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Market report
June 2024

The potential for financial instruments supporting migrant integration

Part 1: Market assessment report

European Commission

European Investment Bank

AMIF

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Abbreviations

Abbreviation	Full name
AFS	Access to Finance Scorecard
AMIF	Asylum, Migration and Integration Fund
AML/CFT	Anti-Money Laundering/Combatting Terrorism Financing
ARCD	Asylum Reception Conditions Directive
AROPE	At Risk of Poverty and Social Exclusion
BDS	Business Development Services
BOF	Brabant Outcomes Fund
BTP	Beneficiaries of Temporary Protection
CEB	Council of Europe Development Bank
CNAI	National Immigrant Support Centers in Portugal
CPR	Common Provisions Regulation
CSO(s)	Civil Society Organisation(s)
DFIs	Development Finance Institution(s)
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG HOME	Directorate-General for Migration and Home Affairs
DG REGIO	Directorate-General for Regional and Urban Policy
EaSI	Employment and Social Innovation programme
EBA	European Banking Authority
EC	European Commission
ECRE	European Council on Refugees and Exiles
EFTA	European Free Trade Association
EIB	European Investment Bank
EIF	European Investment Fund
EMN	European Migration Network
EMN-MFC	European Microfinance Network-Microfinance Center
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
ESG	Environmental, Social & Governance
ESIF	European Structural and Investment Funds
ETHOS	European Typology of Homelessness and Housing Exclusion
EU	European Union
EuSF	European Social Entrepreneurship Fund
EVPA	European Venture Philanthropy Association (renamed Impact Europe in 2024)
FASE	Financing Agency for Social Entrepreneurship

FEANTSA	European Federation of Organisations Working with the People who are Homeless
FEBEA	European Federation of Ethical and Alternative Banks and Financiers
FI(s)	Financial Instrument(s)
GABV	Global Alliance for Banking on Values
GAFMA	Guidelines for SME Access to Finance Market Assessments
GEM	Global Entrepreneurship Monitor
GIIN	Global Impact Investing Network
HR	Human Resources
IFI	International Financial Institution
IFRRU	Instrumento Financeiro para a Reabilitação e Revitalização Urbanas
IT	Information Technology
JEREMIE	Joint European Resources for Micro to Medium Enterprises
KYC	Know Your Customer
MEnt	Migrant Entrepreneurs team-up with mentors
MFF	Multiannual Financial Framework
MFI(s)	Microfinance Institution(s)
MIV(s)	Microfinance Investment Vehicle(s)
MRC	Marginalized Roma Communities
NARICs	National Recognition Information Centres
NBFI(s)	Non-Bank Financial Institution(s)
NGO(s)	Non-Governmental Organisation(s)
OECD	Organisation for Economic Co-operation and Development
PAFMI	Partnerships and Financing for Migrant Inclusion
PbR	Pay by Results
SAFE	Survey on Accesss to Finance of Enterprises
SIB	Social Impact Bond
SII	Social Impact Investment
SME(s)	Small and medium-sized enterprise(s)
SMF(s)	Shared management Fund(s)
SOC	Social Outcome Contracting
TCN(s)	Third-country nationals
TFEU	Treaty on the Functioning of the European Union
TG	Target Group
UNHCR	United Nations High Commissioner for Refugees
VET	Vocational Education and Training
YBI	Youth Business International
YBP	Youth Business Poland

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Executive Summary

This study has been conducted as an evidence-based analysis of the potential for using financial instruments (FIs) to support third-country nationals (TCNs) through the Asylum, Migration and Integration Fund (AMIF) and the other shared management Funds (SMFs) as well as other financing sources. Its overall objective is to offer the foundation of future activities, both at European Commission and Member State level, regarding the development of financial instruments to support migration.

The study is split into two separate parts – the 'Market assessment report' and the 'Design options for financial instruments report'. In addition, this first part containing the market assessment is complemented by six country reports that provide further insight into existing financing needs in France, Germany, Italy, Lithuania, Poland and Romania. The study explores the potential for financial instruments in three different sectors:

- Microfinance;
- Housing;
- Social impact investing.

For each of these sectors, the market assessment examines the following:

- Overview of conditions and financing needs of the potential final recipients;
- Demand-side analysis including the areas of market failure, regulatory and other non-financial barriers affecting the potential demand for future support;
- Supply-side analysis including the assessment of other public and private support available to meet the financing needs of the priority sectors;
- Financing gap as a result of a mismatch between the demand and supply side in priority sectors;
- Readiness and capacity of public bodies and private stakeholders to develop social investments together with the capacity to support the implementation of the financial instruments;
- Justification of the use of financial instruments in the identified sectors, including relevant reasoning.

A summary of the conclusions of the market assessment structured according to the analysed sectors is presented below.

Microfinance

There is a clear economic and social benefit of TCNs' entrepreneurial activity in the EU. Apart from driving economic growth and creating new jobs, TCNs' business activity helps to integrate TCNs faster in their new host country. Dedicated TCN entrepreneurship support can start already in the early integration phase of TCNs and contribute to their long-term integration.

TCNs face a number of additional challenges compared to the general EU population when starting their own business. This results in the TCNs' entrepreneurship rate being lower than for EU citizens. There is however significant potential to increase the TCN entrepreneurship rate across the EU Member States if existing barriers to TCN entrepreneurship are overcome. Such barriers include access to affordable microfinance as well as business development services (BDS) support tailored to TCNs' needs, for instance in the form of training, mentoring and coaching.

The examples from a number of Member States illustrated in this report showcase how microfinance as well as BDS is already provided to TCNs through dedicated support measures. However, this market assessment's calculation identified a much bigger financing gap for microfinance and the BDS support available for TCNs as well as the underlining need for more public investment for both, microfinance and BDS.

Key needs to be addressed in order to make microfinance and BDS support to TCNs more effective include more credit risk coverage available for providers of microfinance, a dedicated financing support for BDS and more liquidity support to providers of microfinance through financial instruments or lending from international financial institutions (IFIs) such as the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), enabling them to provide more microloans to entrepreneurial TCNs.

Other, more general measures such as reduction of barriers that TCNs face in setting up businesses, a more enabling legal and regulatory environment for microfinance, especially for TCNs, and a stronger awareness among the stakeholders how financial instruments can support the economic inclusion of TCNs, can also pay an important part in enabling more entrepreneurship among this vulnerable group.

By taking steps to address these challenges presented in this market assessment report, the EU Member States can help to ensure that microfinance and BDS play a full and effective role in supporting entrepreneurial TCNs and their contribution to the EU economy.

Housing

Europe's large and diverse migrant populations face significant challenges in accessing affordable and decent housing, despite evidence that this is a critical factor for integration. Housing is a national competence, but the EU seeks to provide incentives through soft law and financial instruments to support asylum seekers, refugees and the beneficiaries of international protection. These are among the most vulnerable groups facing financial and regulatory barriers as well as discrimination in accessing housing finance.

A critical bottleneck is the moment at which most of asylum seekers, refugees and beneficiaries of international protection have to leave the reception system to find accommodation in the private rental market. This often means that TCNs become homeless, live in overcrowded accommodation and are overburdened by housing costs, increasing their risk of living in poverty. On the other hand, public sector housing providers (local or national government) and their affiliates (e.g. social housing agencies, reception centres) also face financial and regulatory barriers, while the number of non-institutional housing providers such as private households (e.g. those who have recently received Ukrainians) is decreasing due to the lack of rent subsidies.

The study identifies examples of personal micro-credit for housing for TCNs as a potential empowerment tool for financing housing, as positive impacts on employability, health and mobility could be demonstrated within the same segment. Amidst the changing financing landscape of the social housing sector, driven by reduced public investment, social housing providers have adopted a variety of financing strategies involving debt and equity. These include selling existing dwellings to secure further borrowing, using a mix of government-backed and market loans, and drawing on different sources such as public grants and private loans.

A significant financing gap has been calculated and identified in the market assessment, underlining the need for more public investment to finance the housing sector, including through financial instruments and lending from international financial institutions (IFIs) such as the EIB and CEB. At the same time, financial instruments targeted at TCNs can avoid discriminatory practices and increase their agency compared to the current subsidy and grant based mechanisms.

Social impact investments

The study shows that SII schemes could be an innovative way of addressing TCNs' needs while, at the same time, reducing the financial constraints affecting enterprises and organisations working in the social economy.

The social economy plays a key role in the European economy, with nearly 3 million entities operating in it, of which around 400 000 are social enterprises which are often seen as key drivers in creating new business models and innovative social solutions for addressing social challenges. They also play a key role in supporting TCNs, as these are targeted by nearly 20% of EU social enterprises. However, they suffer several challenges, for instance, in terms of a lack of visibility and unbalanced legal framework and difficulties in accessing markets. Financial support is by far the most common barrier for social enterprises, as they lack options for financing (especially in the initial phase after the establishment of the organisation), public support schemes, supportive fiscal framework and long-term capital. Overall, nearly 40% of social enterprises' funding needs are unmet. Financial needs for social enterprises, in general, are up to EUR 250 000 with the most common being around EUR 50 000. They mostly rely on public financing or self-financing in the form of cash flow and own savings. Rarely do they look for financial instruments, such as a loan. Moreover, a very limited number of social enterprises seek impact investment. Different factors can explain this low preference for more innovative ways of financing: social enterprises tend to be small in size, they have a low investment readiness, their governance model is not attractive for investors, and the time horizon for the targets to be achieved by social enterprises and investors is often not aligned.

By contrast, the SII supply side shows a nascent but growing market in the EU. Investors for impact were estimated to have supported social organisations with more than EUR 6 billion in 2019, and nearly 30% of them have targeted TCNs. In recent years, innovative SII schemes supporting social organisations working with TCNs have generated a significant added value in terms of financial stability for investees, continuous dialogue and cooperation between services providers outcome founders and investors, savings for public budgets, and capacity to monitor and assess the social impact. In all these experiences, the existence of an efficient intermediation infrastructure, the appropriate understanding of the local context, and coordination among the different public bodies have been crucial for the successful achievement of the expected impact targets, for the reduction of the information asymmetries, and the encouragement of public authorities to gain experience in using innovative financial instruments. Without these elements, implementing a SII scheme could be very challenging. In most of the EU contexts, therefore, a gradual approach to SII is recommended.

01 Introduction

1.1 Context of the study

Migration to Europe is not a new phenomenon. As President of the European Commission Ursula von der Leyen stated in her State of the Union Address at the European Parliament Plenary on 16 September 2020[1], *'Migration has always been a fact for Europe – and it will always be. Throughout centuries, it has defined our societies, enriched our cultures and shaped many of our lives. And this will always be the case'*.

Also in recent years, the EU welcomed a significant and growing number of incoming TCNs[2]. The large number of arrivals in 2015/16 and 2022 placed enormous demands on the institutional and budgetary capacities of individual Member States and the EU as a whole and have significant political and societal implications. The future forecasts indicate that migration from outside the EU will not only persist but also remain necessary to address growing demand for the workforce across various sectors.

Efficient and comprehensive management of migration, including integration and inclusion of migrants, is a key priority for the EU. The European Commission's Action Plan on Integration and Inclusion 2021-2027[3] outlines the importance of effectively integrating migrants and EU citizens with a migrant background to foster cohesive, resilient, and prosperous European societies. The Action Plan focuses on four main sectoral areas: education, employment, health, and housing.

Figure 1: European Commission's Action Plan on Integration and Inclusion 2021-2027 – main sectoral areas

Education	Employment	Health	Housing
Training programmes for TCNs and capacity building of teachers and social workers.	Capacity building of service providers, investment and support for entrepreneurship	Training and capacity building of service providers. Access to health, psycho-social and rehabilitation services.	Construction and refurbishment of temporary housing. Access to services.

To support the implementation of the Action Plan's objectives, Member States are encouraged to use Asylum, Migration and Integration Fund (AMIF) resources alongside other EU shared management Funds such as the European Social Fund Plus (ESF+) and European Regional Development Fund (ERDF) and other resources to support programmes and measures aimed at achieving the goals of the Action Plan.

1 European Commission, 2020, 'State of the Union Address by President von der Leyen at the European Parliament Plenary', Brussels, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655.

2 This study focuses on TCNs, defined as any person who is not a citizen of the EU within the meaning of Article 20(1) of Treaty on the Functioning of the European Union (TFEU) , and who does not have EU rights to free movement, as defined in Article 2(5) of the Regulation (EU) 2016/399 of the European Parliament and of the Council of 9 March 2016 on a Union Code on the rules governing the movement of persons across borders (Schengen Borders Code).

3 European Commission, 2020, 'EU Action Plan on Integration and Inclusion (2021-2027)', Brussels https://ec.europa.eu/migrant-integration/news/ec-reveals-its-new-eu-action-plan-integration-and-inclusion-2021-2027_en.

The setting up and implementation of AMIF programmes for the 2021-2027 programming period are subject to the application of the Common Provisions Regulation[4] (CPR), which provides for the possibility to use resources through financial instruments, e.g. loans, guarantees, equity.

Financial instruments can be established in the programmes in a standalone mode or in combination with grants. This delivery mechanism, alternative or complementary to the 'traditional' form of support through grants, is a novelty for AMIF in the 2021-2027 programming period.

1.2 Objectives and scope of the study

The objective of this study, conducted by fi-compass[5], is to present a comprehensive overview of the potential for financial instruments co-financed with AMIF and/or other resources to support the integration of migrants in the 2021-2027 programming period and beyond.

The study explores three key areas, as identified in the fi-compass factsheet: Asylum, Migration and Integration Fund (AMIF) - Financial instruments[6], that have shown in the initial analysis of fi-compass the most promising prospects for financial instruments: microfinance, housing and social impact investing.

Figure 2: Key areas explored in the study

Microfinance
supporting low-cost loans to entrepreneurs through specialist institutions that also provide non-financial support to help support the successful launch of the business.

Housing
financing all or part of the costs of provision of temporary accommodation, for example as part of an urban development financial instrument lending to municipalities and other public authorities.

Impact investing
equity and quasi-equity investment in small and medium-sized enterprises (SMEs), including social enterprises that provide services or facilities that help achieve AMIF policy objectives, including social outcomes contracting projects.

The study intends to provide a solid and evidence-based framework enabling an informed decision as to whether and how to implement financial instruments, in combination with grants, to support migrant integration. It also aims to provide a foundation for the future actions of the European Commission and individual EU Member States related to developing financial instruments to support migration, including engagement with the relevant stakeholder groups.

4 Regulation EU 2021/1060.
5 fi-compass is an advisory platform on financial instruments under EU shared management Funds, provided by the European Commission in partnership with the European Investment Bank (EIB). It supports managing authorities and other stakeholder groups involved or considering becoming involved in financial instruments, with practical know-how and learning tools on financial instruments. More background information about fi-compass may be found on the website: https://www.fi-compass.eu.
6 Fi-compass, 2020, 'Asylum, Migration and Integration Fund', https://www.fi-compass.eu/sites/default/files/publications/AMIF_factsheet_financial%20instruments_web.pd.f

The study is divided into two parts:

- Part 1: Market assessment report (this part);
- Part 2: Design options for financial instruments report.

Part 1 of the study intends to provide a good understanding of the practical needs of the ecosystems related to the three areas: microfinance, housing and social impact investing, and assesses:

- financing needs of the potential final recipients;
- market failure and barriers affecting the potential demand for future support;
- public and private support available to meet the funding requirements of the prioritised sectors;
- capacity and readiness of public bodies and private stakeholders for social investments and implementation of the financial instruments;
- sectors in which FIs are justified.

The Market assessment report is complemented by six country reports for selected Member States: France, Germany, Italy, Lithuania, Poland and Romania.

Part 2 of the study intends to describe specific financial instruments suitable for meeting the needs identified in Part 1 of the study. Part 2 aims to:

- outline the types of financial instruments incl. in combination with grants, with the potential to further support the integration of migrants;
- analyse the eligibility criteria for the areas in which they can potentially be implemented;
- outline the implementation options for these recommendations, as well as regions potentially most suitable for first actions;
- feature case studies and lessons learnt.

The scope of this study covers potential financial instruments supporting migrant integration under AMIF, as well as other resources such as InvestEU ESF+ and ERDF. It also looks thoroughly into the broad possibilities to combine financial instruments and grants in line with the CPR as well as other methods of bringing different resources and forms of support together.

Third-country nationals (TCNs)

This study focuses on TCNs, defined as any person who is not a citizen of the EU within the meaning of Article 20(1) of the Treaty on the Functioning of the European Union (TFEU)[7], and who does not have EU rights to free movement, as defined in Article 2(5) of the Regulation (EU) 2016/399 of the European Parliament and of the Council of 9 March 2016 on a Union Code on the rules governing the movement of persons across borders (Schengen Borders Code)[8].

TCNs are a sub-group of the broader 'migrant' group. A migrant is understood in the EU/EFTA context as a person who either:

- establishes their usual residence in the territory of an EU/EFTA Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another EU/EFTA Member State or a third country; or
- having previously been usually resident in the territory of the EU/EFTA Member State, ceases to have their usual residence in the EU/EFTA Member State for a period that is, or is expected to be, of at least 12 months.

7 Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12016E020.
8 Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32016R0399.

This definition is derived by the European Migration Network (EMN) from Eurostat's Concepts and Definitions Database and the UN Recommendations on Statistics of International Migration.

Several sources of data and information define migrants as both TCNs and EU-mobile citizens, so it was not possible to use these sources in this study.

'Refugees' are a sub-group of TCNs. The term is defined in the EU context in Art. 2(d) Recast Qualification Directive[9] as either a TCN who, owing to a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership of a particular social group, are outside the country of nationality and are unable or, owing to such fear, are unwilling to avail themselves of the protection of that country, or stateless people who, being outside of the country of former habitual residence for the same reasons as mentioned above, are unable or, owing to such fear, unwilling to return to it, and to whom Art. 12 (Exclusion) does not apply[10].

The term 'Asylum seekers' can be derived in the EU context from Art. 2(b) (Asylum Procedures Directive)[11]. An 'asylum seeker' is a TCN or stateless person who has made an application for protection under the Geneva Refugee Convention and Protocol in respect of which a final decision has not yet been taken.

Taking these definitions into consideration, the study will focus on legally residing TCNs who either:

- reside in the territory of EU Member States;
- hold a residence permit, defined as any authorisation issued by the authorities of an EU Member State allowing a non-EU national to stay legally in its territory, in accordance with the provisions of Regulation (EU) No 265/2010 (Long Stay Visa Regulation)[12];
- hold a work permit, which in the EU context is a legal document issued by a competent authority of an EU Member State stating the right of a TCN to work in its territory during the period of validity of the permit;
- hold long-term resident status as provided for under Articles 4 to 7 of Council Directive 2003/109/EC (Long Term Residents Directive) or as provided for under national legislation[13];
- hold refugee status, defined as a TCN who, owing to a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership of a particular social group, is outside the country of nationality and is unable or, owing to such fear, is unwilling to avail themselves of the protection of that country, or a stateless person, who, being outside of the country of former habitual residence for the same reasons as mentioned above, is unable or, owing to such fear, unwilling to return to it, and to whom Article 12 (Exclusion) of Directive 2011/95/EU (Recast Qualification Directive)[14] does not apply;

9 Directive 2011/95/EU.

10 Migration and Home Affairs, 'Refugee definition', https ://home-affairs.ec.europa.eu/networks/european-migration-network-emn/emn-asylum-and-migration-glossary/glossary/refugee_en.

11 Council Directive 2005/85/EC.

12 Regulation (EU) No 265/2010 of the European Parliament and of the Council of 25 March 2010 amending the Convention Implementing the Schengen Agreement and Regulation (EC) No 562/2006 as regards movement of persons with a long-stay visa, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010R0265.

13 Council Directive 2003/109/EC of 25 November 2003 concerning the status of third-country nationals who are long-term residents, A https://eur-lex.europa.eu/legal-content/en/ALL/?uri=celex%3A32003L0109.

14 Directive 2011/95/EU of the European Parliament and of the Council of 13 December 2011 on standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection, for a uniform status for refugees or for persons eligible for subsidiary protection, and for the content of the protection granted (recast), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32011L0095.

- benefit from temporary protection, in the form of an exceptional measure to provide immediate and temporary protection in the event of a mass influx or imminent mass influx of displaced persons from non-EU countries who are unable to return to their country of origin, assessed in accordance with the 2001 Temporary Protection Directive[15];
- have submitted an asylum claim for protection under the Geneva Refugee Convention and Protocol in respect of which a final decision has not yet been taken.

The study does not focus on:

- TCNs whose legal status is outside those listed above;
- unaccompanied minors, who are by definition persons who arrive in the territory of an EU Member unaccompanied by the adult responsible for them by law or according to the practice of the EU Member State concerned, and for as long as they are not effectively taken into the care of such a person, or who is left unaccompanied after they have entered the territory of the EU Member State.

The below data on the overall situation of TCNs show that this target group is highly relevant within the EU for potential financial instruments in all three areas explored in this study. In addition to indicating a significant number of final beneficiaries of potential financial instruments, this data also indicate a significant economic potential for public budget revenues. Working-age TCNs can be economically active by becoming employed or self-employed, and thus make a significant contribution to the economy through their employment or entrepreneurial activities.

There is a substantial number of TCNs in the EU – over 26 million live in the 27 Member States as of the end of 2022 and they constitute 6% of the total population of the European Union. The majority of TCNs (20.5 million) are of the working age (14/15-64)[16] and the largest numbers of them are seen in Germany (5.5 million), Italy (2.9 million), Spain (2.8 million), France (2.7 million) and Poland (0.9 million)[17].

15 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:32001L0055.

16 In case of TCNs with residence permit the age bracket is 15-64, in case of the beneficiaries of temporary protection, the age bracket is 18-64.

17 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 and Eurostat, 2023, 'Beneficiaries of temporary protection at the end of the month by citizenship, age and sex [MIGR_ASYTPSM]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_ASYTPSM__custom_6394947/default/table?lang=en.

Table 1: Number of working age (14/15-64 years) TCNs by country[18]

Country	Number of TCNs
Austria	622 758
Belgium	465 778
Bulgaria	172 536
Croatia	33 452
Cyprus	69 548
Czechia	620 681
Denmark	265 311
Estonia	143 647
Finland	186 121
France	2 711 011
Germany	5 477 469
Greece	524 425
Hungary	109 672
Ireland	256 314
Italy	2 873 466
Latvia	160 230
Lithuania	69 146
Luxembourg	48 324
Malta	52 468
Netherlands	548 978
Poland	946 826
Portugal	478 113
Romania	89 603
Slovakia	85 107
Slovenia	128 974
Spain	2 888 439
Sweden	477 920
Total	**20 506 317**

TCNs are not a heterogenous group and have diverse needs. As indicated in the table below, the largest share of the productive age TCNs are in their thirties (28%), followed by the segments of thirty years old (23%) and fifty years old (23%).

18 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 and Eurostat, 2023, 'Beneficiaries of temporary protection at the end of the month by citizenship, age and sex [MIGR_ASYTPSM]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_ASYTPSM__custom_6394947/default/table?lang=en.

Table 2: Number of working age (15-64 years) TCNs with residence permits[19] by age[20]

Age bracket	% working age TCNs with residence permits
15-19 years	6%
20-29 years	23%
30-39 years	28%
40-49 years	23%
50-59 years	15%
60-65 years	5%

Table below shows that there is a gender balance with male TCNs (49%) almost as numerous as female TCNs (51%).

Table 3: Number of working age (14/15-64 years) TCNs[21] by gender[22]

Gender	% working age TCNs
Male	49%
Female	51%

TCNs come to the EU from diverse regions and countries. The largest number of working age TCNs are from Ukraine (3.3 million), followed by Morocco (1.5 million) and Turkey (1.4 million)[23]. The main reasons for migration stated at the time of applying for the first residence permit are employment (54%) and family reasons (17%) but there is also a sizeable share (36%) of TCNs with other reasons for migration[24].

The vast majority of working age TCNs (70%) are settled residents who arrived in the host country more than five years ago. However, for many of them future residency is insecure: only less than half of all working age TCNs (41% or 8.3 million) enjoy a stable situation holding long-term residence permits valid for five years or more. The remainder of the working-age TCNs will need to renew their permits within five years[25].

19 Data for TCN residence permit holders only; such detailed age data were not available for TCNs beneficiaries of temporary protection.
20 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 and Eurostat Beneficiaries of temporary protection at the end of the month by citizenship, age and sex [MIGR_ASYTPSM], compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_ASYTPSM__custom_6394947/default/table?lang=en.
21 Both TCN residence permit holders and beneficiaries of temporary protection.
22 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 and Eurostat, 2023, 'Beneficiaries of temporary protection at the end of the month by citizenship, age and sex [MIGR_ASYTPSM]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_ASYTPSM__custom_6394947/default/table?lang=en.
23 Eurostat, 2023, 'All valid permits by reason, length of validity and citizenship [MIGR_RESVALID]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_RESVALID__custom_6402731/default/table?lang=en and Eurostat, 2023, 'Immigration by age group, sex and citizenship [MIGR_IMM1CTZ]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_IMM1CTZ/default/table?lang=en.
24 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 (Does not include Ukrainian war refugees arriving in the EU countries after 24.02.2022).
25 Eurostat, 2023, 'Immigration by age group, sex and citizenship [MIGR_IMM1CTZ]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_IMM1CTZ/default/table?lang=en and Eurostat, 2023, 'Beneficiaries of temporary protection at the end of the month by citizenship, age and sex [MIGR_ASYTPSM]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_ASYTPSM__custom_6394947/default/table?lang=en.

1.3 Methodology

The study was undertaken at EU level. It draws on findings from a range of sources and inputs including desktop research, online discussions, semi-structured interviews and focus group meetings.

In addition, two fi-compass thematic workshops organised on 19 January 2023 and 15-16 March 2023 were used to collect additional inputs from stakeholder groups, including the AMIF managing authorities of thirteen Member States.

The document is based on data and information available as of 1 June 2023.

The approach to the calculation of the financing gaps is described in the respective chapters dedicated to the three areas explored in the study: microfinance, housing and social impact investing.

By definition, a financing gap (for a specific sector) arises from unmet financing demand from economically viable enterprises (operating in the same sector). This unmet demand includes two major elements:

- lending applied for by the viable enterprises, but not obtained;
- lending not applied for by the viable enterprises due to expected rejection of the application by a financial institution.

The key study limitations identified in the course of preparation of the study are listed below:

- statistical data partly does not include most recent developments such as the effects of the 2022 Ukraine refugee influx;
- differences in definitions and data available for slightly different categories, e.g. migrants (which also includes EU-internal migrants), TCNs, refugees;
- lack of specific data, for instance disaggregated data by nationality or administrative status for access to housing or finance for housing, data on financial welfare of TCNs households at different stages of their integration;
- complexity of expertise required (migration, FIs, EU policy, housing) which was challenging for some stakeholders approached for interviews, focus groups and workshops organised.

1.4 Structure of the market assessment report

Part 1 of this fi-compass study, dedicated to the Market assessment, is structured as follows:

- Chapter 2 provides an overview related to microfinance supporting TCNs;
- Chapter 3 provides an overview related to supporting access to housing for TCNs;
- Chapter 4 provides an overview related to social impact investing supporting TCNs.

The Market assessment report is complemented with six country reports for selected Member States: France, Germany, Italy, Lithuania, Poland and Romania.

02 Microfinance supporting migrant integration

Microfinance[26] is recognised as a crucial tool for supporting business creation and development by vulnerable groups such as the unemployed, migrants, women, people with disabilities and students. The European Commission's 'Market analysis and recommendations for delivery options in 2021-2027: final report'[27] highlights the importance of EU-level initiatives to strengthen microfinance markets, particularly for vulnerable groups, in order to help achieve EU policy objectives related to social inclusion, entrepreneurship, and employment. Microfinance holds particular relevance for disadvantaged people who have been excluded from traditional banking and related services. It serves as an established tool that can work alongside other measures (such as business development services) to enable TCNs to successfully integrate into the EU.

2.1 Overview of conditions and needs: TCNs and entrepreneurship

2.1.1 Arrival to the EU and residence

TCNs have various pathways to obtaining a residence permit in an EU Member State. In general, a distinction can be made between TCNs and asylum seekers.

Third-country nationals (TCNs)

When entering their EU host country, TCNs typically possess visas issued in their home country or passports in the case of countries under the visa-free regime[28]. Before expiry of the visa or before the end of a 90-day period in the case of non-visa movements, TCNs must apply for a temporary residence permit which is issued for a specific period and can be renewed multiple times. The Council Directive 2003/109/EC on the status of third-country nationals who are long-term residents[29] sets out the conditions for granting permanent residence permits and recommends that a person who has lived legally in an EU Member State for an uninterrupted period of five years should receive permanent residence. The exact requirements are specified in national legislation in every EU Member State. Eligibility for a permanent residence permit usually requires a minimum number of years of residency in the country, often accompanied with additional requirements such as language proficiency, stable and sufficient income and/or special humanitarian status (e.g. victims of human trafficking). As of mid-2023, the Long-term Residents Directive[30] has been recast aiming to create a more effective, coherent and fair system to acquire EU long-term resident status.

26 The European Commission's current definition of microcredit is 'a loan of up to EUR 50 000' (source: Commission Delegated Regulation (EU) 2021/1078).
27 European Commission, 2020, 'Microfinance in the European Union: market analysis and recommendations for delivery options in 2021-2027', https://data.europa.eu/doi/10.2767/005692.
28 61 non-EU countries, two special administrative regions of China (Hong Kong and Macao) and one territorial authority that is not recognised as a state by at least one EU Member State (Taiwan).
29 Council Directive 2003/109/EC of 25 November 2003 concerning the status of third-country nationals who are long-term residents, http://data.europa.eu/eli/dir/2003/109/2011-05-20.
30 Proposal Directive 2022/0134(COD) of 27 March 2022 concerning the status of third-country nationals who are long residents, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2022:650:FIN.

Asylum seekers

The asylum granting procedures in each EU Member State are aligned with the Common European Asylum System (CEAS)[31], in particular, the Asylum Procedures Directive (2013/32/EU[32]), the Qualification Directive (2011/95/EU[33]) and the Dublin Regulation (604/2013[34]).

Upon entering an EU country, asylum seekers receive proof of entry documents until the time they place an asylum application. Once they apply for refugee status, they receive a temporary residence permit for the duration of the asylum procedure, usually six months, with a possibility of extension.

Once a positive asylum decision is made, persons recognised as refugees receive a residence permit valid for a minimum of three years. Some countries grant longer validity residence permits for five years (Spain, Italy, Belgium, Portugal and the Netherlands) or even for 10 years (France and Slovenia). As in the case of other types of migrants (migrants arriving for family reunification, education, employment reasons), asylum seekers can apply for a permanent residence permit after a minimum of five years of living in the host country.

Displaced people from Ukraine arriving to the EU after 24 February 2022 receive temporary residence permits based on the national-level acts on assistance to Ukrainian citizens in connection with the armed conflict following the EU Council's Implementing Decision on activating the Temporary Protection Directive[35]. Ukrainian refugees could receive one-year residence permits in 2022, extended in 2023 until March 2024. All EU Member States have implemented the Temporary Protection Directive by setting up initial application processes for eligible individuals.

2.1.2 Access to the labour market

Access to employment is possible for TCNs arriving to an EU country on a work visa and also for residence permit holders. In the case of asylum applicants awaiting a decision, work is permitted within nine months of lodging an asylum application at the latest and usually within three to six months, depending on the Member State, but a work permit is required.

While access to the labour market is not restricted as such for the majority of TCNs, there are barriers to accessing certain professions. In all EU Member States the recognition procedures for professions regulated by a professional body (such as doctors, dentists) are generally lengthy, bureaucratic and expensive. Diplomas for non-regulated professions tend to be evaluated at different levels by different universities and National Recognition Information Centres (NARICs). However, they tend to be generally less valued than EU diplomas[36].

In some countries (e.g. France, Latvia, Romania, Slovakia), having the citizenship of the country is a requirement to access certain sectors and activities, which are solely for nationals. Those sectors are normally linked to public security or the legal practice[37].

31 Migration and Home Affairs, 'Common European Asylum System', https://home-affairs.ec.europa.eu/policies/migration-and-asylum/common-european-asylum-system_en.

