restricted the entrepreneurial activities of many social enterprises. Also, it should be noted that most of the social enterprises surveyed are in a very early start-up phase, in which high profit margins are still unusual. In terms of overall revenues, which includes income from both market and non-market activities, most social enterprises have a turnover exceeding EUR 100 000, with 46.3% falling below this threshold in 2021. This data is comparable to the average of all the countries surveyed.

84 Joint Research Centre, 2018, 'Social impact investment in the EU. Financing strategies and outcome oriented approaches for social policy innovation: narratives, experiences, and recommendations.'

85 Bundesinitiative Impact Investing, 2022, 'Impact investing in Deutschland, Marktstudie.'

86 SEND and Euclid Network, 2022, 'Deutscher Social Entrepreneurship, Monitor 2021/2022.'

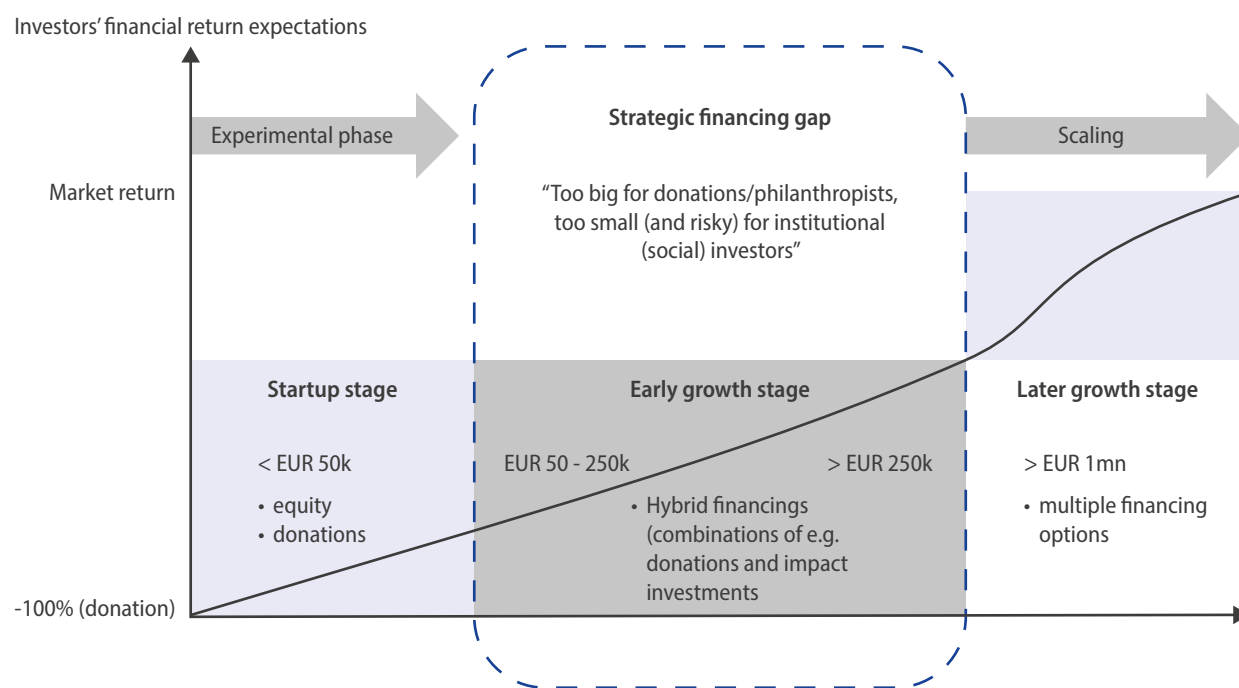




The EC country report states that social enterprises encounter significant difficulties in obtaining financial assistance because conventional financial intermediaries and ethical banks are frequently hesitant to assume the degree of risk associated with such enterprises. Moreover, government policies aimed at promoting small and medium-sized enterprises tend to prioritise for-profit ventures. In addition, financial intermediaries and economic development agencies tend to overlook social innovation as a valid form of innovation. This often leaves social enterprises unable to apply for innovation support, as many low-threshold innovation promotion programmes tend to favour technological innovation, for which they are often ineligible.