32 Directive 2013/32/EU of the European Parliament and of the Council of 26 June 2013 concerning common procedures for granting and withdrawing international protection, http://data.europa.eu/eli/dir/2013/32/oj.

33 Directive 2011/95/EU of the European Parliament and of the Council of 13 December 2011 concerning standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection […], http://data.europa.eu/eli/dir/2011/95/oj.

34 Regulation (EU) 604/2013 of the European Parliament and of the council of 26 June 2013 establishing criteria and mechanisms for determining the Member State responsible for examining an application for international protection […], http://data.europa.eu/eli/reg/2013/604/2013-06-29.

35 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/ECand having the effect of introducing temporary protection, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022D0382.

36 European Council on Refugees and Exiles, 2007, 'Policy briefing on the assessment of skills and recognition of qualifications of refugees and migrants in Europe'.

37 Solano G, 2021, A level playing field for migrant entrepreneurs? The legal and policy landscape across EU and OECD countries.

2.1.3 Access to self-employment

Although in many EU Member States access to self-employment is widely available to TCNs, only four countries (Finland, Italy, Poland and Portugal) grant full and immediate migrant access to entrepreneurship opportunities. The ability of migrants to create businesses is limited in different ways:

- Some groups of migrants are excluded from the possibility of starting a business. For instance, in some countries, TCNs on temporary residence permits can only start a business after one year of residence (Slovenia), while in others this is only permitted for family reunification permit holders if their sponsor has a permanent residence permit (Cyprus, Latvia);
- Access to self-employment is often limited for work visa holders and migrants on temporary work permits, especially within the first year. This is connected to restrictions on changing employer or profession (the Netherlands, Sweden);
- Recognised refugees and beneficiaries of subsidiary protection can start a business, while asylum seekers pending confirmation of their status cannot, even though this does not prevent them from legally working after a period determined by the Member State (generally three to six months);
- Some countries set limiting conditions on migrant business creation, such as requiring a licence to work as self-employed (Belgium, Malta), certificate of language skills, detailed business plan, proof of at least two years of professional experience (Bulgaria) or a permit to engage in any income-generating activity, both as employed and self-employed, in the case of family reunification permit holders (Hungary). There are countries where migrants can start a business only if they invest a specified sum of money (Cyprus, Malta)[38].

Transition pathways to self-employment

TCNs beginning their entrepreneurship journey change their economic status from no economic activity, informal business or 'wage-earning' employment. Each of these three positions offers a different starting point and affects the way a new business is created. However, the main motivation for starting a business is to improve income, often coupled with improving social standing and self-esteem.

- **Transition from economic inactivity to self-employment**

TCNs who are not engaged in any income generating activity (wage employment and self-employment) are a very heterogenous group. They include family members remaining outside of the labour force because of family duties, the long-term unemployed or marginally employed as well as unemployed recent migrants. Each of these groups faces severe barriers to entering the labour market such as, for example, language barriers, unfamiliarity with regulations, limited skill-sets, unrecognised diplomas and qualifications, lack of relevant work experience, etc. Self-employment is often the only economic opportunity for them.

- **Transition from informal income-generating activity to registered self-employment**

One of the strategies for testing business ideas in low-investment sectors is to launch an informal business first. Such an approach is seen among some migrant women from Ukraine and Belarus in Poland who run businesses, for example in the beauty services sector. A qualitative study[39] revealed that women often begin providing services informally to other migrants from their ethnic group. The motivation to register the business came from the desire to expand the business to serve the national population.

38 Solano G, 2021, A level playing field for migrant entrepreneurs? The legal and policy landscape across EU and OECD countries.
39 Homel K, 2022, Agency and Social Relations in the Search for a Better Life: Female Migrant Entrepreneurs in Poland. Central and Eastern European Migration Review, Vol. 11, No. 2, 2022, pp. 33–52.

- **Transition from wage employment to self-employment**

Another strategy to enter self-employment is to launch a business while still in wage employment. The advantage of this approach is that the business idea can be developed over a longer period without the pressure of economic outcomes. The additional factor for the success of such businesses is experience in a certain field of work, which can produce knowledge transfer. An example is that of construction workers who acquire job experience as a hired worker on building sites and begin offering home conversion and refurbishment services as individuals. As soon as they build a client base, usually through referrals, they leave their paid jobs and register their self-employed activity.

- **Newcomers on entrepreneurship visas**

Some TCNs arrive in the host country with the intention of immediately opening a business and with permission to do so. The two types of visa for entrepreneurs migrating from third countries are start-up visa programmes[40] for growth-oriented, globally minded business founders with sufficient financial resources for initial investment, and traditional entrepreneur visas[41] for self-employed and microbusinesses in commercial, industrial, agricultural activity or in a liberal profession. In both cases, newcomers start their business immediately after arrival in the host country and if successful, can convert entrepreneurship visas into long-term residence permits.

The fourth pathway to entrepreneurship starts in the home country before the arrival to the EU.

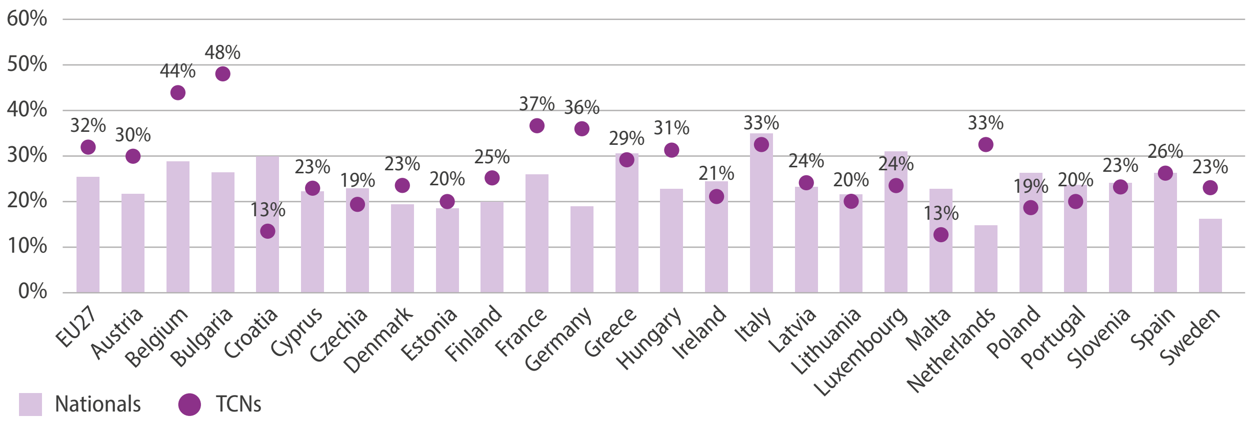
2.1.4 Data on TCNs' employment and entrepreneurship tendencies

European statistics and many national-level studies show that TCNs experience harsher economic conditions than EU citizens.

As displayed in the figure below, working-age TCNs are more often outside the labour force[42] in comparison to the national population (32% of TCNs vs. 26% of nationals)[43]. The highest incidences of being outside the labour force are seen in Bulgaria and Belgium and also among TCNs who have migrated for family reasons (45%) as well as among asylum seekers (41%)[44].

40 Available in Denmark, Estonia, Finland, Lithuania, Netherlands.
41 Available in Cyprus, Germany, France, Ireland, Italy, Spain.
42 People outside the labour force (also called economically inactive persons) are those classified neither as employed nor as unemployed. (Eurostat definition).
43 Eurostat, 2023, Population by sex, age, citizenship and labour status (1 000) [lfsa_pganws], complied by MFC; at https://ec.europa.eu/eurostat/databrowser/view/LFSA_PGANWS__custom_6008509/default/table?lang=en.
44 Eurostat, 2023, Foreign-born population by sex, age, main reason for migrating, citizenship and labour status, compiled by MFC; https://ec.europa.eu/eurostat/databrowser/view/LFSA_PFGANWSM__custom_6008541/default/table?lang=en.

Figure 3: Population outside labour force in percent: working-age nationals and TCNs



Source: Eurostat Population by sex, age, citizenship and labour status (1 000) [lfsa_pganws] extracted on 10/05/2023, compiled by MFC45. Data for Romania and Slovakia are not available.

Among the working-age economically active TCNs, 13% were unemployed compared to 6% of the nationals. The highest unemployment rates of TCNs were seen in Sweden (24%), Spain (21%) and Greece (20%)[46]. The reason for the migration does not seem to affect employability – the same unemployment rate was seen among TCNs migrating for family, employment, education and other reasons[47].

Figure 4: Unemployment rate among working-age nationals and TCNs (in percent)

Source: Eurostat Population by sex, age, citizenship and labour status [lfsa_pganws] extracted on 10/05/2023, compiled by MFC[48]. Data for Bulgaria, Croatia, Hungary, Poland, Romania and Slovakia are not available.

Across the EU, 48.6% of TCNs are at risk of poverty or social exclusion compared to 19.8% among the native populations of host country. In 11 countries, the risk of poverty affected more than twice as many TCNs as non-migrants[49].

45 Eurostat, 2023, 'Population by sex, age, citizenship and labour status (1 000)', https://ec.europa.eu/eurostat/databrowser/view/LFSA_PGANWS__custom_6387415/default/table?lang=en.

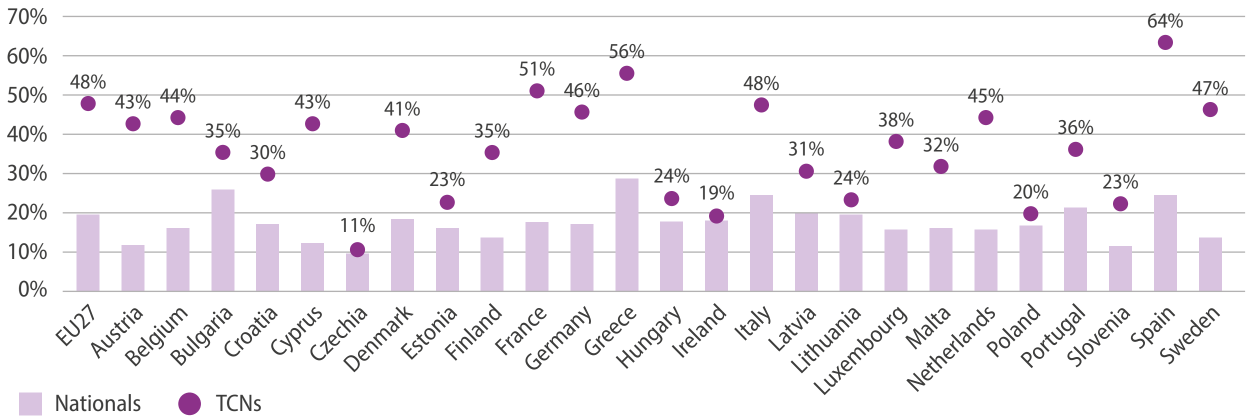
46 Eurostat, 2023, 'Population by sex, age, citizenship and labour status (1 000) [lfsa_pganws]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/LFSA_PGANWS__custom_6008563/default/table?lang=en.

47 Eurostat, 2023, 'Foreign-born population by sex, age, main reason for migrating, citizenship and labour status [lfsa_pfganwsm]'; compiled by MFC; https://ec.europa.eu/eurostat/databrowser/view/LFSA_PFGANWSM__custom_6008541/default/table?lang=en.

48 Eurostat, 2023, 'Population by sex, age, citizenship and labour status (1 000)', https://ec.europa.eu/eurostat/databrowser/view/LFSA_PGANWS__custom_6387682/default/table?lang=en.

49 Eurostat, 2023, 'Persons at risk of poverty or social exclusion by group of citizenship', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/ILC_PEPS05N__custom_6387802/default/table?lang=en.

Figure 5: Working-age nationals and TCNs at risk of poverty or social exclusion (in percent)



Source: Eurostat Persons at risk of poverty or social exclusion by group of citizenship [ilc_peps05], extracted on 10/05/2023, compiled by MFC[50]. Data for Romania and Slovakia are not available.

2.1.5 Migrant entrepreneurship

Migrant entrepreneurship theoretical framework

The theoretical framework of migrant entrepreneurship is based on two concepts:

- the embeddedness of migrant entrepreneurs in networks, and
- the process of opportunity creation.

The uniqueness of migrant entrepreneurship can be explained using the concept of mixed embeddedness[51] which considers migrants and their economic activities as being embedded in different environments in order to access specific resources and markets. The environments include the origin country networks, the host country migrant (ethnic) networks and the host country indigenous networks[52].

Arriving in a host country, migrants experience disembeddedness from their country of origin. Host country ethnic communities help to create a 'home away from home' and provide an opportunity to draw on resources, which migrant entrepreneurs use to create opportunities, initially within the ethnic community market. Effective integration into the co-ethnic community limits the need to integrate with host country networks. However, overtime, migrants become embedded in host country mainstream/native networks, build social and professional relationships, and reach out to host country markets.

Mixed embeddedness creates an opportunity to use the resources of the three types of networks, each of which offers multiple opportunities. Migrant entrepreneurs are often over-embedded within co-ethnic social networks, which limits opportunities, although there are examples of enterprises drawing on resources of two or even three types of networks.

50 Eurostat, 2023, 'Persons at risk of poverty or social exclusion by group citizenship (population aged 18 and over)', https://ec.europa.eu/eurostat/databrowser/view/ILC_PEPS05N__custom_6387802/default/table?lang=en.

51 Harima A, Murphy T., Periac F., Entrepreneurial Opportunities of Refugees in Germany, France, and Ireland: Multiple Embeddedness Framework. International Entrepreneurship and Management Journal,June 2021.

52 Lassalle P., Johanson M., Nicholson J., Ratajczak-Mrozek M. Migrant entrepreneurship and markets: the dynamic role of embeddedness in networks in the creation of opportunities: Industrial Management Journal, November 2020.

The effectuation theory[53] links embeddedness in networks with opportunity creation through the process of starting an enterprise from available resources, a set of 'means'. This 'bird in hand' principle is means-based rather than goal oriented: the entrepreneur analyses the available resources and tries to answer the question – 'what can I do with these means?' The 'crazy quilt' principle refers to the continuous process of identifying new stakeholders and networks to engage with. Migrant entrepreneurs focus on what they have ('bird in hand') accessed through different networks ('crazy quilt'). Effectuation is based on unplanned processes, relying on non-predictive strategies and on the networks that entrepreneurs join to support their new venture.

Mixed embeddedness and effectuation theory on the example of a Ukrainian female entrepreneur in Poland

Nadia, a Ukrainian migrant in Poland, had been a beautician in Ukraine specialising in facial treatments and manicure. She began offering services soon after arriving in Poland. Initially, her customers were other Ukrainian women. In the beginning, she served her clients in her apartment to test the business idea, refine the service and build a client base. She did this drawing on the resources available to her in the ethnic community. The business expansion – opening a beauty salon – was made possible thanks to her gradual embeddedness in the host country networks. With the improvement of her legal status (obtaining a long-term residence permit), she was able to register her enterprise and lease premises for the salon. She also completed cosmetology training to learn about treatments and beauty standards in the host country and attended language courses. She continued serving women from her ethnic enclave while extending services to women from the host country.

Mixed embeddedness allowed Nadia to draw on resources from the home country (knowledge and experience obtained in Ukraine) and the host country (the training course in Poland) and extend services to both ethnic and mainstream customers.

Nadia launched her business by providing services informally. She started spontaneously with what she had ('bird in hand') in terms of equipment, materials and contacts within her community and gradually added resources and connections from both ethnic and native networks ('crazy quilt').

Source: Homel K. Agency and Social Relations in the Search for a Better Life: Female Migrant Entrepreneurs in Poland. Central and Eastern European Migration Review 2022

Entrepreneurship tendency, success and failure

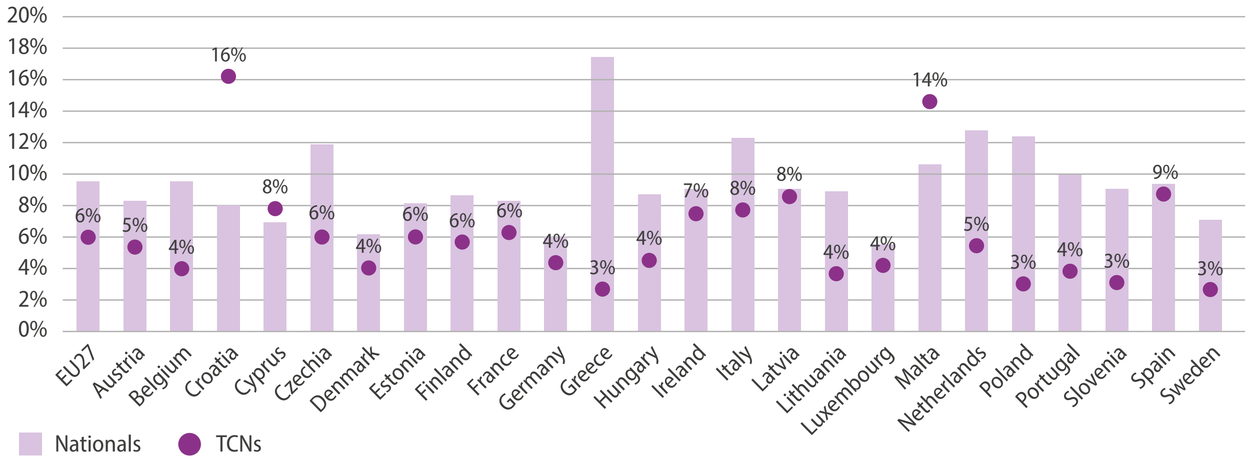
The number of enterprises operated by TCNs in EU Member States exceeded 1 million by the end of 2021. In comparison, the number of self-employed migrants from Member States countries was slightly lower (0.7 million) while the number of self-employed nationals reached almost 24 million. Altogether, self-employed TCNs constitute 4% of all self-employed adults in the Member States[54].

53 Lassalle P., Johanson M., Nicholson J., Ratajczak-Mrozek M. Migrant entrepreneurship and markets: the dynamic role of embeddedness in networks in the creation of opportunities: Industrial Management Journal, 2020.

54 Eurostat, 2023, 'Self-employment by sex, age and citizenship [lfsa_esgan]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/LFSA_ESGAN__custom_6008605/default/table?lang=en.

The entrepreneurship rate[55] of TCNs is lower compared to the number of businesses created by nationals in almost every Member State, with the notable exception of Croatia, where 16% of adult TCNs are self-employed compared to 8% of the country citizens, and Spain where the proportion of entrepreneurial TCNs is almost the same as that of Spanish citizens (9% and 8%, respectively).

Figure 6: Entrepreneurship rate of working-age nationals and TCNs (in %)



Source: Eurostat Self-employment by sex, age and citizenship [lfsa_esgan], extracted on 10/05/2023, compiled by MFC[56]. Data for Bulgaria, Romania and Slovakia are not available.

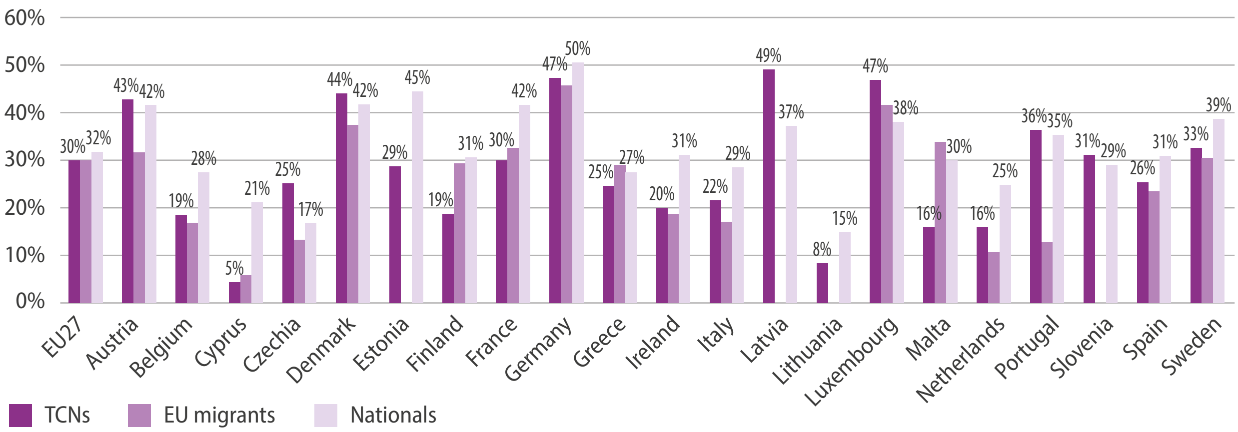
Entrepreneurship rates among women are half of those among men. Only 4% of female TCNs are self-employed compared to 8% among males. This phenomenon is not, however, unique to the TCN population as the same is observed in the host population where the entrepreneurship rate is 12% for males and 6% for females.

Middle-aged (40-59 years old) TCN entrepreneurs are the largest age group among the self-employed (57%) while the young self-employed entrepreneurs constitute 38% of TCN entrepreneurs. Senior TCN businesses are the minority (7%). A similar tendency is seen among the nationals where self-employed between 40 and 59 years old constitute 61% of all self-employed nationals.

About 30% of enterprises operated by TCNs employ staff and thus contribute to job creation. This is only slightly lower than for businesses run by the native population (32%). There are substantial differences between countries. In Latvia and Luxembourg, TCN-operated businesses hire employees far more often than their native counterparts, while in Cyprus and Malta, typical transition countries, TCNs tend to be singlehanded entrepreneurs without additional staff. Migrants from EU countries create jobs just as often as TCNs. Only in a few countries (Finland, France, Greece, Malta), a larger number of EU migrant businesses have employees compared to those of TCNs[57].

55 For the purpose of the study , the entrepreneurship rate is defined as the share of registered enterprises to the number of adults in the population
56 Eurostat, 2023, 'Self-employment by sex, age and citizenship [lfsa_esgan]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/LFSA_ESGAN__custom_6008605/default/table?lang=en.
57 Eurostat, 2023, 'Self-employment by sex, age and citizenship [lfsa_esgan]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/LFSA_ESGAN__custom_6008605/default/table?lang=en.

Figure 7: Share of enterprises with employees among migrants (from EU and non-EU countries) and nationals (% enterprises)



Source: Eurostat Self-employment by sex, age and citizenship [lfsa_esgan], extracted on 10/05/2023, compiled by MFC[58]. Data for Bulgaria, Croatia, Hungary, Poland, Romania, Slovakia are not available.

- **Entrepreneurial propensity**

Little is known about the entrepreneurial spirit of TCNs in the EU Member States apart from the actual numbers of businesses created, presented in the section above. The level of interest in running a business and the efforts undertaken to set up an enterprise were measured by the Global Entrepreneurship Monitor (GEM) survey over ten years ago, in 2012[59]. Data aggregates do not allow for the analysis of the EU countries separately from the other countries in Europe and its neighbourhood.

- **Business performance, success and failure**

Academic studies in several EU countries[60] provide insights into the differences in the performance of migrant and non-migrant businesses.

In many countries, migrant enterprises have higher failure rates and tend to concentrate in low profitability sectors (e.g. petty trade) with limited growth possibilities and are less likely than native businesses to survive for several years. Additionally, migrants become unemployed or leave the labour force after a period of self-employment more often than natives, indicating that they are pushed out of self-employment rather than transitioned to wage-earning jobs.

The most effective ways to ensure good business performance are prior labour market experience in the host country, starting the business with a native co-founder or hiring a local representative of the company.

58 Eurostat, 2023, 'Self-employment by sex, age and citizenship (1 000)', https://ec.europa.eu/eurostat/databrowser/view/LFSA_ESGAN__custom_6008605/default/table?lang=en.
59 Global Entrepreneurship Monitor, 2012, 'Global Report', https://www.gemconsortium.org/report/gem-2012-global-report.
60 Brzozowski, J. 'Entrepreneurship and economic integration of immigrants: a critical review of literature'. International Journal of Entrepreneurship and Innovation Management 23(6):584, 2019.

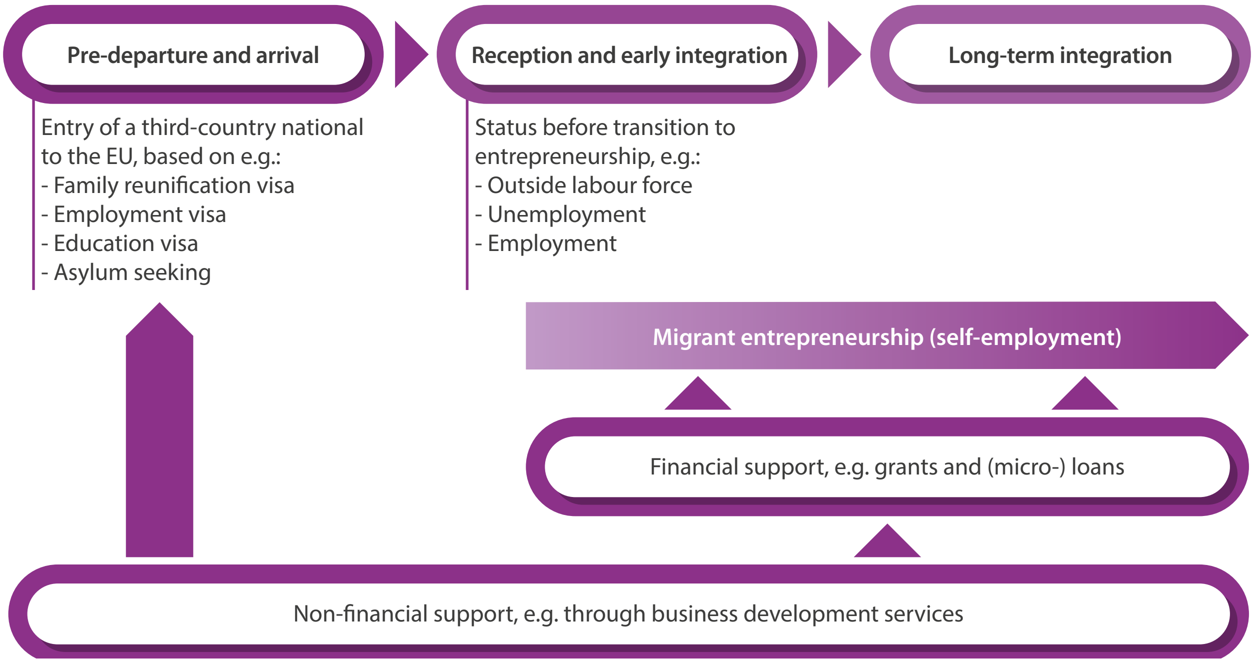
In Sweden[61], incomes from migrant entrepreneurship tend to be significantly lower than those of wage-earning employed immigrants. Additionally, the incomes of self-employed migrants are only marginally higher than those who are economically inactive. In the Netherlands[62], a comparison of the development potential of businesses established by first and second-generation immigrants and native entrepreneurs revealed that second-generation migrant entrepreneurs managed to move from traditional to more promising migrant sectors but were 'no more able to reap the benefits of economically prosperous regions than their parents'. The disadvantageous features of migrant businesses include in-group exploitation, high failure rates, extreme vulnerability, low profits, long working hours and tough competition. Similarly in Spain[63], migrants are not only the least likely to enter self-employment as a first job, but also more likely than Spaniards to exit self-employment. On the other hand, a comparison of the earnings of self-employed and wage employed migrants in Spain revealed a self-employment premium.

However, some studies bring more positive findings. In Germany[64], self-employed migrant men are much more successful in terms of earnings than their salaried counterparts, by an average of 79%. This outcome, however, was possible only through 29% more average weekly working time among self-employed immigrants than those on a payroll.

2.2 Demand side analysis

Third-country nationals embarking on the path to entrepreneurship have a range of financial and non-financial needs, which vary depending on the stage in their integration process and in their enterprise creation.

Figure 8: Transition path of a TCN towards entrepreneurship and non-financial and financial support at the different stages in the integration process



Source: Authors' own elaborations based on interviews and focus groups

61 Backman M., Lopez E., Rowe F. 'The occupational trajectories and outcomes of forced migrants in Sweden. Entrepreneurship, employment or persistent inactivity?', 2020.
62 Beckers, P., & Blumberg, B. F. 'Immigrant entrepreneurship on the move: a longitudinal analysis of first-and second-generation immigrant entrepreneurship in the Netherlands',Entrepreneurship & Regional Development, 25(7-8), 654-691.2013.
63 Caparrós Ruiz, A. 'Self-employment or paid employment as the first job: Evidence from Spain by nationality'. International Journal of Social Economics, 37(12), 951-969.2010.
64 Constant, A., & Shachmurove, Y. 'Entrepreneurial ventures and wage differentials between Germans and immigrants'. International Journal of Manpower, 27(3), 208-229. 2006.

The table below provides an overview of financing products required by TCNs differentiated according to the stage of the integration process based on the three first ones mentioned in the European Commission's Action Plan on Integration and Inclusion 2021-2027: pre-departure measures, reception and early integration, long-term integration, and the building of inclusive and cohesive societies as phases or steps in the integration process.

Table 4: Indicative financial products and services suitable for TCNs along the integration process and business development stage

Enterprise creation stage \ Integration process		Pre-departure measures, arrival	Reception and early integration	Long-term integration
Business idea development and first preparations	Non-financial needs	• Information on procedures and requirements • Training	• Skills validation and qualifications recognition, • Business and language training, • Coaching	• Business and language training, • Mentoring, • Coaching
	Financial needs	n/a	• Friends and family • Grants • Microloans (e.g. from MFIs and public bodies)	• Friends and family • Grants • Microloans (e.g. from MFIs and public bodies) • Investment (e.g. from business angels)
Business creation and development	Non-financial needs	n/a	• Mentoring • Business training,	• Mentoring, • Business incubator support
	Financial needs	n/a	• Friends and family • Grants • Microloans (e.g. from MFIs and public bodies) • Crowdfunding	• Friends and family • Microloans (e.g. from MFIs and public bodies) • (Micro-)investments • (e.g. from business angels) • Crowdfunding
Established business	Non-financial needs	n/a	n/a	• Mentoring
	Financial needs	n/a	n/a	• Microloans and loans (incl. from the traditional banking sector) • (Micro-) investments /Factoring

Source: Authors' own elaborations based on the MFC's previous projects on migrants.

What are business development services (BDS)?

The term Business Development Services (BDS) refers to non-financial services provided, directly or indirectly, by financial intermediaries to micro-entrepreneurs, typically including mentoring, coaching and training services, defined as follows:

- **Coaching**: a more hands-on form of one-to-one tailored-made training in which a coach supports a (potential) micro-entrepreneur to attain a specific goal (i.e. starting up or developing a business) by providing business advice and guidance, which includes (but is not limited to): support on the development of the business plan, and support on accessing funds;
- **Mentoring**: typically a one-to-one learning relationship between an experienced individual who shares knowledge, experience and network to guide a mentee i.e. micro-entrepreneur in the development of their business. It usually takes place after the loan disbursement;
- **Training**: any attempt to improve the skills set of (potential) micro-entrepreneurs in order to enhance business performance and sustainability. Training can be individual or group-based and can take place before and/or after the creation of the micro-enterprise. It includes (not limited to): financial education, training on how to set up a business, and day-to-day business administration.

Source: EIF 'Open Call for Expression of Interest to select Financial Intermediaries under EaSI Guarantee Financial Instrument' 2018

- **Path to entrepreneurship**

Irrespective of their initial circumstances, all start-up businesses follow a common trajectory, progressing from initial orientation, understanding entry conditions and requirements, business idea development, skill acquisition, resource gathering, and ultimately, business launch.

For prospective migrant entrepreneurs, awareness of entrepreneurship as a viable economic option is crucial, alongside knowledge of entry conditions. Evaluating the entrepreneurial readiness of migrants entails assessing personal aptitude, professional qualifications, previous business experience and managerial skills. If migrants opt for entrepreneurship, they can require various forms of assistance such as business plan development, capacity building, and access to resources. Following the business launch, ongoing support is vital for nascent migrant entrepreneurs, involving refinement of operations and eventual scaling up.

Different TCN groups require distinct tailored support based on factors like legal status, level of integration, qualifications, and previous experience.

Asylum seekers awaiting recognised refugee status, who are prohibited from starting businesses, may receive introductory training on entrepreneurship opportunities and requirements in the host country. In the period until the decision is made, they can familiarise themselves with the local business landscape through interaction with reception centres and other bodies that provide information on economic inclusion options, including entrepreneurship.

Unemployed TCNs with residence permits may require assistance in fine-tuning their business ideas and navigating legal and administrative procedures for business registration. Employment offices (job centres) usually offer a range of support activities including providing information on business set-up conditions and requirements. In addition, integration centres and NGOs provide often dedicated assistance to self-employed job seekers. Also microfinance institutions (MFIs) offer often comprehensive services encompassing awareness raising, entry condition guidance, advice, and financing in the form of start-up loans. Business incubators provide opportunities to test business ideas, access relevant networks, build relationships, and meet potential investors.

Employed TCNs aiming to transition into self-employment require support throughout their entrepreneurship journey, albeit at a different pace, as they often start small while maintaining employment. Integration centres, NGOs and MFIs can aid in finalising business plans and initiating operations.

TCNs arriving in their EU host country with existing business ideas and resources often need assistance in aligning their assumptions and projections with the local conditions. NGOs, MFIs and business incubators can support them in launching their businesses.

Table 5: Entrepreneurship support needs and possible interventions by institutions engaged in business development assistance

Action / Intervention description	Awareness of entrepreneurship as a career path	Eligibility, personal readiness, skills and qualifications mapping	Skills for entrepreneurship	Business idea refinement	Setting up the activities	Access to finance	Access to market	Post-start-up growth
Content of intervention (financial and non-financial)	Basic information about setting up and running an enterprise	Legal eligibility to start a business, revision of skills, certificates and diplomas, personal readiness	Vocational and technical skills re-training and business and management skills training and coaching	Business plan preparation	Registering business activities	Start-up capital	Links with suppliers, customers, partners	Market adjustments, scaling up
Intervention type	Training on income-generating options, introduction to entrepreneurship, financial education training, business and financial language course	Advice on legal requirements to start business, verification of validity of diplomas, training needs assessment, psychometric tests	VET training, business management training, mentoring	Training on how to write a business plan, mentoring on refining business assumptions and projections	Advice on how to register the business	Provision of finance: grants, quasi-equity, microloans	Support in building relationships with suppliers, business partners, advertising and promotion	Mentoring on marketing, HR, IT, finance and accounting
TCN type	**Implementing institutions**							
Asylum seekers	Reception centre							
Unemployed residence permit holders	National employment office Integration centre NGO Migrant network	National employment office Job centre Integration centre MFI NGO Migrant network	Job centre MFI NGO	Job centre Incubator NGO Chamber of commerce MFI	Incubator MFI	Job centre Incubator MFI	Incubator MFI	Incubator MFI
Employed residence permit holders	Integration centre NGO Migrant network	Integration centre MFI NGO Migrant network	MFI NGO	Incubator NGO MFI	MFI	MFI	MFI	MFI
Entrepreneurship visa/residence permit holders			MFI NGO	Incubator NGO MFI	Incubator MFI	Incubator MFI	Incubator MFI	Incubator MFI

Source: Authors' own elaboration based on interviews and focus groups

2.3 Barriers affecting the potential demand

2.3.1 Barriers to migrant entrepreneurship

Migrant entrepreneurs face the same barriers to entrepreneurship as their native counterparts, in addition to a number of more specific issues related to their status.

In terms of barriers for every start-up[65], lack of resources, relationships and environment are typical. Limited knowledge about the art of running a business, combined with lack of access to start-up capital and a reliable workforce are the most acute difficulties in setting up a business. Emerging entrepreneurs also suffer from a lack of traditional business relationships with customers and business partners that could support and promote their activities. Legal and regulatory structures with many complicated rules, regulations, required licences and approvals can be prohibitively difficult in the start-up phase.

Additionally, migrants face barriers specific to being foreign, such as[66]:

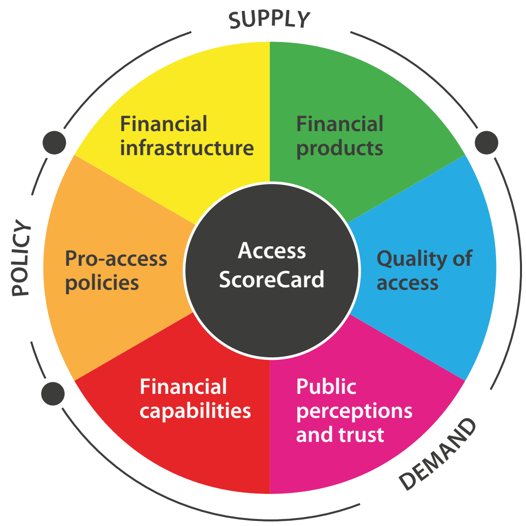
- **Legal constraints** – asylum seekers in all countries and migrants on temporary residence permits in some countries are excluded from access to self-employment;
- **Cultural differences** – differences between the host and home countries in the way business relationships with clients and partners are created and maintained may cause problems in efficient running of the business and understanding market needs and opportunities;
- **Institutional differences** – differences between the home and host countries pose particular and considerable challenges for migrants who find it hard to understand administrative procedures;
- **Language barrier** – migrants without sufficient business and financial language skills find it difficult to comply with legal and regulatory requirements;
- **Limited access to relevant information on available opportunities and contacts** – during the reception and early integration phase, migrants are not aware of the existing support options that would help them set up and run a business successfully;
- **Native population biases** – individuals in the mainstream community often do not believe in the capacity of refugees, undermining migrants' confidence to convince locals of their quality as entrepreneurs or business partners.

2.3.2 Barriers in access to microfinance

In order to identify the degree of development of the conditions for inclusive finance, including the barriers in access to finance, MFC developed the Access to Finance Scorecard (AFS)[67], a framework that captures diverse aspects of access and usage issues in one comprehensive tool, the results of which facilitate effective policy-making and financial service regulation. The assessment approach considers overall access to financial services from three key perspectives: supply of financial services, demand for financial services and financial inclusion policies and regulations. On the supply side, the AFS looks at financial infrastructure and availability of financial services and products. On the demand side, the scorecard reviews the quality of access, confidence in the financial system and financial capabilities. On the policy side, the scorecard looks at pro-access policies and regulations.

65 Wishart M. 'What are the main barriers to entrepreneurship in underrepresented groups?', Enterprise Research Centre and Warwick Business School, 2020.
66 Source: desk review, FGDs with institutions providing business support services to migrants.
67 MFC, 'Measuring Access to Finance: Developing Evidence-Based Access Policies', https://mfc.org.pl/wp-content/uploads/2016/04/AFS-leaflet-low-res-1.pdf.

Figure 9: Access to Finance Scorecard



TCNs face the following barriers in accessing financial services:

- **Financial infrastructure**

A limited number of banking and non-banking financial institutions focus on start-up and early-stage enterprises. Additionally, the national system of guarantee funds that could be accessible for non-banking microfinance institutions is underdeveloped in most countries. EU financial instruments are not available to enable risk-tolerant and patient financial support for many of the financial institutions serving migrants. Lack of appropriate know-your-customer (KYC) systems that can verify the identity of newcomers is another limitation directly affecting access to financial services for recent migrants.

- **Availability of financial products and services**

There is insufficient supply of products and services for start-up enterprises, which are riskier than mature businesses and therefore less attractive to financial institutions. Additionally, there is often a mismatch between product design and migrant business capability. For example, loan terms offered to migrants are not adjusted to match the validity of temporary residence permits. Often, there is a lack of products with alternative collateral requirements that could be met by TCNs. Mainstream financial institutions have limited abilities to assess the risk of ethnic or transnational enterprises, specific to TCN businesses.

- **Quality of access**

TCNs often experience constraints in using financial products because of complicated application procedures, lack of information in easy language or in the native language of the migrant. Additionally, TCNs pay higher risk premiums because of their newcomer status.

- **Confidence in the financial system**

TCNs self-exclude themselves because of their fear of rejection, implicit bias and perception of discrimination. Lack of transparency in reasons for rejection contributes to building a negative image of financial institutions.

- **Financial capabilities**

Migrants facing language barriers often do not understand business and financial terms and have little knowledge and understanding of the financial sector in the host country. As migrant businesses tend to operate in low-profitability sectors, the weak financial standing of the enterprise is often the reason for ineligibility for a financial product.

- **Pro-access policies**

In many EU countries, there are no financial inclusion strategies that cover migrants and refugees among vulnerable groups. There is also no systemic approach to supporting financial service providers in developing products and services for migrants and refugees.

Additionally, accessing finance by refugees and asylum seekers is almost impossible due to their inability to provide sufficient identification documents that meet the requirements of the Anti-Money Laundering and Combatting Terrorist Financing (AML/TF) procedures. To ease this constraint, the European Banking Authority (EBA) provided guidelines for central banks and financial institutions during the major surges in refugees from Syria in 2016 and from Ukraine in 2022. In April 2016, the EBA published its Opinion[68] setting out measures which credit and financial institutions could take to comply with EU AML/CTF requirements when providing asylum seekers from higher-risk jurisdictions with access to basic financial products and services. In April 2022, the EBA published a statement[69] on how its AML/CFT guidelines apply in the current context and how they can be adapted to ensure they make every effort to provide access for Ukrainian refugees to at least basic financial products and services.

2.3.3 Barriers in access to business development services

In the cases analysed, there are two main barriers on the supply side preventing TCNs from accessing and using BDS:

- There is an inadequate range of BDS tailored to the needs of TCNs at various stages of readiness and capacity to engage in entrepreneurship. There is a tendency to have one set of training curricula for all TCNs regardless their background from the home country and experience in the receiving country;
- There is a lack of information on the BDS range of various organisations, including microfinance institutions. While integration centres and information points do their best to provide information to TCNs, information about opportunities to obtain BDS at microfinance institutions is usually either not available or not adequately visible.

2.4 Supply side analysis

2.4.1 Migrant entrepreneurship support – general overview

At national level, a migrant entrepreneurship ecosystem exists in each country with various BDS provided to TCNs at various integration stages in the host country.

Stakeholders providing support to entrepreneurial TCNs

At the earliest stage soon after arrival, reception and integration centres run by a network of local authorities offer integration packages of assistance, also related to entrepreneurship. In some countries (e.g. Sweden) the government further encourages entrepreneurship through a targeted fast-track programme for small businesses together with local business development centres. In Lithuania, beneficiaries of international protection are eligible for additional labour market support, including support for job creation and setting up a business, for example, through social business initiatives[70].

68 European Banking Authority, 2016, 'Opinion of the European Banking Authority on the application of customer due diligence measures to customers who are asylum seekers from higher-risk third countries or territories', https://www.eba.europa.eu/sites/default/documents/files/documents/10180/1359456/4d12c223-105f-4cf0-a533-a8dae1f6047e/EBA-Op-2016-07%20%28Opinion%20on%20Customer%20Due%20Diligence%20on%20Asylum%20Seekers%29.pdf.

69 EBA, 2022, 'Statement on financial inclusion in the context of the invasion of Ukraine', https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Other%20publications/2022/1031627/EBA%20statement%20on%20financial%20inclusion%20in%20relation%20to%20Ukraine.pdf.

70 Wolffhardt A., Conte C., Huddleston T. 'The European benchmark for refugee integration: A comparative analysis of the national integration evaluation mechanism in 14 EU countries'. Migration Policy Group. 2019.

Additionally, NGO supporting migrant integration often provide information packages and training, especially to newcomers, on rules for setting up a business and finding start-up support. Examples of such NGOs include migrant associations and cultural integration foundations. There are also chambers of commerce which associate businesses of migrants from specific countries. Practical business support is offered by business incubators which create conditions and make resources available for developing a business idea, prototyping and testing the product. Some institutions go even further and support migrants in gaining access to markets.

Some institutions also provide access to finance, with job centres providing grants for the most promising business ideas, incubators facilitating contacts with investors and microfinance institutions providing microcredit.

BDS are part of a broader integration package that includes migrant entrepreneurship support starting from general orientation and awareness raising about employment and self-employment opportunities to in-depth mentoring and coaching on selected aspects of business growth.

Table 6: Types of BDS for migrants

	One-stop shops at municipal integration centre	NGO/social enterprises working with newcomers	NGO/social enterprises working with settled migrants	Employment office (Job centre)	Chamber of commerce / Entrepreneurship support body / Business incubator	Microfinance institution
Types of non-financial services	Broad integration package incl. basic entrepreneurship	Broad integration package incl. basic entrepreneurship	Employability and entrepreneurship development	• Employability and entrepreneurship development • Business development	• Entrepreneurship development • Business development	• Entrepreneurship development • Business development
Types of financial services				• Grants • Microcredit	• Grants • Links with equity investors	• Microcredit
Example	Municipal integration centers in Lithuania; One-stop-shop in Portugal	e.g. ethnic associations Fundacja Ocalenie	Singa, La Ruche	Job centre Pro Arbeit - Kreis Offenbach	Youth Business Poland; Forward Inc. Netherlands	Adie, microStart, PerMicro, Qredits

Source: Own elaboration based on desk review, interviews and focus groups

The examples below describe different types of BDS provided to migrant entrepreneurs by different types of stakeholders.

National Immigrant Support Centres (CNAI) in Portugal – Example of a one-stop shop approach

Three CNAI in Portugal operate in Lisbon, Porto and Faro. They were created in 2004 as comprehensive service centres for immigrants residing in Portugal with a wide range of services under one roof. Foreigners can obtain information in various languages, including Portuguese, Creole, Romanian and English.

Services include the provision of information and direct assistance with legalisation of residence and visa issues, family reunification, education, access to health services, safety, social care, recognition of educational skills, as well as the provision of legal assistance and support for immigrant associations.

For example, the CNAI office in Lisbon, guided by the idea of cooperation with other partners and developing good integration practices, engaged six government agencies, including the Labour Inspectorate and the Regional Directorate of Education. To meet the needs of immigrants, it has also established support offices for family reunification, legal advice and employment.

A very important role in CNAI is played by cultural mediators, i.e. employees from various immigrant communities. The employment of mediators is aimed at reducing distrust of government services offered to foreigners. Because the CNAIs work with a common and shared computer management system, the cultural mediators of this office play a fundamental role in uploading onto the system the immigrant's information (e.g. digitisation of data and documents) and the purpose of their visit in Portuguese, even if the immigrants explain it in another language. This facilitates the procedures and speeds up the response that the government services give to the service users.

The CNAIs also run other support services in seven different areas, operated by cultural mediators, in the same building as government agencies provide their services. These offer legal, family reunification, social, employment and entrepreneurship, housing, consumer and technical support for immigrant associations. All these offices meet the different needs of immigrants. Working under the same roof contributes to guaranteeing coherence of information and has been recognised by all actors involved as an important benefit for immigrant integration

For further information, please consult the website: https://www.acm.gov.pt/-/cnai-centro-nacional-de-apoio-ao-imigrante.

Business incubator, Poland

Youth Business Poland (YBP), a member of Youth Business International (YBI), supports young people in developing their businesses and creating jobs in Poland. It provides training, mentoring, links with investors and networking opportunities.

Since 2022, YBP in cooperation with the Ukrainian House (Dom Ukraiński) has been implementing the Standard Chartered funded project 'The BEST by Futuremakers'by. The mission of the project is to help 10 000 people from Ukraine who were forced to flee their country to stand on their own feet in Poland. BEST is the acronym for business, employability, skills and training. The programme supports people in finding employment or opening companies – developing their business skills, knowledge and career development by matching them with Standard Chartered employees and mentors from various companies in the community. In 2022, 5 343 people were supported. During business consulting, S.O.S. mentoring and Business Mixers networking meetings, 1 886 people received guidance and 3 457 people attended workshops and live webinars.

For further information, please consult the website https://ybp.org.pl/best/.

ATHENA: supporting migrant women's entrepreneurship in the EU

ATHENA (Approaches to valorise the high entrepreneurial potential of migrant women to contribute to their social and economic integration) is an AMIF-funded project launched by the Chamber of Commerce in Seville, Spain together with six partner institutions from different EU Member States. The overall objective of the project was to contribute to the economic and social integration of migrant women in the EU by improving the services of entrepreneurship support oriented to migrant women and creating a specific entrepreneurial path for them.

The project's findings confirm that many migrant women in the EU are entrepreneurial and potentially interested in using microloans to finance their entrepreneurial ideas. However, they often struggle to obtain the necessary financing from the traditional banking sector. They are also often unaware of the support potentially available to them, e.g. through microfinance. Furthermore, the conditions of microloans need to be affordable to migrant women entrepreneurs – this is a potential area where support through EU shared management funds such as AMIF and/or ESF+ could come in. In addition, migrant women also require non-financial support through business development services (such as personal assessments, training and technical assistance) to guide them through the elaboration of their business plan, understanding the legal requirements of their new homeland and acquiring digital skills.

The project has delivered i.a. a main report on migrant women's needs to become entrepreneurs, targeted needs/demands assessments for the participating Member States, reports of good practices, policy recommendations, support materials and activities for migrant women entrepreneurs, capacity-building of professionals as well as dedicated support for obtaining financing for their business activities from various support schemes.

For further information, please consult the website of the ATHENA project.

Source: 'Setting up financial instruments supporting migrant integration. Practical guide. Part 1' fi-compass publication, upcoming

Job centre in Offenbach county, Germany

Offenbach county, which surrounds the city of Offenbach and is characterised by the highest immigration rate in Germany, designed a scheme which supports vulnerable people on social benefits in improving their employability and entrepreneurship to lift them out of benefit schemes.

The employment office (job centre) Pro Arbeit – Kreis Offenbach offers coaching to migrants with a business idea and strong entrepreneurship motivation. As starting a business is a risk, the job centre does not specifically push migrants to become self-employed, it rather supports those who are serious about it and willing to take the risk.

Coaches from the job centre help the aspiring entrepreneur to build capacity in matters including financial management and legal issues 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.

The job centre offers two types of financial support in the form of grants and loans. The aspiring entrepreneur, with support from a coach, prepares a business plan and presents it to a jury during a pitch. The winners receive funding for business investment, equipment and rental costs. Only migrants who receive unemployment benefits can receive support from the job centre.

Pro Arbeit – Krei Offenbach also supports migrant mothers through the Mum@Work project. Its policy to qualify mothers with a migrant background to become childminders was developed to improve the local childcare offer, allowing mothers to (re-)access employment. Participating migrant women can receive advice on business start-up and self-employment e.g. in order to become a childminder ('Tagesmutter' for children below three years). The project aims to create a replicable policy model for such integration.

More information on start-up support: https://www.proarbeit-kreis-of.de/de/privatpersonen/arbeitslos/existenzgrundung/zertifizierte-grundungsberatung/.
More information on Mums@Work: https://www.pa-epm.de/german/projekte/mums-at-work/.

Mentoring programme ‘GoForIt!’, Czech Republic

Mentoring programme ‘GoForIt!’ is a project launched in 2020 by Opero (a limited liability company operating as a business hub and coworking platform) in collaboration with the Prague innovation institute (a public benefit organisation established as a registered office by the Capital City of Prague with the aim of connecting the academic, public, and private spheres). Under this programme, top Czech business mentors provide support to managers of small and medium-sized enterprises who are also supported by various associations and private companies. Funding for the programme is currently provided through Strive Czechia, a three-year initiative by Mastercard.

In April 2023 the mentoring programme launched ‘GoForIt! for the UA community’ initiative targeting Ukrainian citizens currently living in the Czech Republic as a consequence of the war in Ukraine. The initiative is open to Ukrainian citizens interested in starting a business in the Czech Republic. Participants are assigned a “buddy” and a customised training programme is set up. Participants will gain know-how about Czech business (e.g. also through a created e-book), have the opportunity to participate in various events (e.g. educational workshops, networking events), and be connected with Ukrainian entrepreneurs in the Czech Republic. The programme is free of charge and can be completed online. It is delivered in both Czech and Ukrainian, and participants can enrol at any time.

For further information, please consult the website of the ‘GoForIt!’ for UA community initiative.

Source: GoForIt!, 2023m ‘GoForIt! For UA community initiative’, https://ua.dotoho.pro/

Example of MFIs

Microfinance institutions offer training, coaching and mentoring for their clients described in more detail in the section below.

2.4.2 Business development services offered by microfinance institutions

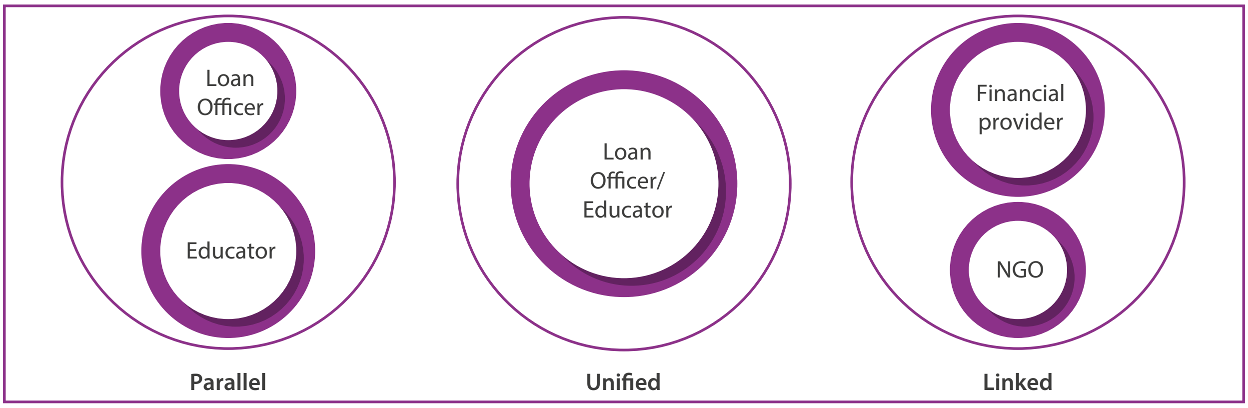
The BDS agenda includes support given to business creators at the very early stages of conceptualisation of the business idea, development of a business plan, assistance in registering a business and capacity building in managing various aspect of doing business.

BDS are most often delivered in the form of coaching, mentoring and training where a specialist supports the entrepreneur in dealing with specific challenges and provides tailored advice. Coaching offers tailor-made assistance in which a coach supports (potential) entrepreneurs in achieving specific goals by providing business advice and guidance. Mentoring is typically based on a one-to-one learning relationship between the mentor and an entrepreneur. Training, in turn, provides knowledge on certain topics to improve skills delivered either during face-to-face or virtual meetings and focuses on such topics as improving sales through better marketing, digital tools to improve effectiveness, human resource management and personal efficacy. Mentoring is provided independently of microlending, although MFI clients often rely on mentors to help them realise the investment financed through a microloan. In addition to coaching and mentoring, microfinance institutions also make available video materials for self-study, thus helping build capacity in business management. In recent years, with the advance of digital solutions and due to the COVID-19 pandemic, microfinance institutions have begun supporting their clients in accessing markets through online platforms where entrepreneurs can present and promote their products.

BDS are provided through three types of delivery models with different stakeholders participating in the provision of services as follows:

- In the unified model, a financial institution provides financial services and its staff also deliver capacity building activities. Loan officers and other front-office staff are coaches and mentors and the educational activities are integrated with the delivery of financial services;
- The parallel model is applied by financial institutions which engage educators in assisting their clients to improve their business skills. Both loan officers and coaches/mentors work in parallel with clear separation of duties;
- The linked model involves non-financial institutions which deliver educational services. Such a model allows each party to focus specifically on their services – financial institutions focus on the delivery of financial services while the partner institution or association provides non-financial services.

Figure 10: Financial education delivery models



Source: adapted from 'Delivering Financial Education in Africa. Reach Global's Lessons Learned on Supporting the Delivery of Financial Education under the UNCDF-Youthstart Programme' UNCDF 2015

The parallel model, applied by several microfinance institutions, including Adie in France, separates financial service provision from educational activities which are assigned to separate units within the microfinance institution. To this end, Adie engages mentors, who are specialists in specific business issues. Mentors act as volunteers to share their knowledge and expertise with budding entrepreneurs. They are entrepreneurs themselves, retired bankers and IT specialists.

The unified model is the most common approach, with loan officers advising borrowers on business-related issues during the loan application process when the client fine-tunes the planned investment for which they are requesting a loan. The loan officer also supports the borrower during the loan repayment process if there are difficulties in executing the investment.

Volunteers are often engaged in the delivery of BDS in the parallel and linked models. They are in most cases retired or still active professionals (lawyers, accountants, bankers, entrepreneurs themselves) who wish to share their experience with the entrepreneurs in need. While working with volunteers significantly decreases the cost of BDS delivery it creates additional costs for the institution to recruit, train and coordinate the volunteer assignments.

Business development services at PerMicro, Italy

PerMicro, a microfinance institution in Italy for which TCNs are a core target group, is an example of a linked model for the delivery of non-financial services. Its daughter foundation – MicroLab – takes care of the provision of the development services. For prospective entrepreneurs, physical and online training is organised for young people as part of the 'Up to Youth' project of Youth Business Italy. SOS Mentoring with Google.org offers webinars to microbusinesses which encounter difficulties or want to improve their expertise in certain areas. MicroLab also provides mentoring services to PerMicro borrowers during the time of loan application and throughout the loan term. MicroLab's educators closely cooperate with Per Micro's loan officers. Microcredit is seen as a combined product with two components financial and non-financial. While the financial component is delivered solely by the microfinance institution (PerMicro), the non-financial component is delivered jointly by the loan officer of the MFI and a mentor from MicroLab.

microStart Belgium – story of recipient of BDS support

Moustafa is a refugee from Syria. At home he ran his own business for several years – a flower shop. When he arrived in Belgium, it was his dream to start his own flower shop. He learned from his neighbours about the support offer to people with business ideas by microStart. Mustafa was matched with Zidane, a dedicated advisor, also a Syrian refugee. Zidane helped Mustafa with all the administrative steps and legal issues. This was quite important because Mustafa could speak only a little Dutch but Zidane explained everything to Mustafa in Arabic. Zidane also helped with the business plan to make sure it was suitable for the Belgian context. In addition to the counselling support, Mustafa also received a microloan from microStart to launch the company which became a successful flower shop.

2.4.3 Microcredit

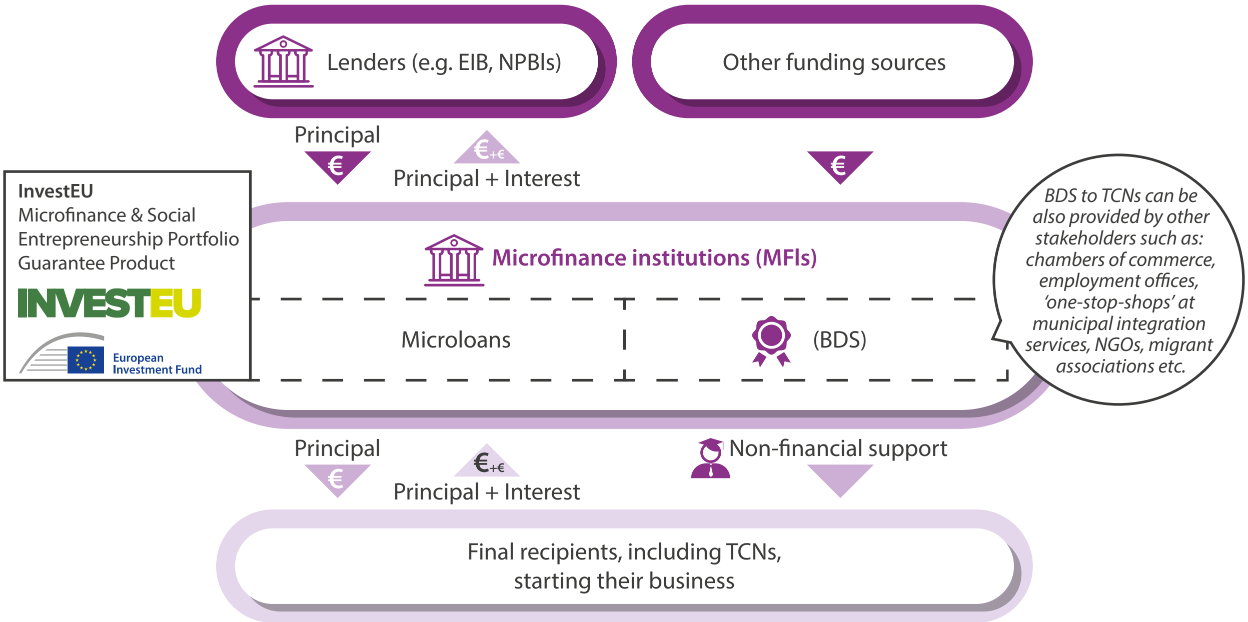
Microfinance in EU countries is delivered by:

- banks – both mainstream commercial banks with microfinance units serving microentrepreneurs and dedicated microfinance banks focusing entirely on micro and small businesses;
- non-bank financial institutions (NBFIs) focusing on microcredit to microenterprises and small farmers, sometimes complemented with microinsurance;
- NGOs – in which microcredit is one of the programmes for supporting vulnerable groups;
- cooperatives – in which every borrower is a shareholder and can participate in the governance; in several Eastern European countries cooperative credit unions are allowed to accept members' deposits and are thus contributing to building household resilience.

According to the EMN-MFC Microfinance Survey 2022 Edition, 82 EU institutions served over 765 000 borrowers with a gross loan portfolio of EUR 3 billion at the end of 2021. The most numerous microfinance providers were small cooperatives (32 institutions) and NGOs (27 institutions) followed by NBFIs (19 institutions) and banks (4)[71].

Microfinance institutions focus on serving vulnerable groups often excluded from mainstream financial services, such as women, youths and the rural population. MFIs offer microloans of up to EUR 25 000[72] for working capital and investment purposes. The average loan size in 2021 was EUR 14 000.

Figure 11: Microfinance institutions' role in providing microloans and BDS to TCNs



The EMN-MFC Microfinance Survey 2022 Edition identified over 20 microfinance institutions in the EU which target TCNs, offering them financial and non-financial services. The share of TCNs among borrowers of these institutions ranges between 0.5% to 100%, the latter being the case of very small institutions fully dedicated to TCN support. On average, TCN clients constitute 10% of the borrowers of MFIs serving TCNs.

The largest 'non-bank' MFIs serving TCNs include:

- Adie, France;
- PerMicro, Italy;
- Qredits, the Netherlands and
- microStart, Belgium.

The full list of MFIs serving TCNs is presented in the table below.

71 Own calculations based on "Pytkowska J. Microfinance in Europe: Survey Report. 2022". https://mfc.org.pl/wp-content/uploads/2022/12/EMN-MFC-Microfinance-Survey-Report.-2022-Edition-1.pdf. The report presents aggregate findings for 30 European countries (EU and non-EU). Country-level data allowing for calculating the scale of outreach in EU countries are included in the annexes to the publication.
72 In the new perspective of InvestEU Social Window, the maximum size of a microloan has been increased to EUR 50 000.

Table 7: Microfinance institutions working with TCNs identified in the EMN-MFC Microfinance Survey 2022 Edition

Country	Institution
Belgium	microStart
	Credal
France	Adie
Greece	AFI
	Cooperative Bank of Karditsa
Ireland	Microfinance Ireland
Italy	ASSISTA
	ASSOCIAZIONE AGAPE ONLUS
	Fondazione Grameen Italia
	Fondazione Mons Vito De Grisantis
	Fondazione Welfare Ambrosiano
	NASHAK
	PerMicro
Lithuania	Lithuania Central Credit Union
Luxembourg	Microlux
Netherlands	Qredits
Portugal	CRESAÇOR
	CASES
Romania	Telecredit
	FAER
Slovakia	Tatra Banka
Spain	CEEI-Burgos
	IMF Oportunitas
	Laboral Kutxa
	MicroBank
Sweden	Favafond

Other MFIs might also target TCNs but without a specific focus on this vulnerable group, which might explain them not having mentioned this group explicitly in the survey.

Microfinance products for TCNs are similar to those offered to other vulnerable groups in terms of their features. While the main product features remain the same for all vulnerable target groups, TCNs can benefit from special approaches, such as Islamic banking principles.

The majority of MFIs working with migrants offer non-financial services to their clients. Non-financial services relate to assistance in setting up an enterprise (entrepreneurship development services), supporting existing businesses in improving their operations (business development services) or improving money management practices (personal development services). MFIs are part of the ecosystem for the provision of non-financial services and partner with other institutions, such as associations, foundations supporting TCNs, public institutions and specialised providers of development services for the delivery of non-financial services.