Furthermore, social enterprises often face a lack of investment interest from traditional venture capitalists and business angels. Specifically, many investors fail to meet the funding needs especially of early-stage social enterprises, which typically require EUR 100 000 - EUR 500 000 to scale and are generally unable to cover more than 75% of their operating costs with revenues<sup>87</sup>. Most impact investors are waiting at the very end of the investment pipeline, for mature social enterprises that have already broken even. The fact that most social enterprises in Germany are very young (median age of three years)<sup>88</sup> implies that most of them have serious barriers in obtaining these types of financing.

Figure 2: The strategic financing gap in German social enterprises



Source: OECD (2017), *Boosting Social Enterprise Development Good Practice Compendium – Chapter 8: Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany*.

87 OECD, 2017, *Boosting Social Enterprise Development Good Practice Compendium – Chapter 8: Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany*.

88 SEND and Euclid Network, 2022, *‘Deutscher Social Entrepreneurship, Monitor 2021/2022’*.



### 4.3 Analysis of the supply side in financing

The German financial market offers a comprehensive range of financial instruments to support social enterprises. These instruments include grants, subsidies, social venture funds, loan capital, and equity. According to the EC country report, public support in the form of grants and subsidies is readily available in certain policy areas, such as family and childhood. The German public development bank KfW implements specific support programmes for social enterprises. Moreover, in the previous programming period, schemes such as the Employment and Social Innovation (EaSI) Programme supported social organisations in various ways in Germany. In addition to this, the support from the private market for social enterprises is well-established. However, sometimes the size of social enterprises can be a hindrance in obtaining private financing. Specific banks, such as ethical ones, provide targeted support and financial instruments for welfare organisations. Furthermore, the involvement of stakeholders such as private donors, foundations, and other philanthropic donors is an essential source of financing for social enterprises.

However, equity financing is not as common in the social market compared to Europe. In general, welfare organisations are excluded from this type of investment due to legal reasons. Because of their public-benefit status, they are limited in paying returns to investors and repaying the invested amount. Other types of social enterprises without a public benefit status are still too small to be considered for this type of investment.

As mentioned earlier, there is no detailed data available on the size of the SII market in Germany. However, different analyses have revealed that impact investing has experienced a remarkable growth in the last decade. It had almost tripled between 2012 and the end of 2015, increasing from EUR 24 million to around EUR 70 million<sup>89</sup>. In 2020, it comprised around EUR 2.9 billion (out of which, however, only EUR 62 million is intended as ‘impact-first’, as EUR 2.8 billion is labelled as ‘finance-first’)<sup>90</sup>. A recent Bundesinitiative Impact Investing survey reveals that the total amount of self-reported impact assets in 2022 was EUR 38.9 billion<sup>91</sup>. However, only a third of these assets, which include EUR 3.12 billion for ‘impact-aligned’ and EUR 9.23 billion for ‘impact-generating’, can be clearly classified as ‘impact investing’. The remaining 68% are related to impact but lack a definitive statement regarding their classification. The majority of investors in the market are established players, with 34% indicating they have been active in the market for over a decade, and 23% for 5 to 10 years.

Moreover, according to this survey, most participants choose to allocate their impact investments towards clean energy (51.3%), climate action (51.3%), and health (50%). Social issues, therefore, are not the main focus for German investors, despite them still exhibiting considerable interest, with decent work and economic growth (27.6%), no poverty (26.3%), and reduced inequalities (25%) being among the SDGS areas of investment. One key reason of the still limited use of SII can be found, as stated before, in the greater attention to technological innovation rather than social innovation. At the same time, impact-oriented investors and stakeholders see the fragmentation and the lack of clarity on the definition of social enterprises as one of the key challenges for market development<sup>92</sup>. Targeted measures to support social enterprises and build sustainable financing structures in the impact-oriented investment market can only be developed once reliable data regarding the scale of social entrepreneurship are available and clear criteria and certificates for the social orientation of commercially organised companies are established.