Business loans

Business microcredit supports the establishment and development of enterprises.

There are two types of main products:

- investment loans which allow purchasing of equipment, machinery, tools and furniture for the business to operate;
- working capital loans which are taken to finance purchasing stock (in the case of trade businesses) but also for covering daily expenses of the business, such as payroll or rent.

Maria – an entrepreneur from Armenia

Maria is a 44-year-old woman who has lived in France since 2010. At the beginning of her stay in France, Maria worked in part-time jobs, but this did not bring her much money and gave her little satisfaction. Therefore, she decided to change her life and use her skills gained in her previous home of Armenia. In 2019, she started an unregistered income-generating activity involving hairdressing, dressmaking and catering. As the hairdressing line was going particularly well, she decided to formalise her business.

In 2020, with help from Adie, the largest microfinance institution in France, she formalised part of her activity and acquired professional tools. Adie continued supporting her during the COVID-19 pandemic and granted her a new loan in 2021 to help her manage the consequences of the pandemic crisis. In 2022, Maria obtained her hairdressing diploma and her business became fully declared and sustainable.

Personal loans (small loans)

Personal microcredit is designed to cope with the growing needs of an increasing segment of the European population constrained by difficulties (working poor, unemployed youth, people on welfare). The purpose is to help vulnerable people cover personal or family needs that can have indirectly positive effects on integration into the labour market and, more generally, on their social inclusion.

Providing these social features, personal microcredit offers potential as an empowerment tool targeted to the specific needs of individual and family development projects (such as education or employment) and to prevent and address the causes of financial and social exclusion (poverty, low and irregular income, over-indebtedness) and to act as a springboard for their social inclusion.

A personal loan is a financial product for individuals addressing a personal need that might not generate revenue directly, but which has a social impact not only on the recipient's life but also on local society. In this case, improved job opportunities or living conditions help the individual to start or improve a revenue-generating activity that leads to repayment of the loan. Personal microcredit may be used for more typical consumption purposes such as holidays and wedding or other family events. Under the ESF/ESF+ framework, however, the concept of personal loans does not cover consumption or leisure activities[73]. In the programming period 2014-2020, none of the ESF financial instruments supported personal loans. The microfinance sector in Europe has been consistently expanding personal microcredit. At the end of 2021, the total loan portfolio of personal microloans managed by microfinance institutions in EU Member States reached EUR 1.3 million. The growth rate of the personal loan segment reached 10.3%, thus exceeding the growth rate of the business microloan segment which grew by 7.8% between 2020 and 2021.

In the 2020 edition of the EMN-MFC microfinance sector overview[74] in which the various purposes of personal loans were investigated, the largest share of the personal loan portfolio (36%) was in loans for various family needs, followed by professional development (education to improve qualifications or start a business, mobility) loans which constituted 33% of the microloan portfolio. Loans for housing needs such as rent, mortgage and energy efficiency constituted 27% of the personal loan portfolio.

Among the over 20 microfinance institutions that were found to be serving TCNs, 12 provide personal loans to their clients. Five of them also have dedicated housing products, as further described in Chapter 2 on housing.

73 Fi-compass, 2016, Financial instruments working with personal loans.

74 Pytkowska J. Microfinance in Europe: Survey Report. 2022. https://mfc.org.pl/wp-content/uploads/2022/12/EMN-MFC-Microfinance-Survey-Report.-2022-Edition-1.pdf.

Adie loans for employability and mobility

An Adie Mobility loan helps to cover the costs related to finding or moving to a job, such as the cost of training, obtaining a licence, costs of moving to another place where a job position is available or buying or repairing a car to get to work. The maximum loan amount is EUR 6 000.

The Adie Mobility Loan purpose is to enhance access to, or stability in, the job market by fostering clients' mobility through microloans for obtaining a driving licence and for buying or leasing a car from Adie's partner at a discounted price. To enhance the impact of the mobility loan, Adie also offers car insurance and access to preferential rates on fuel and car repair at Adie's partners.

In 2016, Adie conducted an impact study on its mobility microcredit, which showed that 80% of clients considered that the mobility microcredit was useful in finding or keeping a salaried job. In 2018 alone (as at end of November), Adie issued 5 748 mobility microcredits (one quarter of Adie's total activity over the period) and delivered 800 items of car microinsurance, which enabled more than 3 500 people to access the labour market or keep their job.

Source: Adie's Mobility Offer. EMN - European Good Practice

2.4.4 Support options for microfinance institutions

There are different ways MFIs can obtain support needed to provide microloans as well as the non-financial services to their clients. Financing for the loan portfolio comes from public or private institutions, as well as individuals, or cooperative members, for instance from:

- EU resources: e.g. InvestEU support as well as in some Member States, support through microfinance instruments co-financed with ESF or ERDF;
- lending by IFIs such as EIB, or NPBIs;
- public funding, e.g. via national funds;
- funding from non-bank institutions;
- bonds or domestic bank loans or credit lines;
- funding from parent company;
- other sources of funding (deposits, crowdfunding platforms, business angels).

EU support available to the microfinance sector

In the 2021-2027 programming period, microfinance institutions from all Member States can benefit from support from the InvestEU Microfinance & Social Entrepreneurship Guarantee[75] as well as the InvestEU Capacity Building Investment Product[76].

75 More information available here: https://engage.eif.org/investeu/guarantees#Micro&Social-PG.
76 More information available here: https://engage.eif.org/investeu/capacity-building-investment.

The InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product

The InvestEU Microfinance and Social Entrepreneurship Portfolio Guarantee is a financial product, designed to foster economic growth and social development across the European Union. With a clear focus on supporting microfinance providers and social entrepreneurs as beneficiaries, it serves as a vital pillar in the EU-wide InvestEU initiative, enabling greater access to finance for individuals and businesses that might otherwise face barriers in obtaining traditional funding. The product is managed by the European Investment Fund (EIF).

By providing a comprehensive portfolio guarantee, InvestEU not only mitigates financial risks for participating institutions but also stimulates the flow of capital towards underserved sectors and communities, thereby facilitating the expansion of microenterprises and social projects.

The key terms of the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product are as follows:

Type of Instrument	Guarantee cap rate	Guarantee fee	Guarantee rate
Capped Portfolio Guarantee	Up to 30%	Free of charge	Up to 80%

Target final recipients	Maximum Guarantee transaction amount	Transaction maturity
Micro/Social Enterprises	€50k Microfinance €2m Social Entrepreneurship	Minimum 3 months

Financial intermediaries such as bank, non-banks, credit coorperatives, leasing companies etc. can apply for the guarantee, if two pre-eligibility criteria are met:

- Sign-up or endorse the EU Code of Good Conduct for Microfinance Providers
- Provision of Business Development Services (training, mentoring, coaching)

Target clients of such financial intermediaries must be microenterprises, including self-employed. These can be also inter alia TCN entrepreneurs.

For more information, visit: Guarantees - EIF InvestEU.

InvestEU’s Capacity Building Investment (CBI) Product

The InvestEU Capacity Building Investment product aims to support the EU's emerging microfinance & social entrepreneurship and skills & education ecosystems and to build up the institutional capacity of financial intermediaries that have not yet reached sustainability or that are in need of risk capital to sustain their growth and development in the microfinance, social entrepreneurship or the skills and education space. This includes the organizational, operational and debt capacity of these institutions. The product is managed by the EIF.

The target areas of the InvestEU’s Capacity Building Investment Product are as follows:

Eligible financial intermediaries are banks, guarantee institutions, microfinance institutions, crowd-funding platforms, non-bank financial institutions, loan and/or investment funds, credit unions, education and training providers.

The interested financial intermediaries’ Expression of Interest should include a project proposal, including the project description, market experience and forecast of the impact on the market via the CBI project.

For more information, visit: Capacity Building Investment - EIF InvestEU.

InvestEU's Equity Product

A further InvestEU product but beyond microfinance but relevant when supporting integration of TCNs in the EU, is the InvestEU Equity Product. Under this product, equity investments and co-investments are provided to, or alongside, funds in the areas of venture capital (VC), private equity (PE) and private credit, that pursue generalist, specialised or mixed investment strategies. The scope of the InvestEU Equity product covers several specific sectors of activity, grouped into Thematic Strategies. A financial intermediary applying to InvestEU Equity needs to address in their investment strategy one or more of these Thematic Strategies. Under each one of these there also exist a set of underlying Target Areas. Especially in the 'Social Impact' Target Area, dedicated investments aimed at supporting social enterprises, social sector organisations or impact-driven enterprises delivering social impact related to integration of TCNs, can be possible.

For more information, visit: Equity - EIF InvestEU.

This support was preceded by the European Commission's Programme for Employment and Social Innovation (EaSI) financial instruments in the 2014-2020 programming period[77], complemented by the EaSI BDS pilot for migrants and refugees[78].

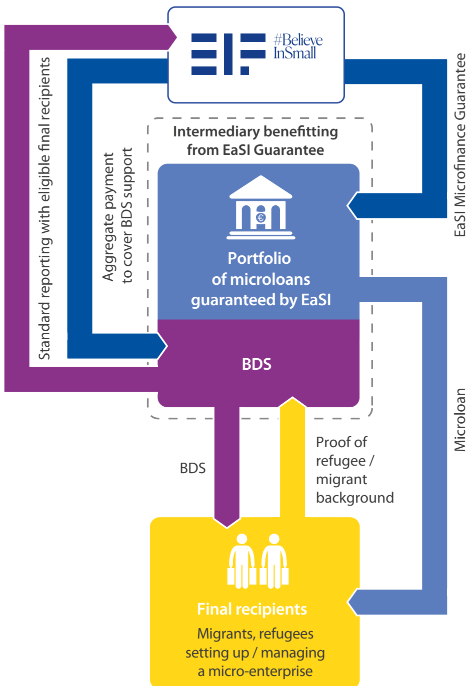
EaSI BDS Pilot

This pilot initiative within the EaSI programme was first launched in 2015 with an EUR 1 million contribution to stimulate the financial and social inclusion of migrants and refugees. It has fostered the provision of non-financial support, such as mentoring, coaching and training, to micro-borrowers and micro-enterprises.

The objective was to provide partial coverage for the costs incurred by financial intermediaries when providing such services for the target group that are often confronted with a challenging environment when setting up and developing a business in the host country (e.g. language barriers, administrative burden, lack of knowledge of local legislation).

Through EaSI, financial intermediaries received a lump sum of EUR 400 per final recipient with a migrant background, if they provided (directly or indirectly) the business development support service to the final recipient.

As at end 2021, nine financial intermediaries were incuded in the programme and some 1 750 migrants and refugees have benefited from it.



77 More information available here: https://www.eif.org/what_we_do/microfinance/easi/.
78 More information available here: https://www.fi-compass.eu/podcasts/jam-sessions/episode-13-easi-business-development-services-pilot-migrants-and-refugees.

In addition, in several Member States, microfinance instruments were implemented co-financed by different EU shared management funds in the 2007-2013 and 2014-2020 programming periods:

- ESF microfinance instruments were implemented in Bulgaria, France, Germany, Italy, Latvia, Lithuania, the Netherlands and Poland to support micro and small businesses and social enterprises. National-level institutions designed and implemented financial instruments such as risk-sharing microfinance facilities, guarantee funds and micro-mezzanine funds;
- Microfinance institutions used ERDF resources under JEREMIE in the programming period of 2007-2013 as loan capital or a guarantee fund in Germany, Hungary, Italy, Lithuania and Spain. Institutions serving SMEs rather than microenterprises used ERDF financial instruments in the 2014-2020 programming period, chiefly in Italy, Spain and Poland in terms of the number of supported firms[79]. More competitive and smarter Europe and its regions is one of the funding priorities for ERDF in the 2021-2027 programming period. This will be achieved through innovation and support to small and medium-sized businesses, as well as digitisation and digital connectivity[80];
- In some countries, microenterprise and SME financing programmes were funded from the Cohesion Fund in the programming period 2014-2020[81]. In Croatia, ESIF Micro Loans to finance investment and working capital were available for micro and small enterprises as well as to start-ups in the pre-registration phase[82]. In Slovenia, a Fund of Funds was created to finance sustainable economic growth and development and innovation with SME financing being one of the four focus areas[83].

Many financial instruments for the 2021-2027 programming period are currently still in development, so it is yet not fully known what financing instruments will be designed by managing authorities of EU shared management funds and if and how will they be combined with grant components. The CPR enables new methods of combining financial instruments with different forms of grants (e.g. technical support, interest rate subsidy, capital grant, capital rebate), providing substantial benefits for those using these possibilities[84].

79 Regio B3, 2021, 'Tracking progress in ESI Funds financial instruments', https://cohesiondata.ec.europa.eu/stories/s/Tracking-progress-in-ESI-Funds-Financial-Instrumen/dtw6-5akv/.
80 European Regional Development Fund, 'Funding priorities', https://ec.europa.eu/regional_policy/funding/erdf_en.
81 The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. In the 2014-2020 programming period, the Cohesion Fund was operational in Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.
82 More information about ESIF loans in Croatia: https://en.hamagbicro.hr/financial-instruments/how-to-get-a-loan/investments/esif-micro-loan/.
83 More information about the Fund of Fund in Slovenia: https://www.skladskladov.si/en/about/about-fund-od-funds.
84 More information here: https://www.fi-compass.eu/publication/factsheets/combination-financial-instruments-and-grants-under-shared-management-funds.

In addition, several initiatives introducing different forms of business development services to promote migrant entrepreneurship were funded e.g. through AMIF. These include some examples mentioned before and also the two examples below:

MEnt (Migrant Entrepreneurs team-up with mentors)

MEnt was an innovative and dynamic incubation and mentoring programme implemented in 2017-2018 in five countries (Austria, Belgium, France, Germany, Italy), financed by the Asylum, Migration and Integration Fund (AMIF).

The project aimed to facilitate and foster economic and social integration of migrants supporting them in the development of new business initiatives, via light incubation and mentorship programmes. The light incubation was preceded by a short training session – a preparatory activity to facilitate interaction among migrants, provide inspiration and support early stage development of a business idea. The light incubation took a form of two cycles of two workshops providing know-how, suggestions on the business model, access to markets, resources and key partners. During each incubation cycle, two mentors' evenings were organised, during which migrants presented their project ideas to a network of mentors and experts who provided knowledge and guidance. Mentors then assisted migrant entrepreneurs for two months with one-on-one coaching sessions to support idea development with further guidance and recommendations. At the end of the programme, a final pitching session took place during which migrant entrepreneurs presented their business ideas in front of mentors, potential investors and supporters.

The relationship with mentors was the core of the project, because the potential for improving new and emerging business ideas through interaction with experts experienced in the given business sector and national context, has come to fruition in many incubation projects in the EU and elsewhere. Mentors were thus guiding new entrepreneurs, while at the same time strengthening their own networks.

The results of the qualitative evaluation process confirmed that the project was an empowering experience for most of mentees and mentors. Migrant entrepreneurs not only learned new skills and knowledge, but were also able to better define, clarify, design and discuss initial business ideas and the opportunity to live a networking experience. Even if not every participant of the project started an enterprise or fully developed a business idea during the programme, they all benefitted from the opportunity to go through the reality check with their business ideas, in some cases leading to the complete change of a business idea or a pause for rethinking business intentions.

The other outcome of the programme was the development of a Ment Incubation Toolkit which was disseminated among incubators not yet working with migrants and organisations which do work with refugees and migrants but have not offered support regarding entrepreneurship.

More information can be found on the programme's website: https://mentproject.eu/

Partnerships and Financing for Migrant Inclusion (PAFMI)

Partnerships and Financing for Migrant Inclusion (PAFMI), an AMIF-funded project launched in 2023 and managed by the Council of Europe Development Bank (CEB), aims to improve the inclusion of migrants in EU Member States through the development of new partnerships and new forms of financing. Four consortia were selected for the implementation of the project and three of them are focused on building multi-stakeholder partnerships for increasing the outreach of BDS support for migrants.

The following projects were selected for grant support within PAFMI:

- EMPOWER!, led by the Associazione Microlab is a multi-stakeholder partnership composed of local authorities, civil society and private organisations increasing their employability, including self-employment to address migrant inclusion in the Piedmont region of Italy;
- ENTREPRENEURIAL TRAINING PROGRAM FOR MIGRANTS led by Qredits, is a leading microfinance organisation for small and medium-size enterprises in the Netherlands, which has partnered with the Dutch Council for Refugees and the Dutch Chamber of Commerce (KVK) to implement a training project on entrepreneurship tailored for migrants;
- INTEGRATION OF MIGRANTS IN BRUSSELS THROUGH ENTREPRENEURSHIP AND SELF EMPLOYMENT, led by microStart, is a leading Belgian microfinance institution, which has partnered with Hub.Brussels, to foster the inclusion of migrants in Brussels through entrepreneurship.

Financing through lending by IFIs such as the EIB or NPBIs

Microfinance institutions can, under certain conditions, also obtain financing through loans from international financial institutions (IFIs) such as the EIB Group or national promotional banks and institutions (NPBIs).

One example of such support is Dutch MFI Qredits. The EIB is providing a EUR 100 million loan facility to Qredits, and EIF has also signed an agreement with Qredits to cover part of the credit risk of new loans worth EUR 25 million for microbusinesses and SMEs[85].

Public funding through national resourses

There is significant demand for public funding among microfinance institutions, which given their small size are often ineligible for funding from large public schemes. However, microfinance is often not recognised at national level as a tool for social inclusion, which further restricts microfinance institutions' access to government support. However, there are examples of countries, such as France, where the public sector invests in microfinance and Italy, where microfinance institutions have access to the state guarantee fund.

Private finance

There is also increasing interest in supporting MFIs from the private sector. For example, BNP Paribas supports four microfinance institutions which provide services to vulnerable groups, including TCNs: microStart in Belgium, Adie in France, Microlux in Luxembourg and PerMicro in Italy. Additionally, BNP Paribas is committed to supporting professional integration and language learning programmes for refugees in 10 countries (Germany, Austria, Belgium, Spain, France, Italy, Luxembourg, Poland, Switzerland and the UK).

BNP Paribas also promotes employability by running dedicated incubators, such as those in the Paris suburbs of Montreuil and Saint-Denis, set up in partnership with Generali France and its foundation, The Human Safety Net and La Ruche, which each year welcome a class of around 30 refugee entrepreneurs.

85 More information available at: https://www.eib.org/en/press/all/2016-002-investment-plan-for-europe-eib-group-supports-micro-financing-in-the-netherlands-with-qredits.

2.4.5 Barriers to the microfinance sector serving more TCNs

While many microfinance institutions are interested in expanding their outreach to more TCNs, they find barriers to attracting TCNs and providing good quality and affordable financial and non-financial services.

- Limited financing options for building the range of BDS for TCNs

MFIs usually need to build up BDS with their own resources, building on a network of volunteers. The current range of BDS is scattered and often neglects the specific needs of migrants.

Public investment in BDS would allow MFIs to provide a broader, more tailored offer, and increase their outreach. The BDS offered need to be closely linked to the microfinance offer.

- Limited liquidity to be able to lend more and to more risky clients

Most of the MFIs borrow resources from IFIs, NPBIs, MIVs (microfinance investment vehicles) and commercial banks to be able to lend to their clients. Current interest rates for such loans are high and MFIs are passing these increased costs to their clients. Additional low-cost funding to increase liquidity would allow MFIs to serve more TCNs with affordable loans.

- Fragmentation of the BDS provider sector

While there are various types of institutions providing development services to TCNs in every country, there is little cooperation among them, resulting in gaps in the delivery chains of services. TCNs cannot benefit from the full package of assistance and MFIs often have to provide services which are in the domain of NGOs.

- Limited access to credit risk coverage instruments to lend to more risky clients

Small MFIs are constrained in accessing InvestEU guarantees which are provided mainly to large MFIs. Guarantees are an important support tool to decrease the credit risk of MFIs lending to high-risk clients without sufficient guarantees or collateral to back up their loans. All the MFIs interviewed are interested in increasing their outreach to vulnerable groups, including TCNs, if there are risk sharing instruments that make lending less costly for the borrowers as well as affordable and less risky for MFIs. Such instruments should consider the specific MFI situation, for example that many of them are undercapitalised and not capable of tapping into the InvestEU instruments.

- Limited capacity to assess the creditworthiness of TCN businesses

As with every vulnerable group, MFI staff capacity needs to be built to understand the peculiarities of TCN businesses.

2.5 Financing gap

2.5.1 Financing gap in microfinance

Financing gap assessment methodology

The calculation of the financing gap follows the methodology applied by the study on the implementation of financial instruments in microfinance[86] carried out in 2019 for the European Commission Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL). Using the study's definitions, the methodology for assessing market potential refers to the unmet/constrained demand (meaning demand that is not served by any financial service provider due to several circumstances), followed by the market gap calculation, considering funding channelled to microcredit providers.

The approach follows three steps.

- **Step 1: Assessment of the total size of target groups**

The EIF Research & Market Analysis Division in their Guidelines for SME Access to Finance Market Assessments (GAFMA)[87] proposed a general distinction between two main target groups of clients for business microcredit:

- Target Group 1 – emerging businesses;
- Target Group 2 – existing businesses.

Among Target Group 1 emerging businesses, two sub-groups are further distinguished: potential business founders who could benefit from starting a business (TG 1a) and new business founders in the process of setting up a business (TG 1b).

Target Group 2 existing businesses consists of two sub-groups: solo entrepreneurs (TG 2a) and enterprises employing less than 10 people (TG 2b).

Table 8: Target groups for business microcredit

Target Group 1 – Emerging businesses	Target Group 2 – Existing businesses
TG 1a – Potential business founders	**TG 2a** – Existing solo entrepreneurs
TG 1b – New business founders in the process of setting up a business	**TG 2b** – Existing microenterprises with less than 10 employees

- **Step 2: Assessment of the unmet credit demand within target groups (number of loan applications)**

The market potential for business microcredit products is represented by the share of enterprises in these target groups for whom access to finance is their main problem and/or have no access to bank loans or similar formalised forms of external funding.

- **Step 3: assessment of the value of the unmet business microcredit demand**

In this step, the calculated annual unmet business microcredit demand is multiplied by average loan amounts of microcredit using results of the latest EMN-MFC overview survey[88].

86 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'.
87 Kraemer-Eis, H., Lang, F. , Guidelines for SME Access to Finance Market Assessments (GAFMA), EIF Working Paper, 2014/22.
88 Pytkowska J. 'Microfinance in Europe: Survey Report'. 2022 Edition – referred to as 'EMN-MFC Microfinance Survey'. The data collected via the EMN-MFC Overview Survey does not allow breaking down average business loan volumes into discrete target groups. 2022.

Calculation of the financing gap for microcredit

Target group TG 1a – potential new business founders

- **Step 1 – target group size**

Potential new business founders constitute those TCNs who are at risk of poverty and social exclusion and for whom entrepreneurship is the main option for improving their quality of life. The following Eurostat population data are used – the number of working age TCNs[89] at risk of poverty and social exclusion which is 48.6%[90].

Estimates of the number of TCNs who may be interested in starting a business and an indicator of entrepreneurship intentions (share of individuals who intend to start a business within three years) use figures from the Global Entrepreneurship Monitor (GEM) 2018-2020. The GEM Report presents data for the entire population without distinguishing between migrants or TCNs and native populations, but in the absence of any other data this approximation is satisfactory [91].

According to the GEM data, the propensity to become an entrepreneur is 10.3% (average for EU countries) which further translates into 3.4% annually of the adult population planning to start a business.

- **Step 2 – demand for microcredit (number of loan applicants)**

The number of potential loan applicants is calculated from the Global Entrepreneurship Monitor on Entrepreneurial Finance (2015) data on the share of early-stage entrepreneurs using banks as their source of finance. As there is no such indicator specifically for migrants, the indicator for the total population is used. The average for EU countries is 28%, indicating that over a quarter of new enterprises need external financing in the start-up phase.

- **Step 3 – demand for microcredit (value in EUR)**

The value of the expected demand was calculated from the number of potential business founders in need of external financing multiplied by the average value of microcredit taken from the EMN-MFC Microfinance Survey[92]. As the data collected by this survey do not allow breaking down average business loan volumes into discrete target groups, the average outstanding loan size of all microloans as of 2021 was used, which for the EU countries was EUR 8 400.

Table 9: Calculation of the financing gap for microcredit among potential business founders

Step 1	Number of TCNs (15-64 years)	17 994 896
	Number of TCNs (15-64 years) at risk of poverty and social exclusion (48.6%)	8 462 657
	Potential business founders (3.4%)	292 332
Step 2	Number of potential business founders in need of external financing (28%)	81 709
Step 3	Value of the demand for external financing among potential business founders (EUR 8 400)	EUR 686 358 080

89 Eurostat, 2023, 'Population on 1 January 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.

90 Eurostat, 2023, 'Persons at risk of poverty or social exclusion by group of citizenship [ilc_peps05]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/ILC_PEPS05__custom_5955298/default/table?lang=en.

91 Multiple studies argue that entrepreneurial propensity varies between different types of migrants depending on the length of stay, gender, nationality and does not differ significantly from the native population.

92 Pytkowska J. Microfinance in Europe: Survey Report. 2022 Edition – referred to as 'EMN-MFC Microfinance Survey'. 2020. (The data collected via the EMN-MFC Overview Survey does not allow breaking down average business loan volumes into discrete target groups).

Target group TG 1b – new business founders

- **Step 1 – target group size**

New business founders are defined as actively starting business activity but not yet trading. The size of the target group is estimated using the number of working age TCNs from Eurostat population statistics[93] and nascent entrepreneurship ratio[94] from the GEM 2018-2020. Again, the GEM ratio for the entire population and not only TCNs is used. The average share of nascent entrepreneurs in EU countries is 3.1%.

- **Step 2 – demand for microcredit (number of loan applicants)**

GEM survey results of early-stage entrepreneurs with friends as a source of business financing are used as proxy for the market potential of business microcredit to new business founders.

- **Step 3 – demand for microcredit (value in EUR)**

The value of the expected demand is calculated from the number of potential business founders in need of external financing multiplied by the average value of microcredit from the EMN-MFC Microfinance Survey[95]. As the data collected through this survey do not allow breaking down average business loan volumes into discrete target groups, the average outstanding loan size of all microloans as of 2021 is used, which for the EU countries was EUR 8 400.

Table 10: Calculation of the financing gap for microcredit among new business founders

Step 1	Number of TCNs (15-64 years)	17 994 896
	Number of TCNs – new business founders (3.1%)	561 493
Step 2	Number of new business founders in need of external financing (7.2%)	40 528
Step 3	Value of the demand for external financing among new business founders (EUR 8 400)	EUR 340 438 550

Target Group 2a – existing solo entrepreneurs

- **Step 1 – target group size**

Data on the number of solo-entrepreneur TCNs are available from Eurostat, so the actual number of enterprises is used[96].

- **Step 2 – demand for microcredit (number of loan applicants)**

To estimate the unmet demand for external financing, the indicator of access to finance being the main problem from ECB's SAFE survey is used[97]. As the available data only cover businesses with at least one employee, a proxy was developed for existing solo entrepreneurs. Based on available (although mostly anecdotal) evidence on the financial needs of solo entrepreneurs, the proxy measure used is twice the share indicated by the ECB SAFE survey for micro-enterprises[98]. While the access to finance is the most pressing problem annually for 7% of microenterprises with employees, the share of solo entrepreneurs facing this problem will reach 14%.

93 Eurostat, 2023, 'Population on 1 January 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.

94 Nascent Entrepreneurs defined as 'a person who is actively involved in setting up a business he/she will own or co-own; this business has not yet paid salaries, wages or made any other payments to the owners for more than three months'. Available here: Global Entrepreneurship Monitor, 2020, Nascent Entrepreneurs, https://www.gemconsortium.org/data/key-aps.

95 Pytkowska J. Microfinance in Europe: Survey Report. 2022 Edition – referred to as 'EMN-MFC Microfinance Survey'. The data collected via the EMN-MFC Overview Survey does not allow breaking down average business loan volumes into discrete target groups. 2022.

96 Eurostat, 2023, 'Self-employment by sex, age and citizenship [lfsa_esgan]', compiled by MFC; https://ec.europa.eu/eurostat/databrowser/view/LFSA_ESGAN__custom_5956362/default/table?lang=en.

97 ECB, 2023, 'Survey on Access to Finance of Enterprises (SAFE)', https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html.

98 Frankfurt School of Finance and Management, European Microfinance Network (EMN) and Microfinance Centre. 'Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027:Final Report'. 2019.

A proxy measure for the annual frequency of financial requests by solo entrepreneurs and micro-enterprises was established under the assumption that every business that sees access to finance as its most pressing problem will look for external finance during the following three-year period. Therefore, 4.67% of solo entrepreneurs will seek external financing annually.

- **Step 3 – demand for microcredit (value in EUR)**

The value of the expected demand is calculated from the number of potential business founders in need of external financing multiplied by the average value of microcredit from the EMN-MFC Microfinance Survey[99]. As the data collected by this survey do not allow breaking down average business loan volumes into discrete target groups, the average outstanding loan size of all microloans as of 2021 is used which for the EU countries was EUR 8 400.

Table 11: Calculation of the financing gap for microcredit among solo entrepreneurs

Step 1	Number of TCNs – solo entrepreneurs	691 047
Step 2	Number of solo entrepreneurs in need of external financing in the next three years (4.67%)	32 249
Step 3	Value of the demand for external financing among solo entrepreneurs (EUR 8 400)	EUR 270 890 360

Target Group 2b – existing microenterprises with less than 10 employees

- **Step 1 – target group size**

The number of TCN enterprises which employ at least one person is used. Although the data do not further distinguish between businesses employing less than 10 employees (microenterprises) and medium or large businesses, the total number of businesses is used in the calculation, bearing in mind that micro-enterprises constitute over 95% of all businesses and migrant businesses tend to be even smaller.

- **Step 2 – demand for microcredit (number of loan applicants)**

A proxy measure for the annual frequency of financial requests by solo entrepreneurs and micro-enterprises was established under the assumption that every business that sees access to finance as its most pressing problem will look for external finance during the following three-year period.

- **Step 3 – demand for microcredit (value in EUR)**

The value of the expected demand is calculated from the number of potential business founders in need of external financing multiplied by the average value of microcredit from the EMN-MFC Microfinance Survey[100]. As the data collected by this survey do not allow breaking down average business loan volumes into discrete target groups, the average outstanding loan size of all microloans as of 2021 is used, which for the EU countries was EUR 8 400.

99 Pytkowska J. 'Microfinance in Europe: Survey Report. 2022 Edition' – referred to as 'EMN-MFC Microfinance Survey'. The data collected via the EMN-MFC Overview Survey does not allow breaking down average business loan volumes into discrete target groups. 2022.
100 Pytkowska J. 'Microfinance in Europe: Survey Report. 2022 Edition' – referred to as 'EMN-MFC Microfinance Survey'. The data collected via the EMN-MFC Overview Survey does not allow breaking down average business loan volumes into discrete target groups. 2022.

Table 12: Calculation of the financing gap for microcredit among enterprises with employees

Step 1	Number of TCNs – enterprises with employees	297 892
Step 2	Number of TCNs – enterprises with employees in need of external financing in the next three years (2.3%)	6 951
Step 3	Value of the demand for external financing among enterprises with employees (EUR 8 400)	EUR 58 386 734

Summary

To summarise the overall demand for microcredit in the EU among all target groups, the total number of TCNs in need of microcredit translates to 161 000 loan applications per year for a value of EUR 1.36 million. The highest demand comes from potential business founders.

Table 13: Summary of the financing gap calculations 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	81 709	686 358 080
TG 1b – New business founders	40 528	340 438 550
TG 2a – Existing solo entrepreneurs (no employees)	32 249	270 890 360
TG 2b – Existing enterprises with employees	6 951	58 386 734
Total	**161 437**	**1 356 073 725**

2.5.2 Unmet demand for business development services

A calculation of the demand for BDS is difficult due to the lack of detailed studies and surveys.

Since businesses established by TCNs face more barriers than enterprises run by nationals, the following calculation of the unmet demand assumes that half of the TCN businesses will require assistance[101].