89 Bertelsmann Foundation, 2016, *The evolution of the German impact investing market landscape*.

90 Centre for Social Investment (CSI), BMW Foundation Herbert Quandt, Bertelsmann Stiftung and Bundesverband Deutscher Stiftungen, 2020, *Impact Investing in Germany 2020 – A Dynamic Growth Market*.

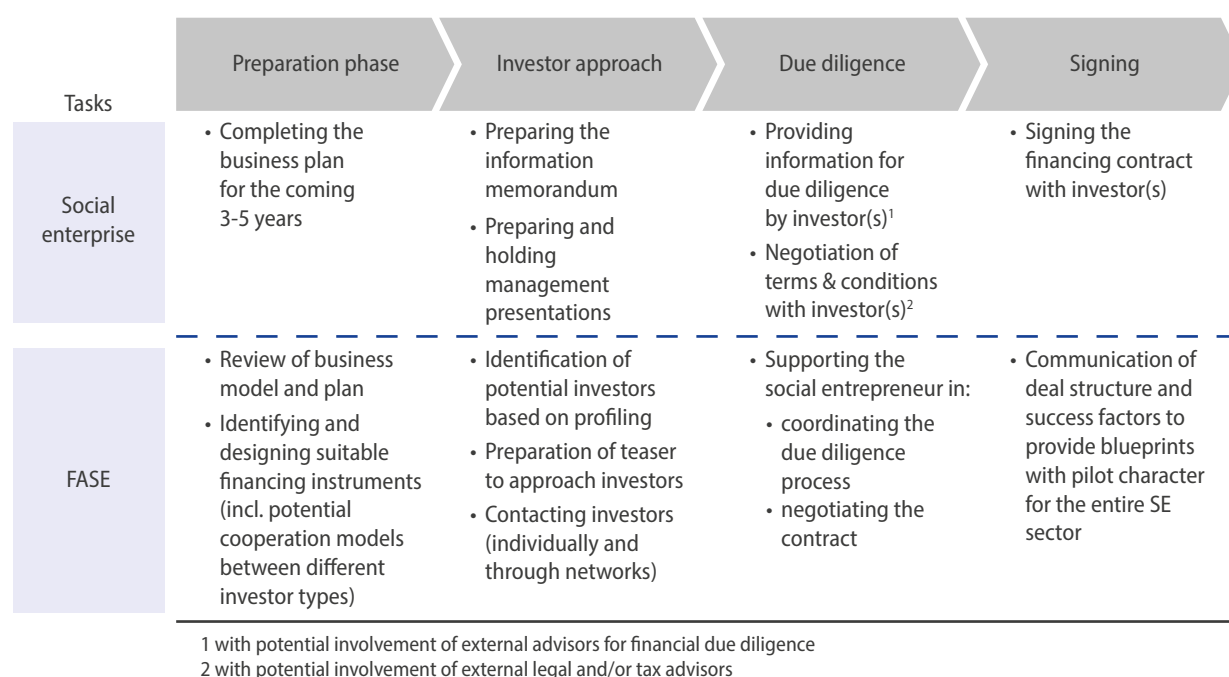
91 Bundesinitiative Impact Investing, 2022, *Impact investing in Deutschland, Marktstudien*.