Based on the information from BDS providers revealed during this study's preparatory focus group discussions, the average cost of the full-service package can be estimated at EUR 3 000 per potential migrant entrepreneur, while the selected topics package is assessed as costing EUR 400 per potential migrant entrepreneur. The selected topics package includes mentoring on up to two topics for an MFI borrower during the loan repayment period.

101 The assumption has been discussed with the BDS providers.

The table below summarises the details of the financing gap calculation.

Table 14: Calculation of the demand for business development services for each target group

Target group	Number of TCN businesses	% in need of BDS	Demand for BDS (Number of TCN businesses)	BDS unit cost	Demand for BDS (value in EUR)
TG 1a - Potential business founders out of social exclusion	292 332	50	146 166	3 000	438 498 000
TG 1b – New business founders	561 493	50	280 747	3 000	842 239 500
TG 2a – Existing solo entrepreneurs (no employees)	691 047	50	345 524	400	138 209 400
TG 2b – Existing enterprises with employees	297 892	50	148 946	400	59 578 400
Total	**1 842 764**		**921 382**		**1 478 525 300**

The calculations presented in the table above show that the total of 0.9 million TCN enterprises in the EU could be supported through BDS of various scope and intensity. Potential business founders out of social exclusion will need a more comprehensive package of services on topics such as idea creation, business plan development and topics of business finance and management. New business founders who have already initiated business creation will need a lighter package of capacity building services. Existing enterprises already with business experience will need assistance only on selected topics and issues.

The total value of demand for business development services is estimated at ca. EUR 1.5 billion.

Exact data on the actual number of TCNs who are already receiving BDS support is not available. Based on the data received from the largest MFIs and collected in the EMN-MFC survey of microfinance institutions, an estimated 593 TCNs received entrepreneurship training in 2021. Existing TCN enterprises served by MFIs numbered 13 477 in 2021, so assuming that half of them received BDS, the number of existing enterprises with BDS was 6 739. Therefore, the total unmet demand for business development services was 914 051 TCNs, representing EUR 1.5 billion.

2.6 Readiness and capacity of public bodies and MFIs

Readiness and capacity of institutions providing BDS

In recent years the microfinance industry has been increasing the supply of BDS in terms of scale, topics and delivery modes. Increasingly, institutions recognise the need for non-financial services to complement microcredit to support potential entrepreneurs from vulnerable groups and are interested in scaling up mentoring, coaching or to advise their clients on business-related issues. The capacity to deliver BDS to TCNs is yet to be developed in the case of institutions with low numbers of TCNs among their clients.

Readiness and capacity is in place for NGOs specialising in business development services for TCNs, but there is often lack of coordination between NGOs and MFIs on the scope of BDS and its relevance to the use of financial services.

Readiness and capacity of public bodies to develop social investments

Based on the level of interest in the project activities[102] from the participating managing authorities the study concludes that there is increasing interest in exploring opportunities with financial instruments. The Ministry of Funds and Regional Development in Poland, the managing authority of ESF, recognises the need for financial instruments targeting entrepreneurial TCNs among other vulnerable groups. However, it has also been stressed that knowledge and capacity of financial instruments is very limited and thus awareness activities and a capacity building programme are crucial.

ESF/ESF+ and ERDF managing authorities in some Member States have already been engaged in developing and implementing financial instruments supporting microfinance. In Bulgaria, the Ministry of Labour and Social Policy developed two financial instruments for microfinance under ESIF-funded Operational Programme Human Resources Development for the 2014–2020 period. However, many managing authorities in other Member States are still unfamiliar with financial instruments and the possibilities of combining financial instruments with grants. This concerns especially AMIF managing authorities as migrant-related activities were solely grant-funded in previous programming periods.

In addition, coordination between the managing authorities of different EU shared management funds (especially AMIF, ESF+ and ERDF) will be key to successfully implementing financial instruments.

Readiness and capacity of potential financial intermediaries to support the implementation of financial instruments

Microfinance institutions which have already benefitted from support through different types of financial instruments are particularly interested in contributing their experience and insights to the design of new support schemes. They are also willing to engage in potential market testing activities. The limiting factor for the willingness to use financial instruments by some smaller microfinance institutions may be burdensome administrative procedures.

2.7 Justification for the use of financial instruments[103]

The financial institutions working with TCNs which were consulted during preparation of this study regularly stated that support through financial instruments is required, especially to cover their risk and liquidity needs. Such support helps provide microfinance and BDS to vulnerable groups, among these also TCNs, without overburdening the final recipient and the financial intermediary. Financial instruments, thanks to their revolving nature, have the advantage over grants as they can provide sustainable support for a longer period and can be also reused to support more MFIs and thus ultimately more TCNs. Moreover, financial instruments attract additional co-investors thanks to their leverage effect.

Microfinance financial instruments supporting migrant integration can not only partially cover the financing gap mentioned above. A combination of microfinance instruments with a grant component could also enable provision of additional technical support in the form of delivering BDS services to TCNs.

102 fi-compass thematic workshops with AMIF managing authorities.

103 The benefits of financial instruments supporting migrant integration are further described in the fi-compass factsheet 'Asylum, Migration and Integration Fund (AMIF) - Financial instruments' available here: https://www.fi-compass.eu/publication/brochures/asylum-migration-and-integration-fund-amif-financial-instruments.

03 Housing sector

The purpose of this chapter is to assess the potential of a financial instrument co-funded by the EU, to improve the access to finance reception conditions for asylum seekers and finance for housing for migrants in Europe. Europe's large and diverse immigrant population faces significant challenges in accessing affordable and suitable housing. Asylum seekers, refugees, beneficiaries of international protection, as well as people coming to Europe for work, study, or family reunification purposes, are among the most vulnerable groups who face the greatest challenges in accessing housing finance due to their limited financial resources and uncertain legal status.

3.1 The regulatory framework

The EU Action Plan on Integration and Inclusion for the period 2021-2027 is the starting point for this market assessment. The Action Plan focuses on promoting integration and removing barriers to the participation and inclusion of migrants in European society. Its implementation can contribute to a more cohesive and inclusive European society, where diversity is seen as a strength rather than a burden.

The plan includes a chapter on housing and aims to ensure that migrants and EU citizens with a migrant background have access to decent and affordable housing, including social housing. One of the objectives is to encourage Member States and local and regional authorities to use innovative housing solutions that promote inclusion and combat segregation. Financial instruments can be one of these tools, particularly since AMIF was included within the scope of the CPR for the first time, enabling AMIF managing authorities to take advantage of its regulatory framework for financial instruments.

To support this objective, the Commission will work with Member States to promote non-segregated, decent and affordable housing, to provide integration support services through EU funds, to promote mutual learning on combating discrimination in the housing market and reducing residential segregation, and to promote models of autonomous housing for asylum seekers and successful innovative models of inclusive and affordable housing for beneficiaries of international protection[104].

The right to access adequate accommodation is enshrined in international and European human rights laws as a fundamental human right[105]. At the European level, a complex group of regulatory texts has been developed and subsequently revised since the late 1990s and early 2000s:

- The revised European Social Charter adopted in 1996 includes provisions that address housing for migrants. Article 31 recognises the right to housing for all, including migrants, and sets out the obligations of State Parties to take measures to ensure the availability of adequate housing. The provision also requires State Parties to take measures to prevent and reduce homelessness and to assist vulnerable groups such as migrants. In addition, the provision requires that housing be made available to all without discrimination, which includes discrimination based on migrant status. The revised Charter also recognises the right of families to adequate housing and requires State Parties to take measures to ensure that families are not evicted from their homes without adequate legal protection[106];

104 European Commission, 2020, 'EU Action Plan on Integration and Inclusion (2021-2027)', Brussels, https://ec.europa.eu/migrant-integration/news/ec-reveals-its-new-eu-action-plan-integration-and-inclusion-2021-2027_en.

105 Yilmaz, S. 'EUROPE'S PATCHWORK OF REFUGEE INTEGRATION POLICIES: LINKING NIEM RESULTS TO EU ACTION 2021 TO 2027 - THE EU ACTION PLAN ON INTEGRATION AND INCLUSION AS AN INSTRUMENT TO ADDRESS DEFICIENCIES'. Migration Policy Group.2021 https://www.migpolgroup.com/wp-content/uploads/2021/09/Europes-patchwork-of-refugee-integration-policies.pdf.

106 Council of Europe, 1961, 'European Social Charter', https://www.coe.int/en/web/conventions/full-list/-/conventions/treaty/035.

- The Racial Equality Directive, also known as Council Directive 2000/43/EC, adopted in 2000, prohibits discrimination on the grounds of racial or ethnic origin in a wide range of areas, including access to housing. Specifically, it requires EU Member States to ensure that individuals are not discriminated against in the provision of housing, including access to, supply of and conditions under which housing is provided. This means that migrants cannot be denied housing on the grounds of their race or ethnicity. The Directive also requires Member States to actively promote equal treatment in the housing sector and to take steps to prevent and combat discrimination[107];
- The Charter of Fundamental Rights of the European Union was signed in December 2000 and became legally binding with the entry into force of the Lisbon Treaty in December 2009. The Charter provides that respect for fundamental rights is a legal obligation for EU institutions, bodies, agencies and offices in all their actions, and for EU Member States when implementing EU law. The Charter contains provisions that can help beneficiaries access their right to housing, including the right to integrity of the person, the prohibition of slavery and forced labour, the right to education, the right to asylum, non-discrimination, the rights of the child and health care[108];
- The EU's Common Basic Principles for Immigrant Integration Policy were adopted in 2004 and commit Member States to ensuring non-discriminatory access to housing for migrants. The principles emphasise the importance of safe, secure and affordable housing that meets the needs of vulnerable groups. Member States are encouraged to promote affordable housing, prevent segregation and discrimination, and provide access to information and redress for violations of housing rights[109];
- The Recast Qualification Directive (2011/95/EU) was adopted by the EU in 2011 and became applicable in 2014. It harmonises the EU's standards for granting international protection to third-country nationals and defines those qualifying for refugee or subsidiary protection status. The recast directive explicitly recognises that access to safe and adequate accommodation is a crucial aspect of the right to a standard of living adequate for the health and wellbeing of refugees and beneficiaries of subsidiary protection. It also emphasises the need for such accommodation to be combined with effective access to education, health care and employment. The recast Directive also requires EU Member States to provide housing assistance, in the form of financial support or actual provision of housing, to beneficiaries of international protection who do not have the means to provide for their own accommodation[110];
- The Asylum Reception Conditions Directive (ARCD) was adopted in 2003. The recast Reception Conditions Directive (Directive 2013/33/EU) was adopted by the EU in June 2013 and entered into force on 20 July 2015. It sets standards for the reception of asylum seekers in the EU, including their access to accommodation, health care, education and employment. With regard to accommodation, the Directive requires Member States to provide asylum seekers with 'an adequate standard of living guaranteeing their subsistence and protecting their physical and mental health' (Art. 17(2)), taking into account their specific needs, such as family unity and health of vulnerable persons. Asylum seekers should have access to decent and safe housing with basic amenities such as heating, lighting and sanitation, as well as access to essential services such as housing, food and clothing either in kind, as financial allowances, in vouchers or a combination of the three. The Directive also requires Member States to ensure that accommodation is provided in locations that are accessible to necessary services and facilities and, as far as possible, close to the place where the asylum application is processed. In addition, the

107 Council Directive 2000/43/EC of 29 June 2000 implementing the principle of equal treatment between persons irrespective of racial or ethnic origin; https://ec.europa.eu/commission/presscorner/detail/en/MEMO_07_257.

108 European Union, 2007, 'Charter of Fundamental Rights of the European Union', https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012P/TXT&from=en.

109 European Union, 2004, 'Common basic principles for immigrant integration policy in the European Union'. https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2004:168:0001:0006:EN:PDF.

110 Directive 2011/95/EU of the European Parliament and of the Council of 13 December 2011 on standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection, for a uniform status for refugees or for persons eligible for subsidiary protection, and for the content of the protection granted; https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:337:0009:0026:EN:PDF.

Directive provides for the possibility of granting asylum seekers the right to work after a certain period, which may help them to secure their own accommodation. The specific conditions for granting this right are left at the discretion of each Member State. When reception centres are overburdened, Member States can accommodate asylum seekers in the relevant structures of the state welfare system if the minimum standards enshrined in the Directive are respected. 'The range of solutions outlined by the European regulation is therefore wide-ranging. Insofar as adequate living conditions guarantee subsistence and ensure the protection of people's physical and mental health, the reception conditions provided by Member States can amount to anything ranging from emergency accommodation to individual housing units, and even hotel accommodation'[111]. In 2016, the European Commission proposed a recast of the Directive to harmonise reception conditions across the EU, reduce incentives for secondary movements and increase applicants' self-sufficiency and integration prospects. The proposal aims to guarantee a 'dignified standard of living' for asylum seekers and ensure that their human rights are respected and includes a provision for a daily allowance that Member States must provide to applicants in addition to housing, food and clothing. No agreement has been reached between Member States yet, as the proposal is still under revision[112].

European Member States are primarily responsible for the integration of people with a migrant background. Indeed, 'the EU has no competence to legislate on housing. As a result, the European housing landscape is very diverse. Legal protection standards, public investments, and policies to tackle concrete problems (e.g. homelessness, lack of adequate housing) vary from country to country'[113]. Yet the EU is actively promoting national integration policy through supporting steps (or non-binding soft law) in this direction. 'The legal competence of the EU in the field of integration is limited to providing support and incentives to Member States. For example, the EU promotes exchange and mutual learning, supports the monitoring of integration outcomes across the EU and provides EU funding, in particular through national and regional programmes under shared management. The support provided at EU level in the field of integration has been reinforced through the adoption by the European Commission of the Action Plan on Integration and Inclusion for 2021–2027, on 24 November 2020. The EU legal and policy frameworks serve as the basis for supporting national and regional authorities in the implementation of integration policies for people with a migrant background through the use of EU funds'[114].

3.2 Overview of conditions and needs

3.2.1 Market context

After a decreasing trend from 2015 until 2020, migratory flows towards Europe increased in 2021 due to conflict and geopolitical instability in Belarus and Afghanistan and in 2022 due to the war in Ukraine. This was also reinforced by the steady decrease of the impact of the COVID-19 pandemic. According to the European Migration Network: 'The number of first-time asylum applications to EU Member States and Norway increased by 28.2 % compared to 2020'[115]. In addition, certain Member States have faced internal challenges burdening internal emergency and protection systems such as floods in Belgium or earthquakes in Croatia. 'Overall, these challenges necessitated

111 FEANTSA, 2020,'Fifth overview of housing exclusion in Europe', https://www.feantsa.org/public/user/Resources/OHEE/2020/Fifth_Overview_of_Housing_Exclusion_in_Europe.pdf.

112 Directive 2013/33/EU of the European Parliament and of the Council of 26 June 2013 laying down standards for the reception of applicants for international protection; https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:180:0096:0122:EN:PDF.

113 Carta, S. & Neidhardt, A-H. 'Migrants' access to decent work and housing in the EU'. European Policy Centre. 2022. https://www.epc.eu/content/PDF/2022/EPC_EPIM_Policy_Insights.pdf.

114 European Commission, 2021,'Toolkit on the use of EU funds for the integration of people with a migrant background 2021-2027 programming period', https://ec.europa.eu/migrant-integration/library-document/toolkit-use-eu-funds-integration-people-migrant-background-2021-2027-programming_en#:~:text=The%20toolkit%20has%20been%20created,the%202021%E2%80%932027%20programming%20period.

115 European Migration Network, 2022, 'Annual Report on Migration and Asylum 2021', https://ec.europa.eu/migrant-integration/library-document/emn-annual-report-migration-and-asylum-2021_en.

new (in Belgium, Greece, Cyprus, Luxembourg, Malta and the Netherlands) or emergency reception facilities (in France, Luxembourg and the Netherlands) and the adaptation of existing facilities by increasing the number of beds available (in Belgium, France, Croatia, Italy and Malta) or renovating reception centres'[116]. European reception systems for refugees and migrants typically provide accommodation to those who are seeking asylum or have been granted protection. These systems vary widely between countries but in general they aim to provide safe and secure housing to individuals or families. In recent years, however, the increasing number of arrivals of refugees and migrants has put a strain on reception systems, leading to overcrowding, inadequate conditions, and a lack of suitable accommodation options. This has resulted in challenges for both asylum seekers and host communities, as tensions rise over limited housing availability and the provision of social services. The COVID-19 pandemic has further exacerbated these challenges, with many reception systems struggling to meet the needs of vulnerable populations in the face of public health restrictions and economic instability. Efforts to improve reception systems and address the housing needs of refugees and migrants are ongoing, but progress has been slow and uneven across different countries and regions.

The current housing market in Europe is characterised by a shortage of affordable housing, particularly in urban areas, and rising housing and energy costs. This is due to a combination of factors, including population growth, increased urbanisation, limited housing supply and rising demand for housing from investors. In many European cities, housing costs have risen faster than incomes, making it difficult for many people, including migrants and low-income households, to access decent and affordable housing. The COVID-19 pandemic has also contributed to the housing crisis, with many households experiencing lower incomes and struggling to pay rent or mortgage. According to Eurostat, the housing cost overburden rate for non-EU citizens (19.1%) is more than double than among natives (8.8%)[117], meaning that their housing costs represent 40% or more of their disposable income[118]. Across the EU, the overcrowding[119] rate among those born outside the EU stands at 27.6%, compared with 14.2% for those born in the EU[120]. In 2020, 48% of (18+ years old) TCNs in the EU were at risk of poverty and social exclusion (or AROPE)[121], while only 19.5% of nationals were in the same situation[122]. Difficulty in maintaining adequate temperatures in housing was experienced by 7.3% of households (disaggregation for TCNs is not available at EU-level) and 4% of households were facing severe housing deprivation (disaggregation for TCNs is not available at EU level)[123].

116 European Migration Network, 2022, 'Annual Report on Migration and Asylum 2021', https://ec.europa.eu/migrant-integration/library-document/emn-annual-report-migration-and-asylum-2021_en.

117 Eurostat, 2019, 'Poverty and housing indicators based on EU-SILC'. Migrants defined as those born outside the EU-28 (as the reference year is 2019, UK nationals were not counted as 'non-EU migrants'; given their small share in the overall migrant population in the EU, this does not make a difference in terms of overall gaps in integration outcomes), source: toolkit on the use of EU funds or the integration of people with a migrant background 2021-2027 programming period.

118 EU definition can be found here: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Housing_cost_overburden_rate.

119 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.

120 Eurostat, 2019, , 'Poverty and housing indicators based on EU-SILC'. Migrants defined as those born outside the EU-28 (as the reference year is 2019, UK nationals were not counted as 'non-EU migrants'; given their small share in the overall migrant population in the EU, this does not make a difference in terms of overall gaps in integration outcomes), source: toolkit on the use of EU funds or the integration of people with a migrant background 2021-2027 programming period.

121 EU definition can be found here: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)#:~:text=At%20risk%20of%20poverty%20or%20social%20exclusion%2C%20abbreviated%20as%20AROPE,a%20very%20low%20work%20intensity.

122 Eurostat and European Migration Network, 2022, 'Annual Report on Migration and Asylum 2021 Statistical Annex' https://ec.europa.eu/eurostat/documents/7870049/14760013/KS-01-22-123-EN-N.pdf/283e6304-acb8-cde1-a09c-6f7a55e7241a?t=1655230090489, https://ec.europa.eu/migrant-integration/library-document/emn-annual-report-migration-and-asylum-2021_en.

123 Ibid.

The incoming beneficiaries of temporary protection (BTP) from Ukraine contribute to increased pressure on Europe's already strained housing markets: 'The current inflow of refugees is creating an additional and sudden surge in overall demand, which will further aggravate existing supply issues and contribute to high housing prices and rents. Moreover, the current high inflationary environment in Europe is increasing the cost of construction materials, further exacerbating housing supply and affordability. While initial estimates are highly uncertain, in Germany, somewhere between 200 000 and 400 000 new apartments are needed to accommodate the inflow of refugees. In Poland, the figure is closer to 500 000'[124]. Governments across Europe are working to address the housing crisis through a variety of measures, including investment in affordable housing, increased regulation of the private rental market and financial support for households at risk of homelessness. However, the scale of the problem is huge, and additional investment is needed to ensure that everyone has access to safe, secure and affordable housing.

3.2.2 Housing conditions

General remarks on the target group's segmentation

As mentioned in the general introduction of the market assessment, the study focuses on TCNs who reside in the EU, hold a work permit, hold a long-term resident status, hold a refugee status, benefit from temporary protection and/or have submitted an asylum claim. The segmentation of the target group is particularly relevant for the housing sector considering that every accommodation condition is included in the analysis. In Europe, accommodation conditions are subject to important differences and changes depending on the administrative status of individuals.

Depending on their classification, people may be 'vulnerable by virtue of their administrative status, and face housing exclusion and housing deprivation'[125]. This type of data is rarely collected by housing providers, financial intermediaries or NGOs. TCNs are usually aggregated with other social groups under the category of vulnerable persons, which is not disaggregated by administrative residence status or, to some extent, by nationality.

The migratory and housing journey towards integration

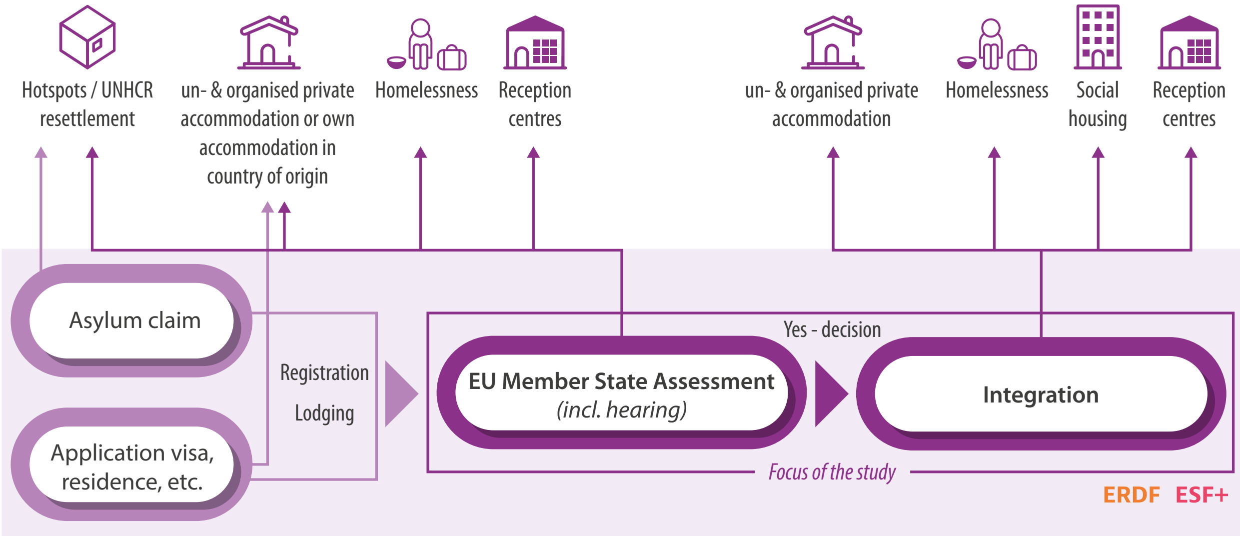
To provide a picture at the EU level, the following simplified diagram has been developed to illustrate asylum or residence procedures and their implications for the housing conditions of TCNs, whether they are economic migrants, refugees or migrating for family reunification. This market assessment focuses on both the pre-recognition and the post-recognition phases. At EU level, supporting instruments (e.g. EU shared management funds: AMIF, ERDF, ESF+[126]) address each of these phases. To avoid overlaps and for simplicity, the pre-recognition phase is described as covering the first 12 months after arrival, and the post-recognition phase starts thereafter. This breakdown does not reflect the complexities of reality. Asylum procedures may take longer than required by EU law, so people may be in the asylum process well beyond the maximum 21 months. Furthermore, in the case of planned migration, TCNs may complete the assessment phase prior to arrival in the EU. Given than the objective of the market assessment is to focus on TCNs' integration, the procedures concerning an application rejection and accommodation options for rejected asylum seekers have not been included.

124 Omic, E., Strien, J. . Refugees fleeing the invasion of Ukraine: How host country integration policies support refugees, Council of Europe Development Bank, Paris. 2022., https://coebank.org/media/documents/Integration_of_Refugees_Fleeing_the_Invasion_of_Ukraine.pdf.

125 FEANTSA, 2020, 'Fifth overview of housing exclusion in Europe', https://www.feantsa.org/public/user/Resources/OHEE/2020/Fifth_Overview_of_Housing_Exclusion_in_Europe.pdf.

126 European Commission, 2021, 'Toolkit on the use of EU funds for the integration of people with a migrant background 2021-2027 programming period', https://ec.europa.eu/migrant-integration/library-document/toolkit-use-eu-funds-integration-people-migrant-background-2021-2027-programming_en#:~:text=The%20toolkit%20has%20been%20created,the%202021%E2%80%932027%20programming%20period.

Figure 12: Simplified recognition procedure and pertaining accommodation conditions for TCNs



Source: Technopolis Group

In short, TCNs may experience one or more of these accommodation conditions during the pre-recognition phase: they live in private accommodation (whether their own home in the case of legal labour migration, or in unorganised or organised and facilitated private accommodation), they live in the reception systems or they become homeless, depending on the country of destination's capacities and policies in place. During the post-recognition phase, TCNs face the same conditions although some may be able to have access to social housing, also depending on the policies in place. 'Obtaining international protection does not necessarily guarantee them better accommodation conditions. Beneficiaries of protection face an array of legal and practical obstacles which prevent them from effectively exercising the right to accommodation within a reasonable time and from moving out of facilities for asylum seekers. Notwithstanding the severe consequences for the individuals concerned, including destitution and delays in their integration into the host society as well as implications for the country's reception capacity for newly arriving applicants, the transition out of asylum seeker accommodation post-recognition is not widely researched and remains under the radar of policymakers'[127].

There is no publicly available data or estimate at EU-level on the number of persons in each type of accommodation and how these change from one phase to the next. In the post recognition phase, TCNs theoretically have a choice between rental and owner-occupancy but an EIB study shows that they tend to stay in rental-occupancy: 'People born outside the EU have a much lower house ownership ratio (30% vs. 71% of Europeans living in their country of birth), a lower median income and higher unemployment. […] Rates of population living in households where working hours are limited ('low working intensity households') or without the possibility to afford most basic goods for themselves or their house ('severe material deprivation') are also significantly higher'[128].

127 European Council on Refugees and Exiles (ECRE), 2020, 'Housing out of reach? The reception of refugees and asylum seekers in Europe', https://asylumineurope.org/wp-content/uploads/2020/11/aida_housing_out_of_reach.pdf.
128 European Investment Bank, 2016, 'Migration and the EU: Challenges, opportunities, the role of EIB. Luxembourg: Publications Office of the European Union', https://www.eib.org/attachments/migration_and_the_eu_en.pdf.

Accordingly, this market assessment focuses on rental-occupancy since this is the type of accommodation where the biggest impact can be achieved. Topics of demand for financial instruments for ownership and energy-efficiency renovations are considered secondary priorities in the framework of this assessment. According to data collected from literature, interviews and focus groups, the reception and integration of TCNs heavily relies upon NGOs: local and city level forms of reception of displaced migrants and refugees are the sites of early integration, but this especially relies on associations from the third sector which have assumed a key role in what A. Elia has termed 'bottom-up welfare'[129] in a 2013 publication[130]. The housing conditions and experiences of refugees have a significant impact on their sense of security and belonging, as well as their access to health care, education, and employment. Successful approaches to accommodation for refugees require a joined-up approach at both the national and local levels, with a focus on both emergency reception and long-term settlement. Voluntary stakeholders such as third sector associations and NGOs are central to ensure going beyond the brick-and-mortar logic: TCNs' integration does not end with the provision of four walls and a roof; many have highlighted the need for continuous, grant-based guidance and counselling on different aspects of housing and integration.

In the following sub-section, the different accommodation conditions depicted in the figure above which TCNs may find themselves living in are briefly presented:

- **Hotspots and resettlement**

The European policy of strengthening external borders led in 2015 to the creation of Reception and Identification Centres, also known as 'hotspots', in Italy and Greece to facilitate the rapid identification, registration and fingerprinting of migrants. These facilities, managed by European border management agencies and UNCHR, are intended to enable the resettlement of people with a clear need for international protection in European countries, to reduce the pressure on the two main reception countries[131]. Resettlement programmes in Europe, proposed by the European Commission, provide safe migration routes and protect the fundamental rights of refugees. These refugees will also be part of the TCNs relying on reception centres within the EU as well as social housing. However, the living conditions need improvement and the rate of resettlement has been lower than desired with 27 695 people resettled by September 2017 out of a proposed 120 000 over two years[132].

- **Reception centres**

The landscape of European reception centres is as diverse as it is complex and specific to each country and asylum process: ECRE stated in 2016 that the 'diversity of reception systems, […] renders any meaningful comparison between European countries a highly challenging endeavour. Very often, data on reception is difficult to collect or peculiar to a specific country's system, and thereby non-transferable'[133]. The types of facilities and actors involved in the reception of asylum seekers vary considerably between EU Member States. While many states place applicants in collective centres, others use both collective and private facilities. In addition, most states use initial or transit facilities to temporarily accommodate applicants during the admission procedure. In terms of actors, there are two broad categories: those states that centralise financial and executive responsibility in state authorities, and those that share responsibility between state and local authorities. In addition, many states involve third parties such as NGOs and private companies in the management of reception facilities. These variations in the organisation of reception facilities result in significant differences both between and within some Member States.

129 Meer, N., Dimaio, C., Hill, E. et al. 'Governing displaced migration in Europe: housing and the role of the "local"'. CMS, 9(2). 2021. https://doi.org/10.1186/s40878-020-00209-x.

130 Elia, A. 'The arrival of North African migrants in the south of Italy: practices of sustainable welfare within a non-welcoming system'. In E. Januszewska, & S. Rullac (Eds.), Social problems in Europe: dilemmas and possible solutions. Paris: L'Harmattan. 2013.

131 According to the quoted FEANTSA publication, In Greece, living conditions in the camps have been unanimously criticised by civil society organisations, and the situation has become more critical during the COVID-19 pandemic.

132 FEANTSA, 2020,'Fifth overview of housing exclusion in Europe', https://www.feantsa.org/public/user/Resources/OHEE/2020/Fifth_Overview_of_Housing_Exclusion_in_Europe.pdf.

133 Mouzourakis, M., Pollet, K., & Ott, J-D. 'Housing out of reach? The reception of refugees and asylum seekers in Europe'. ECRE. 2019. https://asylumineurope.org/wp-content/uploads/2020/11/aida_housing_out_of_reach.pdf.

Various factors are considered in determining the allocation of applicants, such as reception capacity, needs and profile of applicants and the status of applications, all of which are common to all Member States. However, the main approach to allocation in most Member States is based on one of two approaches or a combination of both. One approach is based on burden-sharing between regions or provinces of the country through a dispersal system, while the other is based on different stages of the international protection procedure through a system of initial/transit and subsequent accommodation. The strategies and methods of the dispersal system vary between Member States, with some aiming to spread the financial and social costs and others encouraging long-term settlement in a particular region[134].

- **Unorganised and organised private accommodation**

In certain instances, accommodation on the private market becomes an option pre-recognition for various reasons, for example, when the reception systems are too overburdened to welcome more asylum seekers or if asylum seekers have relevant private networks on which they can rely. EU Member State then have to provide them with an allowance corresponding to the private market prices.

Private market accommodation is the main option post-recognition for both planned and unplanned migration. Housing providers in this sector can range from large corporations to individuals. The accommodation includes rental of an entire unit (house or apartment) or a room in a shared residence.

In recent years the individual hosting of migrants in citizens' own homes has become increasingly important, particularly following the Russian invasion of Ukraine from February 2022 onwards. According to the OECD, 80% of Ukrainian beneficiaries of temporary protection (BTPs) were housed by private hosts in the Czech Republic. With the Safe Homes initiative[135], the EU supports the many efforts of individuals and civil society organisations through guidance on the provision of accommodation to those fleeing Ukraine. One important difference to make within this type of accommodation is between i) unorganised, individual, and randomly facilitated private accommodation with high risks of exploitation, gender-based violence and instances of racism, and ii) organised accommodation through verified grassroot-level initiatives such as, for example Refugees Welcome[136], which provides available sleeping places in citizens' apartments free-of-charge and who focus on screening hosts and the security and well-being of TCNs. Within the Safe Homes initiative, the EU supports the efforts of national, regional and local authorities, individuals and civil society organisations involved in private accommodation schemes for those fleeing Ukraine[137].

- **Social housing**

There is no common definition of social housing at European level. Each country has its own forms of housing designed to meet the needs of households that cannot afford adequate housing. Social housing is often associated with social rental housing, but it can also include affordable housing for sale to support low-income households. Social rented housing is usually provided by non-profit organisations and rents are usually below market levels, requiring some form of subsidy. Legal status, rent levels and subsidies are therefore often important in defining social housing in different countries. The main distinguishing feature of social housing is the way in which it is allocated. Social housing is allocated based on need rather than ability to pay, using administrative procedures driven by political decisions. Access to social housing depends on how need is defined and interpreted[138].

134 European Commission, 2014, 'The Organisation of Reception Facilities for Asylum Seekers in different Member States', https://ec.europa.eu/migrant-integration/library-document/organisation-reception-facilities-asylum-seekers-different-member-states_en.

135 Migration and Home Affairs, 2022, 'Safe homes guidance', https://home-affairs.ec.europa.eu/safe-homes-guidance_en.

136 https://www.refugees-welcome.net/.

137 UN-HABITAT, 2009, 'The Human Settlements Financing Tools and Best Practices Series', http://www.iut.nu/wp-content/uploads/2017/07/Financing-Affordable-Social-Housing-in-Europe.pdf.

138 Ibid.

According to the OECD, social housing is common in OECD countries, but the size of the stock varies considerably. In the Netherlands, Denmark and Austria, social housing accounts for more than 20% of the housing stock, while in Latvia, the Slovak Republic, Luxembourg, Spain, Estonia, Lithuania, the Czech Republic, it accounts for less than 2%. In the countries that are the main entry points for Ukrainian refugees, social housing stock is particularly limited and there are already waiting lists to manage allocation. As a result, reliance on social housing is not a viable option for most countries to meet the short to medium term housing needs of refugees. In recent years, the stock of affordable housing, has been declining in many countries due to a reduction in public investment in housing from 0.15% to 0.06% of GDP on average across the OECD since 2009[139]. The decline in public investment is one factor that has contributed to housing supply failing to keep pace with demand. This has meant that existing housing support is insufficient to meet the rapid need for emergency housing solutions. As a result, there have been calls in some countries for a broader expansion of available and affordable housing stock, which could benefit not only refugees but also the general population in the long term[140]. Access to quality and affordable housing is essential for the successful social and economic integration of refugees and migrants. To address this, some EU countries have implemented regional refugee dispersal policies to spread housing demand and costs more evenly across regions. These policies are based on local criteria such as housing availability, existing refugee populations, and labour market conditions. Policymakers and investors are seeking solutions to address the housing shortage and ensure inclusivity. Some European countries, including France, Germany, Italy, and Belgium, are increasing budgetary support for affordable permanent housing solutions for refugees from Ukraine. These initiatives could also be designed to meet the needs of other vulnerable sub-groups, aligning with wider social objectives[141].

- **Homelessness**

There are 13 operational categories of homelessness developed by FEANTSA in the ETHOS typology[142], in which TCNs may find themselves at any given stage and thus should be factored into the analysis. For example, 'in several European countries, including France, Belgium, England, Greece, Italy and Spain, there has been an increase in slums [which are part of the homelessness typology] inhabited by refugees, asylum seekers, rejected asylum seekers'[143]. There is an important gap in data being reported on homelessness in general and homelessness of TCNs in particular. The Fondation Abbé Pierre and FEANTSA estimate that there are currently 700 000 homeless people living in emergency or temporary accommodation or sleeping rough in the EU, an increase of 70% over the last decade. Although data is limited, the proportion of homeless people who are TCNs has increased significantly in countries where data is available, including Denmark, Greece, Germany, Spain, the Netherlands, Belgium, the UK, Italy, Sweden, Finland and France[144]. TCNs accessing the housing market are more vulnerable to housing exclusion, unaffordability and unsuitable housing. In several EU countries, including Austria and Italy, non-nationals make up the majority of homeless people.

139 OECD, 2022, 'Housing support for Ukrainian refugees in receiving countries', https://www.oecd-ilibrary.org/docserver/9c2b4404-en.pdf?expires=1681156628&id=id&accname=guest&checksum=DFFF21A2A7085FE2BCDEDB71D46F6A5E.

140 OECD, 2021, 'Building for a better tomorrow: Policies to make housing more affordable', Employment, Labour and Social Affairs Policy Briefs, OECD, Paris, http://oe.cd/affordable-housing-2021.

141 Council of Europe Development Bank, 2022, 'Refugees Feleeing the Invasion of Ukraine: Research Paper', https://coebank.org/media/documents/Integration_of_Refugees_Fleeing_the_Invasion_of_Ukraine.pdf.

142 FEANTSA, 2005, 'ETHOS – European Typology of Homelessness and housing exclusion', https://www.feantsa.org/download/en-16822651433655843804.pdf.

143 FEANTSA, 2020, 'Fifth overview of housing exclusion in Europe', https://www.feantsa.org/public/user/Resources/OHEE/2020/Fifth_Overview_of_Housing_Exclusion_in_Europe.pdf.

144 Ibid.

3.3 Demand side analyses

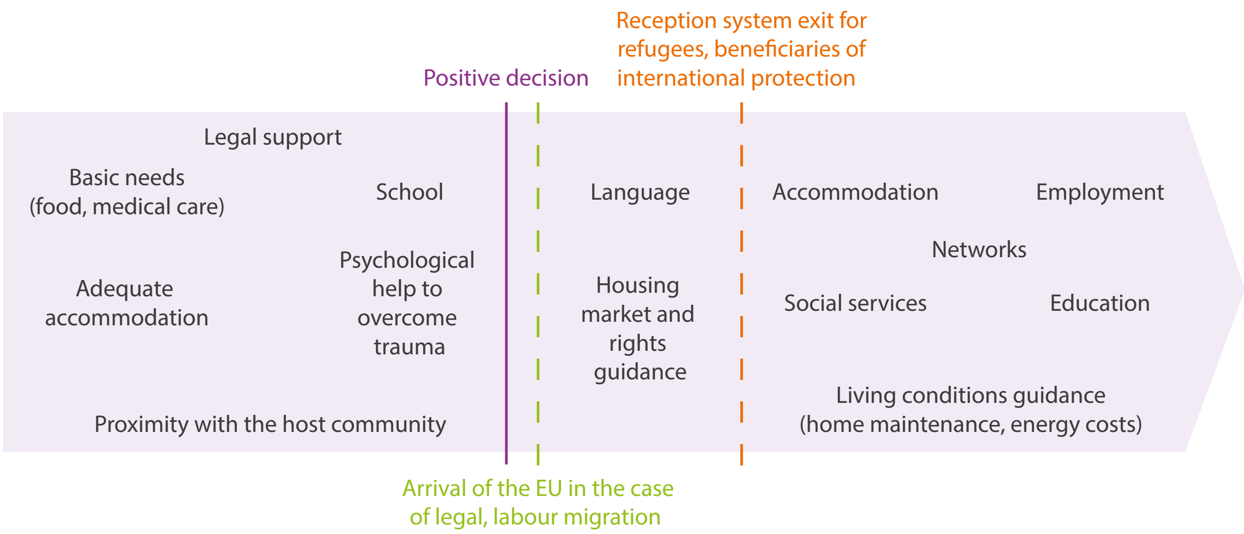
3.3.1 Housing and integration of TCNs

Housing-related needs

TCNs have evolving needs throughout their asylum and integration process as depicted in the figure below, which is based on data collected from literature and interviews. It is minimalistic by design, meaning that needs depicted at the beginning may also be relevant later in the integration process; however, they are not duplicated every time to increase readability.

The following findings were confirmed during the data collection (interviews, focus groups and workshops):

Figure 13 : Third-country nationals' non-financial needs (with focus on accommodation) for from arrival to integration



Source: Technopolis Group

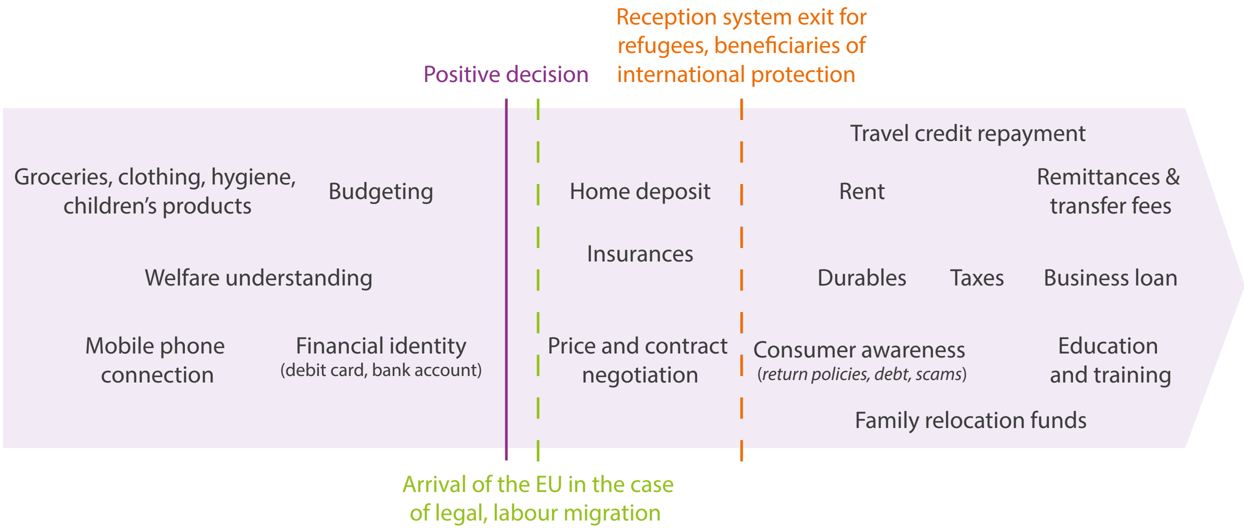
- There is a crucial need for guidance, assistance and care at every step of the integration journey particularly at the beginning, which practitioners stress can only be covered through grants;
- Specialised technical housing-related counselling for example, on tenants' rights, housing maintenance and water or energy consumption are not automatically provided and covered by social services or NGOs. However, these socialisation aspects go a long way and are critical to mediate owner/ renter expectations and relations as well as to a larger extent perception on migration. Costs for such assistance services can be covered by AMIF and EU Member States' grants as well as other sources of finance (foundations, associations, etc.) complementing financial instruments dedicated to TCN housing. The 'LeMi' café in Nuremberg example is provided below, under the section on the Council of Europe Bank;
- There is a need for financial products covering rent, a home deposit, insurances, durables in the transitory phase immediately post-recognition;
- There is a need to avoid temporary or makeshift solutions since they tend to become perennial;

- There is a need for better conceived transitions at the policy-making level with people-centred services to avoid gaps, for example for unaccompanied minors: 'Upon turning 18 years of age, asylum-seeking as well as refugee children generally have to change their accommodation, and often their location, while experiencing a significant reduction in social support. This negatively affects their lives in many respects, including school attendance and performance, mental health and homelessness'[145].

Integration-related needs

In addition to the housing-related needs, TCNs have many needs along their asylum and integration process as depicted in the figure below. Data shows that TCNs need to have access to finance for expenditures such as basic needs, telecommunication and information and accommodation at pre-recognition phase and for rent, a home deposit, insurances, durables in the transitory phase immediately post-recognition. Finally, they also need access to finance in the medium and long-term integration phase to reimburse their debt towards relatives who paid for their emigration, taxes, family reunification costs, remittances as well as business loans for entrepreneurship or training and education funding for employment.

Figure 14: Third-country nationals' financial and finance-related needs (with focus on accommodation) for from arrival to integration



Source: Technopolis Group

Beyond these needs there are also financial literacy-related needs. TCNs, regardless of their access to financial products, need to manage their finances effectively in the short and long term. Understanding exchange rates, budgeting, keeping records of money sent and received, and managing irregular cash flows are essential skills. Additionally, they should gain finance-awareness and be aware of the fees charged for money transfers and understand the tax implications of their financial decisions. Although the ability to transfer money across borders is crucial, refugees and migrants also require access to a range of financial products and services, including savings products, electronic payment facilities, credit, and insurance to manage their finances in the host country[146].

145 European Commission, 2021, 'Toolkit on the use of EU funds for the integration of people with a migrant background 2021-2027 programming period', https://ec.europa.eu/migrant-integration/library-document/toolkit-use-eu-funds-integration-people-migrant-background-2021-2027-programming_en#:~:text=The%20toolkit%20has%20been%20created,the%202021%E2%80%932027%20programming%20period.
146 OECD, 2016, 'Financial education and the long-term integration of refugees and migrants - Responses to the refugee crisis', https://www.oecd.org/daf/fin/financial-education/Financial-education-long-term-integration-refugees-migrants.pdf.

TCNs need to adapt to a new financial set-up and to navigate their everyday life whether prior or after the clarification of their legal and administrative status, making the case for capacity building on financial education and support on prioritising key expenses and credit understanding. Costs for such capacity building can be covered by grant support from AMIF, together with national and other sources of finance (charity sector) in combination with a financial instrument which is critical for financing these activities. A concrete and practical example is the Slovak Affordable Home project, furthered detailed in the chapter on Social Impact Investment, in which Roma communities benefit from financial education and must evidence private savings practices to access funding for housing construction. The capacity building is provided by organisations from the non-profit sector in full collaboration with financial partners.

Having identified expenditure items in the above figure following interviews and a literature review, it remains difficult to pinpoint which of these expenditures TCNs can afford by themselves and for which they may turn to a financial instrument such as a personal loan to satisfy the need. This difficulty is mostly linked with the fact that there is insufficient publicly available data on their financial status at arrival and on the overall migration costs. There is currently no publicly available survey data on TCNs' financial situation pre- and post-recognition including their state of indebtedness. It would seem fair to assess that the TCNs are low in funds in the immediate first months of arrival due to incurred costs and living cost differences between Europe and their country of origin. Further data would help to assess more thoroughly their financial needs as well as their exact capacities to raise co-investment for renting, owning, and refurbishing housing. In this sense, micro personal loans for specific expenditures which are not otherwise covered were confirmed as being very important by market stakeholders to help migrants who recently arrived in Europe access the financial resources, they need to start rebuilding their lives. Certain micro personal loans already exist and were rated as successful. They may help with setting-up migrants for further steps in their integration journey, for example by securing accommodation and housing related expenses according to the housing first principles[147]. Additionally, micro personal loans can help migrants establish a credit history, which can improve their access to credit in the future. By supporting the financial inclusion of migrants, micro personal loans can help to promote economic and social integration, which benefits both migrants and the wider community.

3.3.2 Housing providers

Housing providers are part of a heterogenous group. As mentioned in the previous section on the migratory journey towards integration, this study considers three main stakeholder types: the private rental market, the reception and emergency system and social housing. Each of these types of housing providers include various sub-groups of actors, for example in the private rental market these can be individual landlords, hosts offering accommodation for free or commercial entities. Within the reception system housing providers may be municipalities as well as central or national level government, shelters and hotel owners or charitable organisations. Finally, social housing, when it exists, can be municipalities, community-based integration agencies or other public entities.

Housing providers in the private rental market are generally market-based, meaning that they source their finance from the commercial banking system. However, there are examples such as IFRRU 2020 (further detailed in the section 'public and private financing of institutional housing providers' below) of financing supported by public institutions (ERDF, EIB, CEB).

147 https://housingfirsteurope.eu/about/what-is-hf/.

As mentioned above, housing providers in the reception system are mostly public stakeholders and source their financing needs from the national or local government budgets. Additionally, housing providers from the civil society organisations (or CSO) sector may require access to affordable and flexible financing options, such as grants, low-interest loans, and other forms of financial assistance to enable them to undertake housing projects that may not be profitable in the short term but are critical for addressing the housing needs of migrants and refugees.

Social housing providers typically rely on a combination of rental subsidies, grants, and refundable loans to meet the start-up costs for the development of new housing projects or renovation of existing buildings, operating costs such as utilities, maintenance, and staff salaries, and long-term financing for sustainable operation and maintenance of the housing[148]. Several countries have adopted incentive-based approaches to support housing providers in their efforts to create secure and affordable housing options for TCNs and non-EU citizens. For example, the Netherlands has introduced subsidies for landlords to make premises habitable, funding for local authorities for new buildings, and the possibility of using government buildings for housing purposes. Bulgaria, on the other hand, has utilised EU funds to move recognised refugees out of reception centres and into rent-subsidised accommodation. In Finland, the government directly supports refugees by offering two months' rent to encourage them to settle near reception centres[149]. These incentive programmes help to create a more supportive environment for housing providers and contribute to the overall success of housing initiatives.

3.4 Barriers affecting potential demand

3.4.1 Barriers experienced by TCNs

There are many barriers to TCNs' access to housing. The two most important are housing unavailability due to low housing stock and housing unaffordability.

Financial barriers

- One of the main obstacles is the underdeveloped financial services industry and financial consumer protection in both the home and host countries. This can be due to a lack of banking infrastructure, inappropriate products for migrants in their host country, unsatisfactory product design and terms and conditions, for example when products are only accessible in the native language, and the anticipated or actual difficulty providing the required proof of identity. Additionally, there may be a lack of transparent and accessible complaints handling procedures, which can create a sense of mistrust in financial institutions. Lastly, there may be a lack of options proposed by firms who act as guarantor or sponsor for unemployed migrants aged over 30. These issues can limit access to credit and other financial services for this population, making it difficult to manage their finances and participate fully in an economic and social life;
- Another important barrier is the financial and banking identity and status and set-up. Low levels of digital literacy and numeracy, inadequate financial education, inadequate access to services, limited income, and lack of credit history and financial guarantees can be significant barriers to accessing the housing market;
- Indebtedness specifically may be a barrier to accessing financing when credit history is well-known. Indeed, the existing savings of most asylum seekers are typically used up at the point of receiving asylum, and regular income may be low or not yet generated, especially in the initial phase after receiving asylum when access to the labour market is often restricted. This results in years without a regular income, and refugees frequently must take on debt to pay upfront costs such as equity share, deposit, or broker's commission;

148 UNHCR, 'Access to secure and affordable housing', https://www.unhcr.org/handbooks/ih/housing/access-secure-and-affordable-housing.
149 European Commission, 2016, 'Immigrant Housing in Europe: Overview, European Website on Integration', https://ec.europa.eu/migrant-integration/integration-dossier/immigrant-housing-europe-overview_en.

- Most TCN households face the challenge of low-income post-recognition, which is a key factor in their exclusion from the housing market. Disproportionate rents and deposits can make it difficult for low-income groups to secure finances for adequate housing;
- Financial intermediaries and civil society organisations who were consulted as part of the data collection for this study primarily mentioned the level of uncertainty about TCNs' willingness to remain in the country which granted them a permit. For example, some TCNs move from Southern and Eastern Europe to Northern and Western Europe upon recognition and thus it is assumed for most that they are likely to do this and that loans may not be paid back.

Regulatory barriers

There are various regulatory barriers that hinder access to finance for TCNs' housing:

- For asylum seekers, an important barrier can be the late access to the labour market in certain European countries. Early access could allow asylum seekers to build up reserves for housing expenses such as a deposit, rent or durables. According to EU rules, it should be made possible nine months after the application date, but in many Member States this is not necessarily the case[150];
- EU policy on Anti-Money Laundering and Counter-Terrorist Financing[151] requires financial institutions to know who their customers are and prevent asylum seekers from higher-risk jurisdictions from accessing basic financial products and services in some instances;
- Some countries have adopted policies that prioritise direct allocation of housing to refugees instead of financial support, such as Denmark, where refugees are given priority on social housing lists. However, in many countries, laws restrict non-citizens' access to public housing, and lengthy waiting lists exclude beneficiaries of international protection from social housing. Additionally, legal constraints and administrative requirements, such as specific identification documents, can hinder the process of accessing private accommodation.

Other barriers

There are some contextual barriers for TCNs access to financing for housing some of which have been mentioned in previous chapters and are linked to higher-level issues.:

- The most important of this type of barrier is discrimination[152], whether based on ethnicity, religion, gender, disability, sexual orientation, or age, all of which can be relevant for TCNs as a group or as individuals. Discrimination is not only a barrier in the access to housing but has also been flagged during a focus group as an important barrier in the banking system;
- The set-up of reception systems varies across Europe, with some systems institutionalising asylum seekers in large and isolated centres, while others provide financial assistance and autonomous housing solutions. Concentration and dispersal processes can also impact integration, and, in some cases, the local government is unable to provide housing finance assistance to TCNs, and its spatial planning of reception centres prevents TCNs from accessing housing finance services due to their geographical remoteness;
- A lack of stability and limited time make it challenging to research financial products or seek advice, particularly for low-income workers who are paid by the hour, and for which the opportunity cost of stopping work to understand loan documentation is estimated as too high for the potential benefit it could bring;

150 ECRE, 2020, 'The Future EU Action Plan on Integration and Inclusion: Ensuring an Approach Inclusive of All', https://ecre.org/wp-content/uploads/2020/10/The-Future-EU-Action-Plan-on-Integration-and-Inclusion-Ensuring-an-Approach-Inclusive-for-All.pdf.
151 https://www.fatf-gafi.org/en/the-fatf/mandate-of-the-fatf.html.
152 https://www.migpolgroup.com/_old/wp-content/uploads/2014/01/Discrimination-in-Housing-EN-FINAL.pdf.

- TCNs may also lack experience in the processes of spotting the best deals, the resources to proofread contracts in a non-native language and question their content, and liquidity for payment requirements or have not yet adapted to European legal structures of leases and real estate laws. Or simply in the case of youth, they may have limited experience due to their age necessary to test and understand the terms and features of different financial products and services[153];
- A barrier often overlooked is the state of physical and mental health of TCNs, not only when they arrive, but also at later stages of the integration process. Traumas induced by fleeing one's country or traumas suffered underway are often aggravated by bad experiences in Europe, often linked to housing. Being unhealthy considerably undermines one's own agency to plan financing one's own home. Refugees' specific difficulties are compounded by the urgency of their situation, migration to countries with limited support networks, and limited communication with family members. In a similar way, TCNs are living with the paradox of financing repairs for inadequate housing and thus not being able to finance a better-quality home with higher rent.

3.4.2 Barriers experienced by housing providers

Depending on the type of housing provider, the following barriers have been reported:

- The most important barrier for institutional housing providers (such as cities, municipalities, local-level governments) are the budgetary cuts for social and affordable housing and recruitment freezes, limiting their capacity to provide affordable housing. National or regional governments also provide little financial support to cities for their housing responsibilities;
- These same actors also face the barriers relating to eligibility of EU shared management funds and restrictions on public borrowing by local authorities under local public accounts rules: European rules related to the calculation of public deficits and rules related to implementation of ESIF Operation Programmes make it difficult for local governments to spend on services helping better access to housing. Currently, the AMIF does not finance accommodation, social integration and urban development in Member States;
- Another barrier is linked to State aid and public procurement rules which require a degree of expertise not always present amongst local governments who need to react quickly in times of crisis. In addition, cities do not have direct access to EU funding, which needs to become more flexible and adaptable to address new challenges in society[154]. Another important barrier in certain countries may be the missing regulatory framework on the use of financial instruments for institutional housing providers as reported by an Austrian financial intermediary. The financial instruments and services offered in Austria could only be realised after a period during which the legal basis had to be developed;
- Housing providers often face regulatory barriers that can affect their ability to build or maintain affordable housing. These barriers can include zoning and land use restrictions, building codes and standards, environmental regulations, and tax policies. In addition, regulations related to financing, such as restrictions on tax-exempt bonds or limits on the amount of Low-Income Housing Tax Credits available, can also create barriers to affordable housing development. In addition, the complex and lengthy approval processes required for permits and inspections can add significant costs and delays to affordable housing projects, making them less economically feasible. These regulatory barriers can limit the availability of affordable housing and contribute to the growing housing crisis in many regions. In Germany, the wide range of environmental and sustainability requirements for the construction of new buildings contributes to delays in their delivery. Furthermore, new criteria that have evolved over time and are gradually being considered as part of adequate housing add to the complexity;

153 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.
154 Ibid.

- Finally, one of the important barriers regarding non-institutional housing providers such as individual households who have accommodated Ukrainians since February 2022, reported in some European countries that the lack of rental allowances shifted the financial burden on to private hosts. This burden increased dramatically with energy prices and the inflation of living costs. The lack of access to finances induced a lower readiness to extend their hosting and prevented other potentially interested hosts from even offering a space.

3.5 Supply-side analyses

3.5.1 Migrant housing support - general overview

Personal micro-credit is designed to meet the growing needs of a growing segment of the European population affected by the crisis (working poor, unemployed youth, people on social assistance). The aim is to help vulnerable people meet personal or family needs, which can have an indirect positive impact on their integration into the labour market and, more generally, their social inclusion. Given these social characteristics, personal microcredit has the potential to be an empowerment tool targeted at the specific needs of individual and family development projects (such as education or employment), capable of preventing and tackling the causes of financial and social exclusion (poverty, low and irregular income, over-indebtedness) and acting as a springboard for their social inclusion. The usual uses of personal micro-credit are for employability (vocational training, upskilling, job search), housing (e.g. general improvements, energy efficiency and rent arrears), family (e.g. education and health), mobility (e.g. car repair or purchase) and fuel expenses.

The microfinance sector in Europe has been steadily expanding personal microcredit. At the end of 2021, the total portfolio of personal microloans managed by microfinance institutions in the EU Member States reached EUR 1.3 billion. The growth rate of the personal loans segment reached 10.3%, exceeding the growth rate of the business microloans segment, which grew by 7.8% between 2020 and 2021. In the 2020 edition of the EMN-MFC Microfinance Sector Overview[155], which examines the different purposes of personal loans, the largest share of the personal loan portfolio (36%) was made up of loans for various family needs, followed by loans for professional development (education to improve skills or start a business, mobility), which accounted for 33% of the microloan portfolio. Loans for housing needs such as rent, mortgage, energy efficiency represented 27% of the personal loan portfolio. Of the 24 microfinance institutions identified as serving TCNs, 12 offer personal loans to their clients. Five of them have dedicated housing products.

Crédal social credit in Belgium

Crédal offers microloans to individuals living in Wallonia and Brussels who receive social benefits or low professional income. Accompanied social credit is a consumer loan, intended to finance life projects or useful and necessary goods, which improve daily wellbeing, such as: household equipment (furniture, appliances, computer), improving home comfort (sanitary facilities, fittings, renovation work, material equipment for handicapped people etc.), transport means (a second-hand car, a scooter, an electric bike), and certified training (driving licence, languages, etc.), health care costs (glasses, dental care, etc.). The maximum amount of social credit is EUR 10 000. Social credit can finance rental guarantees only for people who received written refusal from the housing fund.

155 EMN, 2020,'MFC Microfinance in Europe: Survey Report'.

Parcours Confiance personal loans for people in difficulties in France

Parcours Confiance Bretagne - Pays de Loire created a large range of personal microloans to tackle the needs of people in difficulties whose access to bank financing is complicated, if not impossible, for the following reasons: temporary or fixed-term employees, families with only social income, people in an over-indebtedness plan, people already registered with the Banque de France for bad cheques or unpaid bills, people with disabilities, people under legal protection. Such clients are mostly people between the age of 30-50, low-income, unemployed, people without credit history (mostly migrants and young) or bad credit history, people facing social difficulties (single parents, divorce, death, illness, etc.). Parcours Confiance Bretagne Pays de Loire provides personal loans for the following purposes: employment and mobility (vocational training, driving licence, acquisition or repair of a vehicle, etc.), accommodation (agency fees, moving, first months' rent, deposit, etc.), home equipment (heating, household appliances, equipment for people with disabilities, etc.), paramedical (personal assistance equipment, hearing aid, etc.) A loan between EUR 300 and EUR 3 000 is granted for between 6 and 48 months.

The 'Micro Family' loan in Italy

PerMicro is an important Italian microcredit company based in Turin, operating across the country with a mission of social inclusion. Since its foundation in 2007, PerMicro has disbursed 32 962 loans for a value of over EUR 255 million, helping many families in temporary difficulties. The purpose of PerMicro's family loans is to help individuals and families deal with costs of goods and services. A wide range of purchases can be made using personal loans – from medical care, family events, home renovations, furniture and home equipment, removals, to schooling for children and training courses for adult family members. PerMicro supports financial education and targets people with primary financial needs (housing, health, education) who are excluded from traditional credit channels due to insufficient credit history or a precarious employment situation. With the 'For Micro Family' personal loan, PerMicro disburses up to EUR 15 000 to support family expenses such as paying for medical care, renovating home, moving, changing cars, attending a training course, or sending children to school. In addition, credit advice, clear and transparent conditions, advice and assistance in case of over-indebtedness are offered. A large proportion of PerMicro clients use personal loans for housing-related expenses, both in the home country and in Italy[156].

3.5.2 Public and private financing of institutional housing providers

Municipalities are the housing providers which are both involved in accommodation pre-recognition (since they are responsible for reception systems in many instances) and post-recognition in the case of social housing. In addition to the private banking system operating in each European Member State, municipalities may also be able to access finance for TCN housing in the public sector. Typical sources of finance for institutional housing providers in EU Member States include public finance source such as government grants as well as borrowing by public financial institutions such as Caisse des Dépôts et Consignations in France or Kreditanstalt für Wiederaufbau in Germany.

156 https://www.permicro.it/prodotti-e-servizi/permicro-famiglia/.

The decline of public investment in the housing sector has led to a diversification of financing models in social housing. As a result, social housing providers have increasingly turned to debt and equity financing. In this model, existing social dwellings are sold and used as equity to secure further borrowing. Debt financing has shifted from public-sector borrowing at below-market rates to borrowing on the private market. In some countries, revolving funds have been developed through a mix of state-guaranteed loans and market loans as part of a long-term funding strategy[157]. This approach allows housing providers to access funding on an ongoing basis, ensuring the continued availability of affordable housing. Social housing providers cover their needs by combining sources to finance social housing initiatives. These include equity or own funds of the social-housing provider, public grants, public loans, private loans or bonds, and tenant equity. By leveraging multiple funding sources, housing providers can better address the diverse financial needs of their target populations and ensure adequate housing solutions for TCNs and non-EU citizens in the EU Member States.

IFRRU 2020 in Portugal

IFRRU 2020 (Instrumento Financeiro para a Reabilitação e Revitalização Urbanas) is a financial instrument that has been established to support urban renewal across the entire Portuguese territory. Through an innovative financing structure, it mobilises EUR 1.4 billion of public (ERDF, CF, EIB, CEB) and private financing for urban development, with the aim of generating a total investment of around EUR 2 billion. The projects signed by the end of December 2022 were expected to deliver housing for more than 5000 new residents, the renovation of 2 473 households and the creation of 4 827 jobs. In addition, the energy efficiency measures supported by IFRRU 2020 during this period were expected to reduce greenhouse gas emissions by 8 308 tonnes (CO^2 equivalent) [158].

Toits Temporaires Urbains in France

A loan for the construction of temporary, urban accommodation modules in France.

The project was born out of the need for housing and temporary accommodation for many communities throughout France. At the same time, a lot of land owned by the national railway remains vacant. Toits Temporaires Urbains is an innovative project developed by the Banque des Territoires, SNCF Immobilier, ICF Habitat and the Conseil Départemental de Seine-Saint-Denis. Its aim is to provide a high-quality solution for wooden structures to meet the needs of housing, residential and commercial premises, in urban areas under pressure or rural areas in decline. The building blocks are planned to be environmentally efficient buildings that can be easily moved by third parties; reconfigurable between two installation sites to meet different needs (home or business) and with the ambition of high architectural quality and user comfort at a reasonable total cost[159].

For a better overview of public financing of institutional housing providers, the following key stakeholders at EU-level and their instruments are presented below.

157 OECD, 2020, 'Social housing: A key part of past and future housing policy, Employment, Labour and Social Affairs Policy Briefs', OECD, Paris, http://oe.cd/social-housing-2020.