92 Evers & Jung, IQ Consult, ISM, Zeppelin University, 2016, *Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?*.



However, the existence of intermediaries in the German social investment market is a clear indication of the impact investment market’s progress in social issues. An example of this is the Financing Agency for Social Entrepreneurship (FASE), acknowledged by the OECD as a model organisation, that offers hybrid financing solutions to social enterprises<sup>93</sup>. Registered as a private company and fully owned by Ashoka Germany, it provides innovative financing models that cater to the specific requirements of both social enterprises and impact investors. FASE focuses on providing comprehensive non-financial assistance to social enterprises that have a promising self-sustaining business model but face challenges in securing growth capital due to their early stage of development. Its objective is to help these social enterprises become investment-ready by guiding them through the complex and often prolonged process of attracting impact investment.

Figure 3: The FASE lean transaction process management



Source: OECD (2017), Boosting Social Enterprise Development Good Practice Compendium – Chapter 8: Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany.

This model appears to be successful, as it has been able to attract and activate investors (also supporting social enterprises working refugees and asylum seekers, see Part 1 of the report: “Market Assessment Report”)<sup>94</sup>, especially considering that the SII is still in the early stages of development even though the impact investing market is one of the most advanced in Europe.

93 OECD/European Union, 2017, ‘Financing Agency for Social Entrepreneurship (FASE): An intermediary for hybrid financing, Germany’

94 EVPA, 2019, ‘Way to Go’, <https://www.evpa.ngo/stories/way-go>.



## 4.4 Financing gap

There are no available estimations on the social enterprises' financing gap in Germany. A very broad quantification can be obtained using the estimation provided by the EC in its 2020 study<sup>95</sup>, according to which there is a financing gap of EUR 6.7 billion for EU social enterprises foreseen for the period 2021-2027. Considering that about 70 000 social enterprises exist in Germany out of the 400 000 estimated by the EC at EU level<sup>96</sup>, this gap would correspond to around EUR 1 17 billion for the seven-year period. As about 25% of social enterprises have refugees and asylum seekers as beneficiaries of their support/services, for these the gap would correspond to around EUR 293 million in the 2021-2027 period.

## 4.5 Conclusions and recommendations

The social economy seems to be well developed in Germany, despite the lack of a uniform definition and legal framework for social enterprises, which creates significant challenges for both entrepreneurs and investors. Moreover, migrants and refugees are the third most targeted group by German social enterprises, indicating a significantly larger potential demand side compared to other EU countries.

There are also several public and private financing initiatives supporting the social economy and social organisations, even if the unclear legal framework does prevent some forms of social enterprises accessing finance.

The impact investing market is one of the largest and most well-developed in the EU and has experienced significant growth – both in terms of size and actors – in recent years. However, there is an unbalanced interest in investing in clean energy, climate action, and health while social issues seem to be addressed by a very small fraction of investors, when compared to the large size of the overall German impact investing sector. Social innovation is in fact less attractive from an investors' point of view than technological innovation, which is attracting growing attention, especially when it deals with environment and climate solutions. Moreover, there is a limited interest in financing social enterprises in their early-stage development, which represent a key obstacle for these as they represent the bulk of organisations operating in the social economy.

However, as both sides of the market are in constant growth and given the attention to migrants' issues from the social economy, SII schemes targeting migrants and refugees can be explored and set-up using EU funds under the 2012-2027 period. Moreover, the German market can count on numerous well-established agencies and intermediaries that support social enterprises in improving their investment readiness and in helping demand and investors to find a better match. Additional support for these – for instance the use of grants - could be necessary to better reinforce their networking and their capacity to provide more tailored services for social enterprises working with migrants and refugees.

<sup>95</sup> European Commission, 2020, *'Social enterprise finance market - Analysis and recommendations for delivery options'*.

<sup>96</sup> European Commission, 2020, *'Social enterprises and their ecosystems in Europe - Comparative synthesis report'* pp.106-107. The report uses figures from different national reports from 2015 to 2019, but it highlights how it is not feasible to guarantee sufficient cross-national and precise numbers. Therefore, care should be exercised when using figures referred to at the national level and in interpreting the estimated financial gap.

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## Notes

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