158 Fi-compass, 2019, 'Financial instruments for urban development in Portugal - IFRRU 2020 case study', https://www.fi-compass.eu/publication/case-studies/financial-instruments-urban-development-portugal-ifrru-2020-case-study.

159 Caisse des Depots, 2022, 'Toits Temporaires Urbains: des batiments bois mobiles et modulalbes', https://www.caissedesdepots.fr/actualites/toits-temporaires-urbains-des-batiments-bois-mobiles-modulables.

The European Commission

There are various financing schemes in place for the financing of TCNs' housing in Europe through EU-level institutions and banks. The EU shared management funds from the European Commission represent the leading stakeholder on the supply side. EU funds are regulated by the multiannual financial framework (MFF) which defines the implementation of the EU budget over seven-year periods[160]. Three important funds touch upon reception and housing:

Table 15: Comparative overview of EU structural funds with a focus on reception and housing[161]

EU fund	AMIF	ESF+	ERDF
2021-2027 funding	EUR 9.9 billion	EUR 99.3 billion	EUR 226.05 billion
Established on	7 July 2021[162]	24 June 2021[163]	24 June 2021[164]
Objective	To strengthen the common European asylum policy, developing legal migration, supporting TCNs' integration, and tackling irregular migration.	To build a more social and inclusive Europe, by financing medium and long-term integration initiatives created to support employment and contribute to a fair and socially inclusive society.	To reduce economic, social and territorial disparities.
Administration	Shared management: national/ regional/ local authorities and the EC		
Responsible entity	DG HOME	DG EMPL	DG REGIO
Reception investment areas[165]	• 'providing material assistance, including at the border';	• 'support for addressing material deprivation, through food and/or basic material assistance to the most deprived, including clothing, hygiene goods and school materials';	• rental fees, social housing and regeneration of urban/ rural neighbourhoods[166]

160 EC, 'EU funds for migrant integration 2021-2027', https://ec.europa.eu/migrant-integration/funding/eu-funds-2021-2027-period_en.
161 EIB, 2021, 'Asylum, Migration and Integration Fund - Financial instruments', https://www.fi-compass.eu/sites/default/files/publications/AMIF_factsheet_financial%20instruments_web.pdf.
162 REGULATION (EU) 2021/1147 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 July 2021 establishing the Asylum, Migration and Integration Fund. Official Journal of the European Union, europa.eu.
163 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24June 2021. Establishing the European Social Fund (ESF+) and repealing Regulation (EU) No 1296/2013. Official Journal of the European Union; (europa.eu).
164 Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1058.
165 EC, 2021, 'Toolkit on the use of EU funds for the integration of people with a migrant background: 2021-2017 programming period', https://ec.europa.eu/migrant-integration/library-document/toolkit-use-eu-funds-integration-people-migrant-background-2021-2027-programming_en#:~:text=The%20toolkit%20has%20been%20created,the%202021%E2%80%932027%20programming%20period.
166 This may be considered 'investments in access to services', pursuant to Art. 4(1)(b), and hence eligible. In this case, it is advisable that the rent for accommodation is part of integrated actions, combined with measures on access to mainstream and quality services in education, employment, healthcare and social care, and aiming for integration of marginalised communities, low-income households, disadvantaged groups and people with a migrant background.

	• Reception centres and costs of emergency or temporary accommodation (national programmes or, in an emergency situation – emergency assistance)[167]	• 'The contribution of the ESF+ to rental fees can be explored together by the Member States and the Commission, provided this is part of a comprehensive integration strategy and strictly follows the fund's intervention logic. Standalone rental subsidies are not eligible.'	
Housing investment areas[168]	• 'Costs, including rental costs, of emergency or temporary accommodation[169]'; • 'Desegregation through relocation using existing available affordable and good-quality housing stock'; • 'training stakeholders in the anti-discrimination legal environment, experts, organisation of seminars, workshops, conferences, etc.'	• 'Support for a "Housing First" model[170]; social inclusion'; • 'Desegregation through relocation using existing available affordable and good-quality housing stock'; • 'improve access to adequate, desegregated housing, in particular social housing; raising awareness of discrimination and segregation on the housing market; support to prevent and reduce homelessness and housing exclusion, including through support for community-based solutions, Housing First and integrated services.'	• Refurbishing long term accommodation and social housing: 'physical, economic and social regeneration of deprived urban/ rural neighbourhoods – refurbishment, upgrading and building (social) housing, apartments and related infrastructure (water supply, sewage, gas, electricity, etc.); rental fees[171]; conditions for low-energy-cost housing'; • 'Desegregation through relocation using existing available affordable and good-quality housing stock'
Target beneficiaries	Exclusive focus on TCNs (from Ukraine since 2022) including those	Focus on homeless	Addressed towards a broader cluster of people including those with a migrant background
Eligibility criteria at EU-level	Support to institutions	Support directed towards individual persons	Support to institutions

Source: Technopolis Group

167 Where operationally justified (e.g. the existing reception infrastructure cannot cope with needs due to an emergency), the AMIF can support the rental costs of additional emergency or temporary accommodation. Costs of general social housing and standalone rental subsidies, however, are not eligible.

168 EC, 2021, 'Toolkit on the use of EU funds for the integration of people with a migrant background: 2021-2017 programming period', https://ec.europa.eu/migrant-integration/library-document/toolkit-use-eu-funds-integration-people-migrant-background-2021-2027-programming_en#:~:text=The%20toolkit%20has%20been%20created,the%202021%E2%80%932027%20programming%20period.

169 Where operationally justified. The AMIF does not support costs of general social housing or standalone rental subsidies.

170 The contribution of the ESF+ to rental fees can be explored together by the Member States and the Commission, provided this is part of a comprehensive integration strategy and strictly follows the fund's intervention logic. Standalone rental subsidies are not eligible.

171 This may be considered 'investments in access to services', pursuant to Art. 5(1)(c), and hence eligible. In this case, it is advisable that the rent for accommodation is part of integrated actions, combined with measures on access to mainstream and quality services in education, employment, health care and social care, and aiming for integration of marginalised communities, low-income households, disadvantaged groups and people with a migrant background.

AMIF in the form of grants plays an important role in funding a number of different types of housing-related needs of TCNs. This includes grant support for a project the Safe Homes initiative to provide safe access to individually hosted housing for TCNs, with ongoing monitoring and support to evaluate the project and capture lessons learned. AMIF grant support is also being used in several Member States to fund improvements to existing and construction of new reception facilities, together with providing humanitarian assistance, medical services, accommodation, food, clothing, and hygiene items, as well as socio-educational activities, counselling, tutoring, and education.

The support for the integration of TCNs also features in the eligible activities for both ESF+ and ERDF in the 2021-2027 period. Article 4(1)(i) of the ESF+ regulation[172] sets out the specific objective of the Fund in 'promoting socio-economic integration of third-country nationals, including migrants.' The ESF+ Regulation goes on to say at Article 7(4) that 'Member States shall allocate at least 25% of their resources of the ESF+ strand under shared management to the specific objectives for the social inclusion policy area set out in Article 4(1), points (h) to (l), including the promotion of the socio-economic integration of third-country nationals.' The ERDF, Policy Objective 4 (PO4) aims to secure a more social and inclusive Europe implementing the European Pillar of Social Rights. As part of this objective the ERDF Regulation[173] includes at Article 3(1)(d)(iv) the objective of 'promoting the socio-economic integration of third-country nationals, including migrants through integrated actions, including housing and social services.' Additionally, at Article 3(1)(e), ERDF Policy Objective 5 (PO 5) promotes 'a Europe closer to citizens by fostering the sustainable and integrated development of all types of territories and local initiatives.'

The European Commission's Affordable Housing Initiative[174] is part of its Renovation Wave and is intended to ensure that social and affordable housing benefit from the mobilisation of EU resources to green buildings, create jobs and improve lives. The initiative has been designed in synergy with the New European Bauhaus initiative which promotes high quality design emphasising its core values of sustainability, inclusivity and aesthetics. Two new model financial instruments have been published to support these initiatives. The fi-compass model financial instrument with a grant component for energy efficiency[175] describes how an ERDF financial instrument combined with grant for technical support, interest rate subsidy and capital contribution can be used to support renovation of both residential and non-residential buildings. The New European Bauhaus Territorial Development Model financial instrument[176] proposes a similar range of products but applies them to wider urban and territorial development.

The European Investment Bank

The EIB is helping to ease pressure on Europe's housing markets by providing loans for social and affordable housing. The EIB's EUR 150 billion lending for urban development includes the renovation of existing housing and the construction of new social and affordable housing. The EIB's support ranges from housing projects in small towns and rural areas facing demographic challenges to development projects in large cities with severe housing shortages. The EIB's involvement in social housing is driven by the lack of decent, safe and energy-efficient housing for low-income and marginalised populations, which can have negative consequences such as public health and safety issues, inefficient labour markets, poor energy use and low energy efficiency.

172 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24June 2021. Establishing the European Social Fund (ESF+) and repealing Regulation (EU) No 1296/2013.

173 Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund.

174 EC, 'Affordable housing initiative', https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/affordable-housing-initiative_en.

175 fi-compass, 2022, 'Model for a financial instrument with a grant component to support energy efficiency', https://www.fi-compass.eu/resources/factsheets-and-brochures/model-for-a-financial-instrument-with-a-grant-component.

176 Fi-compass, 2022, 'New European Bauhaus territorial development model (NEB TDM) financial instrument', https://www.fi-compass.eu/publication/other-resources/new-european-bauhaus-territorial-development-model-neb-tdm-financial-instrument.

Additionally, decent housing can help reduce inequality and defuse potential social tensions. The EIB offers flexible financing approaches and different products, such as the InvestEU programme, which allows the EIB to take a higher level of risk, and the URBIS (Urban Investment Support) instrument, available through the European Investment Advisory Hub. EIB activities support the implementation of the EU Urban Agenda and the EIB invests in regions and countries where there is a clear policy and regulatory framework for housing. In general, EIB financing of social housing requires a sound and adequate regulatory framework, long-term operation and maintenance of the housing stock, and regular, comprehensive and effective inspection and control mechanisms.

In total, the EIB has lent EUR 7.1 billion for migrant-related projects. Since 2015, the EIB has invested EUR 3.3 billion in housing and multi-sector projects with a migrant component. The level of investment has increased due to the war in Ukraine, with the approval of a EUR 4 billion Ukraine Solidarity Package in EU Member States for the construction, rehabilitation and extension of infrastructure. The aim is to increase the capacity of cities and regions to respond adequately to the needs of refugees and host communities, particularly in areas such as housing, health and education. The funding will consist of a combination of financial support for emergency measures, temporary and operational expenditure, long-term infrastructure development and advisory support. The EUR 4 billion Ukraine Solidarity Package in EU Member States is a lending envelope mainly for Poland, the Czech Republic and Germany. It is intended to be multi-sectoral and normally EIB operations consist of 50% loans and 50% local counterpart participation. However, under the Ukraine Solidarity Package, the EIB can cover 100% and, if EU funds are available, a 100% cumulation of EIB and EU funds is possible. A simplified approval process is ensured, and the package foresees the financing of long-term housing within a public policy framework and the financing of temporary shelters and related facilities and services.

The PTBS affordable housing loan in Poland

In 2017, the EIB granted a loan of EUR 33 million to Poznańskie Towarzystwo Budownictwa Społecznego Sp. z o.o. (PTBS), a Polish municipal housing company for an affordable housing project of an overall EUR 66 million. The loan was used to build approximately 1 300 affordable housing units in the city of Poznań to combat social exclusion and provide affordable housing for people whose incomes are too high to qualify for social housing but not sufficient to secure housing on the open market. The new affordable housing units were completed by 2021. The units are rented out with a purchase option under certain conditions. The loan was used to construct the housing units, along with the necessary technical infrastructure such as the water mains, sewage system, urban road system, garages, and above-ground parking spaces. The funding was also used to build commercial and community services infrastructure and recreational and educational facilities[177].

Following stakeholders' feedback, this study prioritised the urgent housing needs of TCNs, the majority of whom struggle to access housing and finance for housing. While renovation and energy efficiency are not the focus, there are interesting examples of urban renovations financed through financial instruments which could be used as an example for further work as part of the EU's Renovation Wave[178] strategy for Europe.

177 https://www.eib.org/en/press/all/2017-027-contributing-to-social-inclusion-in-poland-eib-finances-1300-affordable-housing-units-in-poznan-under-ipe.

178 EIB, 2017, 'Poland: Contributing to social inclusion: EIB finances 1300 affordable housing units in Poznan under Investment Plan for Europe', https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1835.

Residential energy efficiency in Lithuania

> The Jessica II fund of funds was set up by Lithuania's Ministry of Finance and Ministry of Environment early in the ERDF 2014-2020 programming period to fund loans to support investment in energy efficiency in privately owned multiblock apartment buildings, which make up approximately 66% of the housing in Lithuania. It mobilises EUR 250 billion of public funding from the ERDF and EUR 705 million of private financing from financial intermediaries and third-party investors. Investments implemented through the Jessica II fund and the Lithuanian Leveraged Fund represent approximately 15% of last year's total construction sector activity in Lithuania. Some 300 construction companies participate in apartment block renovation work, corresponding to around 7 000 new jobs (including short-term roles)[179] and a reduction of carbon emissions of 95t CO^2 per annum.

The Council of Europe Development Bank

The CEB, which was established to help resettle refugees and internally displaced persons after the Second World War, has made support for migrants, refugees and displaced persons a priority. It established the Migrant and Refugee Fund (MRF) in response to the surge in migrant and refugee arrivals in 2015. The MRF initially helped Member States to build up their short-term reception capacity along the Balkan route and has since been used to support the integration of migrants and refugees in host communities. The MRF has received EUR 39 million in contributions from 22 CEB member countries, the CEB and the European Investment Bank. In response to the war in Ukraine, the CEB established a new trust fund, the Ukraine Solidarity Fund, to address social needs such as emergency assistance, resettlement and integration of refugees, and reconstruction of critical social infrastructure.

In 2020, the European Commission approved the financing of Union Actions in the framework of the AMIF to address migrant integration needs. The CEB plays a unique role in this framework, using its lending capacity to finance financial instruments for public and private sectors. To address financial needs, the PAFMI action promotes bundling or complementing EU grants with repayable forms of financing (CEB loans). The PAFMI action also intends to increase the awareness, availability and use of new forms of financing for migrant inclusion in EU Member States. The action will address operational needs by raising awareness among public authorities and financial institutions of the potential migrants can have for economic growth and social cohesion. The sectoral needs related to the inclusion of migrants include housing, where there is a decreasing stock of social housing making it difficult to provide adequate and affordable housing for vulnerable groups.

179 fi-compass, 2020, 'Residential energy efficiency financial instruments in Lithuana', https://www.fi-compass.eu/publication/case-studies/residential-energy-efficiency-financial-instruments-lithuania.

The 'LeMi' learning café[180]

The 'LeMi' learning café opened in 2019 with support from an investment grant from the Migrant and Refugee Fund. The grant funded the renovation of the café, as well as new equipment and staff costs. A small team of teachers and social workers offer language and basic skills training plus help with everyday problems such as correspondence with authorities, professional orientation and job searches. While the café supports the social integration of migrants and refugees in Nuremberg, it also provides long-term unemployed people with skills training and is a welcoming place to make friends, contacts and connections. The project was implemented by the municipal company, Noris-Arbeit (NOA).

The Hémisphère Social Impact Fund in France

Hémisphère aims to provide dedicated shelter accommodation for homeless people, refugees and asylum seekers across France. The fund was launched in 2017 in the context of increasing demand for shelter places due to a long-term growth in the number of homeless people and asylum seekers across the country. One of the largest social impact bonds in Europe, the fund brings together a blend of EUR 100 million social impact investment from seven mainstream investors and a EUR 100 million conventional bank loan from the CEB. The fund has been used to purchase and renovate 62 hotels for the purpose of delivering dedicated shelter places and social support services, provided by Adoma, a social accommodation provider and subsidiary of CDC Habitat. The fund uses an innovative social impact investment arrangement in which a portion of investor remuneration is tied to the achievement of social outcomes. The intention of the fund is to improve social outcomes for accommodation users whilst at the same time reducing the delivery costs for the government[181].

180 The text is a direct quote from the CEB website article: https://coebank.org/en/news-and-publications/projects-focus/supporting-nurembergs-commitment-to-social-integration/.

181 EIB, 2021, 'Hempisphere social impact fund: France', https://advisory.eib.org/publications/attachments/hemisphere-social-impact-fund-case-study-251021.pdf.

3.6 The financing gap for TCNs' housing

3.6.1 The financing gap in the reception system

The reception system for asylum seekers in the EU is a complex issue, as the number of applications and temporary protection provided increases. The challenges faced by the reception systems are linked to the length of asylum procedures, obstacles to integration, return policies, lack of social housing and overall public support for asylum policies. As a result, 'many asylum seekers continue to be confronted with deficient reception systems or to face outright destitution in Europe' (ECRE, 2019)[182].

There is currently no publicly available information on the investments of EU Member States in their reception systems and services and specifically in their accommodation premises. Nor is there data on the institutions owning them or borrowing funds to build them. In 2017, the OECD stated that 'the cost for processing and accommodating asylum seekers is estimated at around EUR 10 000 per application for the first year but can be significantly higher if integration support is provided during the asylum phase. The annual costs decline considerably in the following years'[183]. So far, no EU27-level publicly available data was found on the number of TCNs in an asylum procedure who do not currently benefit from adequate accommodation and for which additional space may need to be created to be properly housed. Significant investments are needed in the face of deteriorating conditions and increasing migratory flows. As local authorities are increasingly responsible for such investments and face constrained budgetary situations, a financial instrument that leverages EU Funds with private sector investment to provide a loan to the local authority may be relevant to provide them with the necessary funding.

To conclude, although there may be scope for financial instrument support for the construction or improvement of reception centres, estimating the financial gap for such facilities requires the provision of key data on specific variables such as the number of persons hosted in reception centres, the price ranges for the rent or land where a centre is, the type of service amenities required which may vary from a centre for emergency reception to a centre for transition post-recognition, which isn't currently available.

3.6.2 The financing gap in social housing

Since 2009, investments in the affordable and social housing sector have been decreasing gradually, leading to two major issues: a reduction in the quantity and quality of available dwellings and a rising demand for accommodation. According to a 2018 study by the European Union[184], the social and affordable housing sector is facing an annual investment gap of EUR 7 billion, which represents a 25% increase in investment to meet the current needs. This gap increases to EUR 57 billion when taking into account the needs related to energy poverty. Similar to most of the existing and publicly available data and literature cited in this market assessment, the 2018 EU financial gap analysis did not disaggregate the demand side for social housing by nationality, country of origin or residence status.

182 Mouzourakis, M., Pollet, K., & Ott, J-D. Housing out of reach? The reception of refugees and asylum seekers in Europe. ECRE. 2019. https://asylumineurope.org/wp-content/uploads/2020/11/aida_housing_out_of_reach.pdf.

183 OECD, 2017, 'Who bears the cost of integrating refugees? Migration Policy Debates', https://www.oecd.org/els/mig/migration-policy-debates-13.pdf.

184 Fransen, L., del Bufalo, G., & Reviglio, E. Boosting Investment in Social Infrastructure in Europe: Report of the High-Level Task Force on Investing in Social Infrastructure in Europe. European Economy Discussion Paper 074, 2018. https://economy-finance.ec.europa.eu/system/files/2018-01/dp074_en.pdf.

3.6.3 The financing gap – TCNs' access to private rental accommodation

Rationale

There is currently no detailed and comprehensive study at EU27-level examining the gap between the demand from third-country nationals (pre- and post-recognition) and actually available 'adequate' accommodation. Moreover, in some instances, data on the number of TCNs who become homeless, stay in reception centres or move to unorganised accommodation is also not available at national level. It is therefore difficult to assess how many TCNs intending to integrate into European society can find or cannot afford adequate accommodation.

The majority of TCNs entering the EU whether due to planned or unplanned migration rely on the private rental market for accommodation185 for various reasons. One of these is that EU may not offer access to social housing for non-EU citizens or access is restricted by provisions disadvantaging migrants, by the high demand or the prioritising of vulnerable groups (disabilities, domestic violence, etc.). Another reason may be the congested reception system; newly arrived individuals often face extreme poverty and urgent housing needs, making it challenging for them to focus on their asylum application. This can lead to destitution as they struggle to meet basic survival needs[186]. Both these aspects make the case for increasing access to finance for TCNs' personal finance of housing.

For the purpose of this market assessment, a general assessment of the financing gap for TCNs entering the private rental market is laid out using available data from reference institutions such as Eurostat and the OECD.

Methodology and calculation

The following methodology is proposed for the calculation of the financing needed for TCNs entering the private rental market: step 1: assessment of the size and composition of the target group, step 2: assessment of an average deposit/ rent, step 3: assessment of the value of demand.

Step 1: assessment of the size of the target group

The target group is composed of persons who are likely to move into the private housing market on any given year. Their number will be calculated using:

- the number of first single residence permits issued via a simplified procedure that authorises non-EU citizens to reside and to work in the EU, whatever the main reason for their arrival (employment, education, family or other which includes international protection);
- the number of first residence permits issued for family formation and reunification, since it is assumed that they will not enter the market but rather move in with persons who are already accommodated;
- the total rate of TCNs in overcrowded housing conditions who are assumed to lack access to finance, since they probably would live in adequate conditions should they have the financial capacity to do so[187].

185 According to data from the EWSI national experts in the EU28: https://ec.europa.eu/migrant-integration/integration-dossier/immigrant-housing-europe-overview_en.

186 FEANTSA, 2020,'Fifth overview of housing exclusion in Europe', https://www.feantsa.org/public/user/Resources/OHEE/2020/Fifth_Overview_of_Housing_Exclusion_in_Europe.pdf.

187 Estimating the number of TCNs, who do not have access to finance for better housing conditions could be refined through the access and use of remittances by TCNs; however, data on this indicator is not publicly available.

Table 16: Financing gap calculation for TCNs entering the private rental market in 2021 – step 1.1

Proxy indicator	Source	Year	Value
Number of first single residence permits	Eurostat	2021	2 952 300[188]
Number of first residence permits issued for family formation and reunification			710 000[189]
Sub-total			**2 242 300**
Rate of TCNs in overcrowded housing conditions in the EU27 for persons aged 18-64 years	Eurostat, [ilc_lvho15]	2021	31.7%[190]
TOTAL			**710 809**

Source: Technopolis Group

In short, it is estimated that the target group equals approximately **710 809 TCNs living in inadequate housing conditions in Europe, who do not have access to finance** and are likely to transition to or within the private rental market and thus may be interested in financial instrument solutions.

The group of TCNs likely to move into the private housing market is not homogenous. According to the 2018 OECD study 'Settling in 2018 – Indicators of Immigrant Integration'[191], four types of households can be identified among immigrants in the EU in 2018:

- single-person households – one adult, no children who represent 38.5% of immigrant households;
- adults without children – living as a couple or not who represent 27.1% of immigrant households;
- single-parent households with at least one child – referred to as 'single-parent families' who represent 5.6% of immigrant households;
- two or more adults with at least one child who represent 28.8% of immigrant households.

Based on this data, the study estimates that almost **40% of non-EU citizens entering the private rental market require one-bedroom accommodation** (target group 1a equals 284 323 persons or households), while approximately 60% of non-EU citizens do not live alone and thus require more than one-bedroom accommodation. Furthermore, according to the same study, families and single-parent households constitute a third of the immigrant households in the EU. The size of these families is a little larger than native-born ones in most EU countries: 'In the EU, the difference is smaller with figures being 2.4 members in foreign- and 2.3 in native-born households (notably due to a large share of single-person migrant households). Immigrant households are larger in Greece and Luxembourg, by no less than 0.5 persons.' Based on this data, the study estimates that approximately **60% of non-EU citizens may live in two-bedroom apartments** (target group 1b equals 426 485 households[192]), assuming adults share one room and children share another[193].

188 Eurostat, 2022, 'First residence permits reached pre-pandemic levels', https://ec.europa.eu/eurostat/en/web/products-eurostat-news/-/ddn-20220809-2.

189 Eurostat, 2023, 'First residence permit by destination in the EU', https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Residence_permits_-_statistics_on_first_permits_issued_during_the_year&oldid=584076#First_residence_permits_by_reason.

190 Source data can be found here: https://ec.europa.eu/eurostat/databrowser/view/ILC_LVHO15__custom_5959402/default/table?lang=en.

191 OECD/EU, 2018, 'Settling In 2018: Indicators of Immigrant Integration', https://doi.org/10.1787/9789264307216-en.

192 The calculation goes as follows: 60% of 2 242 300 equals 1 345 380 persons and 1 345 380 divided by 2.4 equals 560 575 households of 2.4 persons).

193 The third type 'adults without children' is very heterogenous and could include couples as well as multiple same-sex persons living in a dormitory-like setting. For ease of convenience, this category is associated to 'families'.

Table 17: Financing gap calculation for TCNs entering the private rental market in 2021 – step 1.2

Proxy indicator	Value
Target group 1a	
TCNs living in inadequate housing conditions, who do not have access to finance and are likely to transition to or within the private rental market	710 809
Number of non-EU citizens entering the private rental market who require one-bedroom accommodation	40%
Total target group 1a	**284 323**
Target group 1b	
TCNs living in inadequate housing conditions, who do not have access to finance and are likely to transition to or within the private rental market	710 809
Number of non-EU citizens entering the private rental market who require two-bedroom accommodation	60%
Total target group 1b	**426 485**

Source: Technopolis Group

Step 2: assessment of an average for deposit, rent and durables

Rent prices for one or two-bedroom accommodation vary widely across European countries; however data shows that the majority of TCNs live concentrated in and around cities. According to the same study: 'Immigrants are more heavily concentrated in capital and urban regions than their native-born peers. In Europe, the regions where they constitute the largest shares of the population are overwhelmingly capital-city regions.' Hence, the study will focus on rent prices of cities using the 2020 iSRP-OECD booklet[194] comprising survey data on rents in the EU27 capital cities. The advantage of this survey is that it focused on capitals or big cities which concentrate migrants[195].

- The average rent price for a one-bedroom flat (between 40 and 60 square metres) is EUR 900. Since this result may appear high, another estimation was done by calculating the average rent price for a one-bedroom apartment using the website number[196], which was EUR 600. An average of the two results equals **EUR 749** per month and will be used further in the analysis;
- The average rent price for a two-bedroom flat (between 60 and 100 square metres) equals **EUR 1 245** per month.

194 iSRP/OECD, 2020, '2020 Current Market Rents Estimates', iSRP/ EUROSTAT, France/ Luxembourg, https://ec.europa.eu/eurostat/documents/6939681/7243182/Booklet_2021_rents_2020_e_mockup_FINAL.pdf/c90aa8a4-24df-05db-99a9-b75799fdac73?t=1614163006940.

195 One important limitation to be noted is that the neighbourhoods covered in each city surveyed are wealthy areas and not necessarily characterised by a high share of immigrant households. Thus, rents detailed in the survey may be above actual rent prices of less wealthy districts; however, this aspect may be nuanced by the fact that the values date back to 2020 and that prices in 2023 have risen due to inflation and construction costs for all types of accommodation.

196 The advantage of this source is that values are no less than one year old, as they date from 2022. The limitation of this source is that some of the selected EU27 cities may not necessarily be migration hubs, nor fully translate the realities of a saturated market such as in capital cities (high demand, low offer). Source: https://www.numbeo.com/cost-of-living/region_prices_by_city?itemId=27&region=150&displayCurrency=EUR.

Depending on the countries and landlords' practices:

- a deposit can be 1 or 2 months of rent. In addition, the final calculation should also take into account that some TCNs may not be permitted to work during their asylum procedure or have to reimburse debts (for example for the travel expenses to Europe) and may not have enough reserves to cover several months of rent post-recognition;
- Apartments can be rented out empty, fully- or half-furnished. Furnishings can represent a heavy sum for TCNs who have not had the opportunity to build reserves in addition to the deposit and rent, which the analysis ought to take into account;
- It is estimated that basic durables and appliances for a one-bedroom apartment encompass the following list of objects: a fridge, electric hotplates, a hoover, a mattress, a table and 2 chairs (a single person may use launderettes for washing);
- It is estimated that basic durables and appliances for a two-bedroom apartment encompass the following list of objects: a fridge, a washing machine, electric hotplates, a hoover, four mattresses, a table and 4 chairs.

It is roughly estimated that basic durables may cost up to one month's salary per household. Salaries may vary widely in the EU. According to Eurostat, 'in 2021 the net annual earnings of an average working couple with two children were EUR 53 364 in the EU, ranging from EUR 14 825 in Bulgaria to EUR 101 065 in Luxembourg. In 2021 the net annual earnings of an average single worker without children were EUR 24 947 in the EU, ranging from EUR 6 952 in Bulgaria to EUR 45 787 in Luxembourg'[197]. This would mean that the average monthly salary in the EU equals **EUR 2 078** for a one-bedroom household and **EUR 4 447** for a two-bedroom household.

Step 3: assessment of the value of demand

The total number of persons in target group 1a and 1b are calculated by multiplying 40% and 60% respectively with the total number of TCNs entering the market in any given year (2 737 347), as established under step 1. It is estimated that there may be more favourable conditions for TCNs regarding the deposit, meaning that it equals the amount of one month of rent; however, data indicates that TCNs often face landlords asking for higher rents than the market price, often quoting the uncertainty on the length of their stay. Hence, three months of rent are estimated to be needed in advance either to cover the artificially increased rent or to cover the difficulties in finding stable employment. The total deposit, rent and durables volume for each target group is calculated by multiplying the number of persons within target group 1 and 2 with the deposit, the rent for 3 months and the one-off durables costs estimated in step 2.

As laid out in the table below, the estimated total value of unmet demand is estimated at **EUR 5.4 bn**.

Table 18: Financing gap calculation for TCNs entering the private rental market in 2021 – step 2 and 3

Household composition	Number of persons	Deposit in EUR	Rent/month in EUR for 3 months	Durables in EUR	Total in EUR
Target group 1a – single individuals living in single occupancy	284 323	749	2 247	2 078	1 442 654 902
Target group 1b – families or group of individuals living in multiple occupancy	426 485	1 245	3 735	4 447	4 020 474 095
Total in EUR					**5 463 128 997**

Source: Technopolis Group

197 Eurostat, 2023, 'Wages and labour costs', https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Wages_and_labour_costs#:~:text=In%202021%20the%20net%20annual%20earnings%20of%20an%20average%20working,%E2%82%AC101%20065%20in%20Luxembourg.

3.7 Readiness and capacity of the Managing authorities

The answers to this section are based mostly on the results of workshops held with the managing authorities in the course of the study's data collection. The readiness and capacity of the managing authorities is already described under the chapter Microfinance. In general, European public authorities are used to grant-based interventions in the migration sector. However, financial instruments are a new topic and subsequently the managing authorities lack experience with them. They are not closed to their potential but being on the receiving end of public attention, they are sensitive to issues of perception.

Some of the managing authorities with whom the issue was discussed welcomed thinking out of the box. One public institution representative mentioned a preference for developing on one side grants for immediate expenses such as durables and guarantees for rent and deposit loans on the other. Data collected from representatives of public bodies during workshops with national AMIF managing authorities showed that the development and implementation of a financial instrument would be subject to conditions: i) a financial instrument would be more easily accepted in combination with a grant element; ii) if its set-up and roll-out would not be too burdensome, particularly for small or younger EU countries where teams are thinly staffed, and one person may carry many different hats to process various EU interventions requiring complex levels of technical knowledge and experience; iii) the provision of capacity building and awareness raising on the use of a financial instrument; iv) a convincing business case should be compiled in a pedagogical sense, since many flagged the need for comprehensive capacity building on the topic to understand how financial instruments work and the risks associated with them.

The lack of experience with financial instruments and examples or role models was mentioned many times as one of the reasons for cautiousness. In addition, the business case needs to be tailored and identify potential necessary changes in the legal framework and lay out a robust monitoring system to measure impact. It would also be important to highlight the continuation of the use of grants both to all actors in the implementation chain as well as TCNs.

3.8 Justification[198]

The use of financial instruments to support TCNs' access to finance for housing is justified by the significant number of TCNs who should be adequately accommodated in the reception phase according to the EU Directive, and which are not, as well as the important number of TCN households who live at risk of poverty, in overcrowded dwellings or overburdened by housing costs. The increasing number of TCNs is leading to overcrowding, inadequate conditions and a lack of suitable accommodation options. The COVID-19 pandemic has further exacerbated these challenges, with many reception systems struggling to meet the basic needs of TCNs, i.e. housing.

The need for additional funding is also underlined by the fact that, due to budgetary constraints, the housing market in Europe as a whole is in a poor state and there is a very serious shortage of affordable housing, particularly in urban areas, which are usually the first stop for TCNs.

Additionally, financial instruments may counter discriminatory perceptions that TCNs present high risks to rent to. It was specifically pointed out that providing TCNs with grants only over a long period of time did not support their financial responsibility and sense of agency, and thus rather decreases the likelihood of their integration.

198 The benefits of financial instruments for migrants are further described in Asylum, Migration and Integration Fund (AMIF) - Financial instruments.

Social impact investment sector

The Social Impact Investment (SII) sector is a growing market across the EU, with innovative financial schemes catalysing new approaches to social challenges[199]. Since 2010, a variety of EU-level policies, funding programmes and other initiatives have facilitated and contributed to the development of the SII market across the EU, by providing funding and working as SII supply-side mechanisms[200].

What is the Social Impact Investment?

Using the definition provided by the OECD, SII is 'the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return'.

SII is therefore driven by the intention of addressing social needs (impact intentionality), in order to create a measurable impact based on how the needs are addressed (impact measurement) and to generate financial returns (profit orientation).

It usually differs from traditional forms of financing in the greater flexibility granted in terms of repayment terms, lower interest rates and the acceptance of a greater risk by commercial lenders. The SII's ecosystem includes:

- the supply side: investors, either from the public or private sector;
- the demand side: investees, i.e. enterprises and organisations addressing social needs;
- financial and capacity-building intermediaries that link and provide support to the supply and demand side actors of the SII ecosystem;
- an enabling environment, i.e. all of the legal, regulatory and economic conditions that are necessary.

Source: based on OECD (2015a), 'Social Impact Investment – Building the evidence base'

SII can also be an innovative way to address migrants' needs. Despite this still being a nascent market, especially in the EU, several experiences testify to the added value of supporting migrants through these schemes: they can generate a positive social impact on one of the most vulnerable groups in the EU (migrants), by stimulating new and innovative supply actors (investors) to finance demand-side entities often constrained by significant financial needs (enterprises and organisations operating in the social economy). SII schemes for migrants can also generate savings for public administrations. This can be particularly beneficial for public administrations experiencing budgetary constraints which need to allocate their resources even more carefully than in the past[201].

Following the recent increased arrivals of refugees and other migrants, they are becoming more important as a beneficiary group for investors[202]. SII can support them in different ways, by investing in and financing for instance:

- TCN-owned or led enterprises;
- TCN-supporting projects;
- projects supporting host communities through infrastructure, employment, goods or services.

199 For instance, the European impact investment assets under management grew significantly between 2020 and 2021 (+26%), and there are positive expectations for its growth in the future. See: EVPA, 2022, *'Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise'*.

200 See: European Parliament, 2020, *'Social Impact Investment - Best Practices and Recommendations for the Next Generation'*, November and EVPA (2021), *The EU Budget for Investors for Impact*.

201 OECD, 2015b, *'Social Entrepreneurship - Social Impact Measurement for Social Enterprises'*, OECD Employment Policy Paper.

202 European Parliament, 2020a, *'Impact investing in the framework of business and human rights'*, July.

The most common approach to address TCNs' needs is to finance entities operating in the social economy that provide services to them[203]. These are often seen as the key drivers in creating new business models and innovative social solutions to address social challenges[204]. Initiatives promoted by social enterprises are generally considered the most resourceful measures to respond to the asylum and migration challenge because they are able to both develop concrete solutions and heal divisions in local communities[205]. Potentially, social enterprises can be particularly appropriate for support from SII schemes: they have **social** goals as a primary target for their activities; they generally measure the **impact** of their activities on the context where they operate and/or on beneficiaries' living and working conditions; they combine societal goals with an entrepreneurial spirit so they generate profit and can attract **investments**.

Methodological note

SII generally provides finance to social organisations and service providers working in the social economy. It is very difficult to obtain precise information on this, as there is a significant variance across EU Member States in defining and quantifying the social economy and in the methodologies to quantify it. The only demand side actors for which more and updated information is available are social enterprises. For these, the EC has provided a standard definition that allows data to be obtained and compared across countries. The EC itself publishes country reports quantifying the number and type of social enterprises with additional information on the type of financing plus key challenges social enterprises encounter in accessing finance. Moreover, recent surveys and reports are also available, provided for instance by Euclid Network, which based on the EC definition of social enterprises[206], collect both quantitative and qualitative information about social enterprises' financial needs and key problems in accessing finance. Therefore, market assessment, on the demand side, mainly focuses on these types of organisations, so that the information in the six country reports can also be comparable, providing a more robust overview of the different markets across the EU. Social enterprise (as the main target group in the Social Impact sector) operates in the social economy with the main objective of making a social impact rather than profit for owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities. It should be acknowledged, however, that not all social enterprises will be suitable final recipients for financial instruments, primarily due to their reliance on grant funding as part of their business model. Such organisations are unlikely to have revenue to support borrowing or the potential for growth needed to support an equity investment. Equally, commercial enterprises active in the social sector would be potential final recipients of investment through SII funds, provided they deliver a social return alongside their financial performance.

203 Financing TCN-owned or led enterprises through SII is done by investors especially in African and Middle-Eastern countries, as, for instance, testified by the initiatives provided by iGravity. In the context of this Market Assessment Study, we do not focus on TCN-owned enterprises within this chapter on SII, but in the chapter on Microfinance.

204 OECD, 2019, *'Social Impact Investment: The Impact Imperative for Sustainable Development'*.

205 G. Galera and L. Giannetto.) *'Migrants, Refugees and the Social and Solidarity Economy'*, in *Encyclopedia of the Social and Solidarity Economy* edited by Ilcheong Yi et al. United Nations Inter-Agency Task Force on Social and Solidarity Economy. (forthcoming 2023).

206 The EC introduced for the first time a definition for social enterprise with the launch of the Social Business Initiative in 2011. This is based around three key dimensions: social enterprises are entities that run commercial activities (entrepreneurial/economic dimension) to achieve a social or societal common good (social dimension) through an organisation or ownership system reflecting their mission (inclusive governance-ownership dimension).

4.1 Overview of conditions and needs

Among those entities operating in the social economy, social enterprises are typically considered to have the capacity to design innovative and effective solutions resulting from their close connection with the communities where they operate, which has proven to be crucial in ensuring TCNs' social inclusion and autonomy.

The K-Pax social cooperative, Italy

K-Pax is a social enterprise in the form of a cooperative established in Breno, Lombardy (Italy) in 2008 by a group of social operators and recipients of assistance and reception programmes, to address the needs of migrants, asylum seekers, refugees and people dealing with difficult living situations. Services offered by K-Pax fall into five main areas: social housing, social and cultural integration, training activities, prevention and counselling, reception services, awareness-raising activities and entertainment in local communities.

The core activity of the cooperative, however, consists of the reception and integration of migrants and asylum seekers within the framework of the Service of Protection for Asylum Seekers and Political Refugees (SPRAR) system, established in 2002 by the Italian government to facilitate the integration of beneficiaries through a network of local authorities and non-profit organisations in charge of managing reception services.

One of the most meaningful outcomes in the framework of these projects is the refurbishment of Hotel Giardino, an abandoned hotel located in Breno. Hotel Giardino permanently employs four migrants, and two with psychiatric disabilities, who assist four local workers in the management of the hotel.

Source: European Commission (2020), Social Enterprises and their Ecosystems in Europe – Country Report – Italy.

Social enterprises are typically active in[207]:

- **Welcoming TCNs**, by focusing on several different aspects such as housing and support on arrival, health services (physical and psychological and for all ages), child assistance and support with the European, national and local legal requirements;
- **Inclusion in the labour market**, by helping TCNs become part of the communities in which they live by supporting their cultural, social and economic integration (for instance, through language courses, training to increase/complement the hard and soft skills important for labour inclusion, as well as employment and job placement);
- **Cultural inclusion**, by providing counselling, guidance, events, performances, training to facilitate TCNs' integration with the local culture and to raise awareness of the importance and benefits of diversity and multiculturalism among the local population;
- **Support for the development of businesses**, by providing TCNs with training to develop the skills they need to create an enterprise, while also supporting them through the local bureaucracy and process of creating a new business.

207 EESC, 2018, *'Opinion: Social economy enterprises as a driver for migrant integration'*, European Economic and Social Committee, and EMEN 2020, *'Inclusive Ecosystems: towards a comprehensive support scheme for migrant entrepreneurs in Europe'*, European Migrant Entrepreneurship Network.

Kodiko, France

Kodiko is a French NGO created in 2016 to help refugees in their professional integration and job search, by promoting co-mentoring programmes between employees and refugee job seekers.

To participate in Kodiko's programme, the refugee must have obtained the legal protection/refugee status, be able to communicate in French and have previous work experience in their native countries. Then the association connects the refugee with a suitable mentor who, when possible, works in the refugee's chosen profession. The mentor, a French professional, is a volunteer who receives training from the association before becoming a coach and being partnered up with a refugee. This duo, 'refugee-employee', whom Kodiko calls 'binome', have regular meetings for 5 months, which normally happen in the volunteer's workplace. The refugee is coached about the work culture and the competitive French labour market.

Since 2016, over 1000 refugees and 1000 employees have participated in the Kodiko programme. Launched in Paris, it now also operates in Tours, Strasbourg and Rennes and, in 2022, more than 230 volunteers supported the Kodiko activities through various missions. 70% of accompanied refugees have a professional opportunity 6 months after the start of the programme. The social impact is evaluated, for each supported individual, in three stages: at the beginning of the programme, at the end and six months after the end.

In 2021, the association declared expenses for nearly EUR 870 000, of which nearly EUR 578 000 for salaries, and around EUR 270 000 for purchases and external charges. Resources financing Kodiko's activities derive mainly from public subsidies (EUR around 570 000), and corporate sponsorship (EUR 291 000). In 2021, 28 foundations and companies supported Kodiko in financial sponsorship and/or skills sponsorship in various territories.

Source: based on www.kodiko.fr/nos-resultats, Kodiko (2022), Raport annuel 2021 and Broadpeak (2022)[208].

However, a variety of businesses, organisations and different legal entities operating in the social economy such as non-profit associations, NGOs, mutual societies, associations and foundations can provide similar services to TCNs (see page 94) and be a player in the SII demand side. Also, social enterprises working with TCNs can include different types of organisations, such as cooperatives, conventional companies pursuing explicit social aims, associations or foundations running economic activities.

In 2020, the EC estimated that there are 2.8 million entities operating in the social economy in the EU[209]. Out of these, according to its definition, **nearly 400 000 are social enterprises**[210]. The number ranges from tens of thousands in France, Germany, Italy to a few hundred in, for instance, Albania, Croatia, Denmark, Estonia and Latvia. Different country-context definitions and legal forms, of course, can explain this high variance across EU Member States. In terms of employees, estimates – not available for all Member States – indicate nearly 3.4 million people working in social enterprises in the EU. The report also underlines that social enterprises in the EU are generally micro and small organisations with high proportions of female workers.

208 Joining Kodiko: a non-profit to support refugees in their professional integration, online article 22 November 2022.

209 Representing 10% of all businesses, these employ almost 13.6 million people (about 6.2% of the EU's workers) and mobilise volunteers equivalent to 5.5 million full-time workers. See: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2021, *Building an economy that works for people: an action plan for the social economy*, COM/2021/778 final.

210 European Commission, 2020a, *'Social enterprises and their ecosystems in Europe - Comparative synthesis report'*, The report uses figures from different national reports varying from 2015 to 2019, but it highlights that it is not feasible to guarantee sufficient cross-national and precise numbers, and, consequently, to show comprehensive European-level aggregated figures.

Table 19: Estimated number of social enterprises and employees in EU-27

Country	Year	Estimated number	Number per million inhabitants	Estimated number of employees	Degree of data reliability
Austria	2015	Approx. 1 535	Approx. 174	N.A.	Low
Belgium	2017	18 004	1 530	572 914	Avarage
Bulgaria	2015-2017	Approx. 3 700	Approx. 525	26 000	Avarage
Croatia	2018	526	128	N.A.	Avarage
Cyprus	2017	190	22	N.A.	Very low
Czech Republic	2018	3 773	356	N.A.	Avarage
Denmark	2018	411	71	N.A.	Low
Estonia	2016	121	92	1 603	Avarage
Finland	2018	1 181	214	Approx. 52 5000	High
France	2015-2017	Approx. 96 603	1 414	› 1 187 249	Avarage
Germany	2017	77 459	936	N.A.	Avarage
Greece	2019	1 148	107	N.A.	High
Hungary	2016	15 855	1 621	72 642	Avarage
Ireland	2009	3 376	699	› 25 000	Low
Italy	2017	102 461	1 694	894 800	Very high
Latvia	2018	Approx. 200	Approx. 103	N.A.	Avarage
Lithuania	2016-2017	3 476	1 237	N.A.	Avarage
Luxembourg	2017-2018	928	1 546	24 055	High
Malta	2018	31 - 62	65 - 130	N.A.	Low
Netherlands	2015-2016	5 000 - 6 000	290 - 350	65 000 - 80 000	Low
Poland	2016-2019	29 535	768	428 700	High
Portugal	2013	7 938	771	145 734	Avarage
Romania	2015-2017	6 317	323	17 117	Avarage
Slovakia	2014	3 737	687	N.A.	Low
Slovania	2017	1 393	674	15 063	Avarage
Spain	2017	9 680	208	› 91 500	High
Sweden	2009-2006	Approx. 3 000	Approx. 296	N.A.	Low

Source: reproduced from European Commission (2020a), Social enterprises and their ecosystems in Europe - Comparative synthesis report, pp. 106-107

For Euclid Network, according to its last survey across the EU[211], social enterprises' most common area of activities is the 'human health and social work' sector (23.2%), followed by 'education' (22.2%)[212]. Moreover, out of those 65.9% mentioning specific target groups as their beneficiaries, 33.3% provide benefits or services for children/young individuals in general, 27.2% for women/girls and 27.1% for individuals with mental illnesses/mental health problems/psychological disabilities[213]. **Migrants and refugees/asylum seekers are the target groups of 19.3% and 19.2% of social enterprises respectively** (increased from 14% in the previous report)[214].

In the SII framework, measuring the impact is fundamental since the financial returns for investors is linked to the achieved social results. Investors need to show impact as part of their requirements for investment. Thus, by measuring impact, social enterprises are more likely to be suitable candidates for SII. Moreover, impact measurement serves not only to demonstrate and communicate impact achievements, but can also help social enterprises to monitor and improve their impact over time. Euclid's survey finds that **the majority of social enterprises measure their impact** (58.0% already, while another 28.3% are planning to do so in future). Out of those that already measure their impact, 7 out of every 10 measure their impact on a regular basis[215], even if only one in five use certifications to signal their impact. Moreover, the highest proportion of social enterprises already performing impact measurement are found in Austria, Portugal, the Netherlands, France and Italy, all reaching percentages higher than 63.5%. The lowest proportions are found in Croatia and Poland, both with percentages under 40%. This result is also confirmed by other studies[216], according to which there is a larger proportion of social enterprises measuring their social impact in north-western European countries than in south-eastern ones[217]. Moreover, Euclid's study underlines that impact measurement often takes significant resources and is sometimes hard to develop, especially when social enterprises do not have support. It can be significantly difficult, especially when the targeted impact involves provoking a change in the behaviour of individuals. According to the survey, the majority of social enterprises (nearly 61%) measure their impact through measurement systems developed on their own; only 12.7% had help from organisations that supported them financially, only 9.2% were supported by incubator or accelerator programmes, and only 8.5% had help from national alliances/ networks/centres for social enterprise/social innovation. In a potential SII scheme, therefore, support (both financial and non-financial) for impact measurement may be crucial to align measurable social achievements with investors' expectations.

211 The survey, in its second year, has covered 1 907 social enterprises across Austria, Bulgaria, Croatia, Denmark, Estonia, France, Germany, Hungary, Ireland, Italy, Latvia, Poland, Portugal, Spain, Sweden, Switzerland, the Netherlands, Serbia, Slovenia, Turkey, and the UK. See 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.

212 Other common sectors are 'other service activities, including membership organisations' (12.0%), 'information and communication' (11%) and 'arts, entertainment and recreation' (8.4%). Moreover, 26.1% of them indicated that they operate in several sectors.

213 Also, 66.4% of social enterprises targeting specific groups of individuals as beneficiaries involve them in their production processes or services.

214 In the previous monitor, however, the category 'migrants' was not included. See: Dupain, W., Pilia, O., Wunsch, M., Hoffmann, P., Scharpe, K., Mair, J., Raith, M., and Bosma, N. *'European Social Enterprise Monitor 2020-2021 - The state of social enterprise in Europe'*, Euclid Network. 2021.

215 72.2% perform measurement at least once a year and 7.0% once every two years, while 20.9% engage in impact measurement ad hoc or irregularly.

216 For instance, see B.B. Hojnik and K. Crnogaj. *'Social Impact, Innovations, and Market Activity of Social Enterprises: Comparison of European Countries'*, Sustainability, vol.12(5), 2020.

217 Moreover, in north-western countries the measurement in the operational phase is increasing compared to the start-up phase. In south-eastern countries, more social enterprises measure social impact in the start-up phase than in the operational phase.

NewBees, the Netherlands

NewBees is a Dutch social enterprise facilitating TNCs' integration into society since 2016. The organisation matches them to traineeships with local entrepreneurs and organisations. NewBees combines smart technology with social contact in order to offer close guidance in a personal and practical way. Since 2016, approximately 600 successful matches have been made. In 2019 alone there were 232, thanks to internships or work experience provided by 123 partners across Dutch society. Participation in NewBees traineeships results in an increased chance of paid employment, twice as large for NewBees participants as it is for those who do not join the programme.

According to its latest annual report, it received more than EUR 1.2 million up from nearly EUR 870 thousand in 2020 of which: EUR 265 thousand from donations from fundraising institutions, EUR 547 thousand from government organisations, and EUR 366 thousand from the sale of participation programmes. This money was used mainly to cover wages and salaries (EUR 550 thousand), project costs (EUR 147 thousand), social security (EUR 103 thousand) and other personnel expenses (EUR 223 thousand).

NewBees is continually measuring its impact for the five stakeholder groups: participants, companies, NewBees as an organisation, the government and the rest of society. In 2021, it produced a positive impact of EUR 89 500 per traineeship: EUR 7 000 for NewBees, EUR 17 000 for society, EUR 11 000 for companies and organisations, EUR 12 500 for government and municipalities, and EUR 42 000 for participants. Primary data is data collected by NewBees from its own sources, using methods such as surveys or interviews. All participants and a selection of other stakeholders provide feedback through questionnaires and focus groups. Secondary data is data collected from existing (academic) studies, surveys or experiments conducted by other parties or for other research. The impacts are so-called 'qualitative impacts'. These impacts have been calculated on the basis of a ratio with the greatest impact. The order of magnitude of these impacts is an estimate based on the examination of the secondary data. One of the impacts NewBees measures is the well-being of the participants. This is calculated and quantified through three specific categories: 1) Stronger social ties, 2) a change of social status and 3) a greater sense of autonomy.

Concerning the main challenges faced by social enterprises, the survey finds **that financial support is by far the most common barrier, followed by those related to non-financial support for business development and accessing markets**. However, a **lack of visibility and unbalanced legal frameworks** also pose additional obstacles. There is still, in fact, limited information, low awareness and little knowledge about social enterprises amongst the general public, coupled with the limited administrative and policy capacity of public authorities to design and implement targeted policy measures[218]. This also leads to the adoption of regulations often failing to stimulate their potential, with a general lack of coherence or comprehensive vision in most of the EU countries' legislation on social enterprises.

218 See also: European Commission, 2020a, *'Social enterprises and their ecosystems in Europe - Comparative synthesis report'*.

4.2 Demand side analysis

As underlined before, a lack of financial support is the main obstacle faced by most social enterprises (especially those working with TCNs, as confirmed by interviews). Among the highest financial barriers, Euclid Network's survey finds **a lack of options to finance the organisation once started, overly complex public financing, lack of public support schemes, lack of a supportive fiscal framework and lack of long-term capital**[219]. As further outlined in the next section, difficulties often also depend on the financial institutions and investors' perception of the risk[220]. Banks in fact often consider social enterprises too risky, while investors might consider their business models to be below the preferred risk-return-profiles, especially social enterprises supporting TCNs. Moreover, their financing needs might be too large for microfinance, but too low for most other investors.

However, if on one side supply actors seem to be reluctant to finance and invest in social enterprises supporting TCNs and, in general, in entities working in the social economy, on the other, demand side actors face significant financial needs. According to Euclid Network's survey, nearly 93% of social enterprises seek financing, and for the majority, **financial needs are up to EUR 250 000 (65.7%) with the most common range up to EUR 50 000 (34.7%)**. The most commonly sought financing is public financing (44.2%), followed closely by self-financing in the form of cash flow (41.1%) and own savings (39.4%). Furthermore, 14.5% of them request a bank loan[221] and **5.5% seek impact investment**. Other types of financing are incubator/accelerator (requested by 10% of social enterprises), business angels (7%), venture capital (5.3%) and venture debt (2.2%). Overall, social enterprises submit requests for 69.8% of their financial needs but, out of these, less than two thirds manage to obtain the full requested finance. **On average, 39.3% of social enterprises' funding needs are unmet**. In relation to impact investment requests, 39.4% obtain the full amount requested, an additional 26.9% get part of it, and 9.6% see their application rejected. In comparison, for bank loan requests, these values are 54.5%, 21.7% and 10.8% respectively. Euclid's analysis also underlines that the more advanced the stage, the more likely social enterprises are to request public financing. Moreover, bank loans and private donations are more common in the implementation and steady stages. These trends can likely be explained, at least in part, by the requirements around credibility and operational history that are required to access such types of financing. The use of less formal and more easily accessible sources such as own savings is much more common in the earlier seed and start-up phases. Moreover, the survey mentions that venture capital and business angels are also important during the crucial start-up stage. **Sources such as impact investment are most common in the early implementation phase, once the social enterprises' proof of concept has been tested and has indicated growth potential**.

Moreover, more than one third of social enterprises apply for EU funding in the form of a grant, especially under the ESF, Erasmus+ and Horizon 2020. Among those that do not apply, the main reasons are found to be the highly complex and time-consuming application process, the lack of awareness about this opportunity, and the perception of a very small success rate in being selected for funding. The complexity and time-consuming nature of applications are also the main reason for not applying in the future (nearly 11% of those that has not yet applied for EU funding do not intend to apply in the future and a further 38.4% are not sure about it).

219 See 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, p.21. 2022.

220 See: European Parliament, 2020, *'Social Impact Investment - Best Practices and Recommendations for the Next Generation'*, November.

221 A similar figure was found for social enterprises in the UK by Lyon F. and Owen R. *'Financing social enterprises and the demand for social investment'*, Strategic Change, Vol.28(1).2019.

The Welcommon Hostel, Greece

Wind of Renewal (Anemos Ananeosis) is a social cooperative founded in Athens in 2014, promoting a welcome for refugees and providing safe accommodation and social inclusion. In 2016, it developed an innovative centre for vulnerable refugees – the Welcommon Hostel – which offers accommodation for 150-200 refugees, in 66 rooms, and additional facilities for gatherings, tutorials, artistic activities, library, cinema, food, primary health care, non-formal education/creative activities for adults and children (including language classes) and a diversity of cultural and sports activities fostering social inclusion.

In the last two years, the Welcommon initiative was able to cover the basic needs of up to 200 refugees and promote their education, training and integration into the labour market. The hostel mainly uses tourism revenues to invest in social activities, but it is constrained by significant financial needs. For instance, refurbishing the 3200 m2 building cost approximately EUR 300 000, but the cooperative was only able to obtain a micro credit of EUR 25 000 from a cooperative bank. Moreover, the utility costs and the use of infrastructure are around EUR 8000 - 10 000 per month, which are hardly covered. Financial resources are therefore obtained through donations and fundraising campaigns.

Source: based on https://welcommonhostel.gr/social/ and Cooperative City 'Welcommon Hostel: Sustainable Tourism and Social-Cultural Activities for the Promotion of Social Innovation', online article, 10 June 2019.

Disaggregated figures specifically focusing on the financial needs of social enterprises working with TCNs are not available. However, indications suggest that they face several challenges in accessing the credit market and they heavily rely on public subsidies and donations. Moreover, **projects and activities supporting TCNs may require a long-time horizon to be effective and to generate an impact**[222]. This fact was also confirmed by numerous market participants throughout the interviews and focus groups. Moreover, social enterprises' scope is often still too limited to address the labour market needs for people with a refugee background. Establishing structured and durable forms of collaboration with regular employers for employing refugees is in fact often not possible for an individual (small) organisation[223]. **Social enterprises working with TCNs, therefore, may require more stable financial support – together with capacity-building services support – with a longer time perspective**. Their high dependence on public subsidises, however, may not guarantee this stability. Reliance on public support is in fact threatened by the lack of political support, which is often volatile and dependent on the different – and mutable – governments' attitude towards migration.

To conclude, overall, most social enterprises across the EU show a high dependence on public subsidies and a preference for self-funding. As outlined in the following section, some imperfections in the market for social finance are a key barrier hampering their development and their shift from grant-dependency towards repayable financial support. However, data also show that there is a demand for both debt and equity investment, in line with a more advanced social enterprises' stage of development, which can ensure credibility and operational history and reduce lenders and investors' risk aversion. Moreover, as described below in section 4.4, there is a growing interest from investors, foundations and philanthropies to support them by providing finance with longer-term financial expectations and focusing more on the social outcomes, both characteristics that are crucial when working with TCNs. Social impact investors can therefore contribute to meet social enterprises' demand for financing and help

222 A. Rivna and M. Gress. *'Social entrepreneurship as a new business model. The case of refugee integration'*, Economic Research-Ekonomska Istraživanja. 2022.

223 See L. de Bell and L. Bakker. *'Labour market participation of refugees in the Netherlands and the role of social enterprises, in International Conference for Sharing Best Practices: Economic and Social Integration of Refugees and Asylum Seekers through Social Entrepreneurship'*, 10th-11th March. 2022.

them grow and become more financially sustainable. In this sense, however, the role of public support seems to still be necessary in offering different and flexible solutions according to the different market contexts, in which a mix of traditional forms of financial support – including grants – with more innovative schemes can be used 'to prepare the scene' towards a more impact-oriented framework. The difficulty can therefore lie in effectively understanding the local market level of development and finding, accordingly, the most appropriate balance between traditional forms of support and innovative social finance. The role of intermediaries providing non-financial services and capacity-building support is therefore necessary.

4.3 Barriers affecting the potential demand

As outlined by the EC[224], **access to financial resources for social enterprises is more complex than for other enterprises**. There are several obstacles that can explain this complexity and limit the development of the SII market and the flow of investments to support social enterprises and entities working with TCNs. These barriers can be related to the characteristics of the social enterprises and, in general, of social organisations (demand side), or to those of the investors and intermediaries (supply side)[225].

Concerning the **demand side**:

- **Small size.** Many of the SII demand side actors, and especially those working with TCNs, are small organisations that are usually not suitable for the larger ticket sizes preferred by some investors. Investors, therefore, have difficulties in allocating larger amounts of money, limiting the options to develop sustainable fund models;
- **Low investment readiness.** Many social enterprises and other demand side actors can have limited organisational capacity to receive SII. They often lack the human resources necessary for managing investments on their side. They also lack the knowledge and skills necessary to attract and manage investments in their organisation. This also affects their capacity in measuring social impact, so that the investors' requirements on indicators are perceived as too much of a burden. Developing a targeted and effective impact measurement takes time, and often requires expert support;
- **Governance model of investees can create additional obstacles.** For instance, most social enterprises can only distribute profits to their funders and owners to a limited extent, if at all, thus they are not well suited for investors, whether individuals or financial institutions, that seek significant financial returns;
- **Long-term vs short-term targets.** As previously underlined, the time horizon for the targets to be achieved by demand side actors and investors is often not aligned. While investors generally aim to achieve financial returns within a short-term period, the social impact to be generated by investees may take longer, especially when they support TCNs' needs.

224 European Commission, 2020a, *'Social enterprises and their ecosystems in Europe - Comparative synthesis report'*.

225 Based on MPI Europe, 2019, *'Social Innovation for refugee inclusion – From bright spots to systemic change'*, Migration Policy Institute Europe; OECD, 2019, *'Social Impact Investment: The Impact Imperative for Sustainable Development'*; European Parliament, 2020a, *'Impact investing in the framework of business and human rights'*, July; European Parliament, 2020b, *'Social Impact Investment - Best Practices and Recommendations for the Next Generation'*, November; Dupain, W., Pilia, O., Wunsch, M., Hoffmann, P., Scharpe, K., Mair, J., Raith, M., and Bosma, N. 2021, *'European Social Enterprise Monitor 2020-2021 - The state of social enterprise in Europe'*, Euclid Network. G. Galera and L. Giannetto, forthcoming 2023, *'Migrants, Refugees and the Social and Solidarity Economy'*, in Encyclopedia of the Social and Solidarity Economy edited by Ilcheong Yi et al., United Nations Inter-Agency Task Force on Social and Solidarity Economy.

Concerning the **supply side**:

- **SII schemes can imply high transaction costs.** For example, innovative schemes as social impact bonds (SIBs) may entail significant transaction costs, making these instruments difficult to implement when significant funding is not readily available. They can require significant resources from all partners involved to understand the tools, identify potential implementing partners and set up viable partnerships;
- **SII schemes can be riskier.** As average 'ticket sizes' remain relatively small in the SII, the risks associated with financial returns are higher, making the attractiveness of the SII limited from the perspective of private investors;
- Lack of financial and capacity-building intermediaries remains a major obstacle. Moreover, since capacity-building intermediaries are often newly established, still relatively small, with few human resources and little work experience, they may lack the necessary capacities to manage their budget or provide comprehensive support to the investees themselves. Potential investees are also expected to pay intermediaries in order to strengthen them and make them investment-ready. However, social enterprises, as underlined above, face several financial challenges and volatility, and often do not have enough resources to pay for the services of intermediaries and only a few are willing or able to pay them for providing investment-readiness support;
- **Funding mechanisms are not tailored to the specific needs of social enterprises.** Investors usually do not understand the work of social enterprises and their impact on society. Moreover, schemes such as the SIBs tend to privilege more established third-sector organisations, and thus fail to address the financial needs that social enterprises often face in their early stages. Also, the attention paid to TCNs' issues, as underlined before, is volatile from a political point of view, and this may also influence investors' (those institutional in particular) willingness to invest and to design targeted and durable mechanisms for social enterprises.

The barriers described above are generally valid for all types of social enterprises, but additional research and discussions with market participants have pointed out that social businesses dealing with refugee integration and tackling issues in TCNs' education, housing and labour market integration may face greater and additional challenges in delivering a social impact. For instance, an analysis on social enterprises working for refugees' job integration in Austria[226], has underlined that social entrepreneurs often experience a **strong unwillingness from the institutions, the government or other (commercial) companies to join or to support social projects**, anticipating that social entrepreneurs are unable to achieve results and to provide evidence of making a social impact. As outlined in the previous section, the lack of confidence in the success of a social business, as well as its resilience, often results from the context-related political situation.

Retaining employees, as well as motivating them, remains an additional challenge for most social entrepreneurs working with TCNs. While social entrepreneurs may find volunteers with good skills and insights at the beginning, the most challenging issue is to build a sustainable team after the establishment of the enterprise with limited funding. As the project starts growing, social entrepreneurs have to rely not only on volunteer work, but also on skilled workers, who could dedicate themselves full time to the social project. Motivating volunteers to stay is often described as a huge challenge, even more for social enterprises working with TCNs, as their workforce need to be skilled in a more niche sector.

226 A. Rivna and M. Gress. *'Social entrepreneurship as a new business model. The case of refugee integration'*, Economic Research-Ekonomska Istraživanja. 2022.

4.4 Supply-side analysis

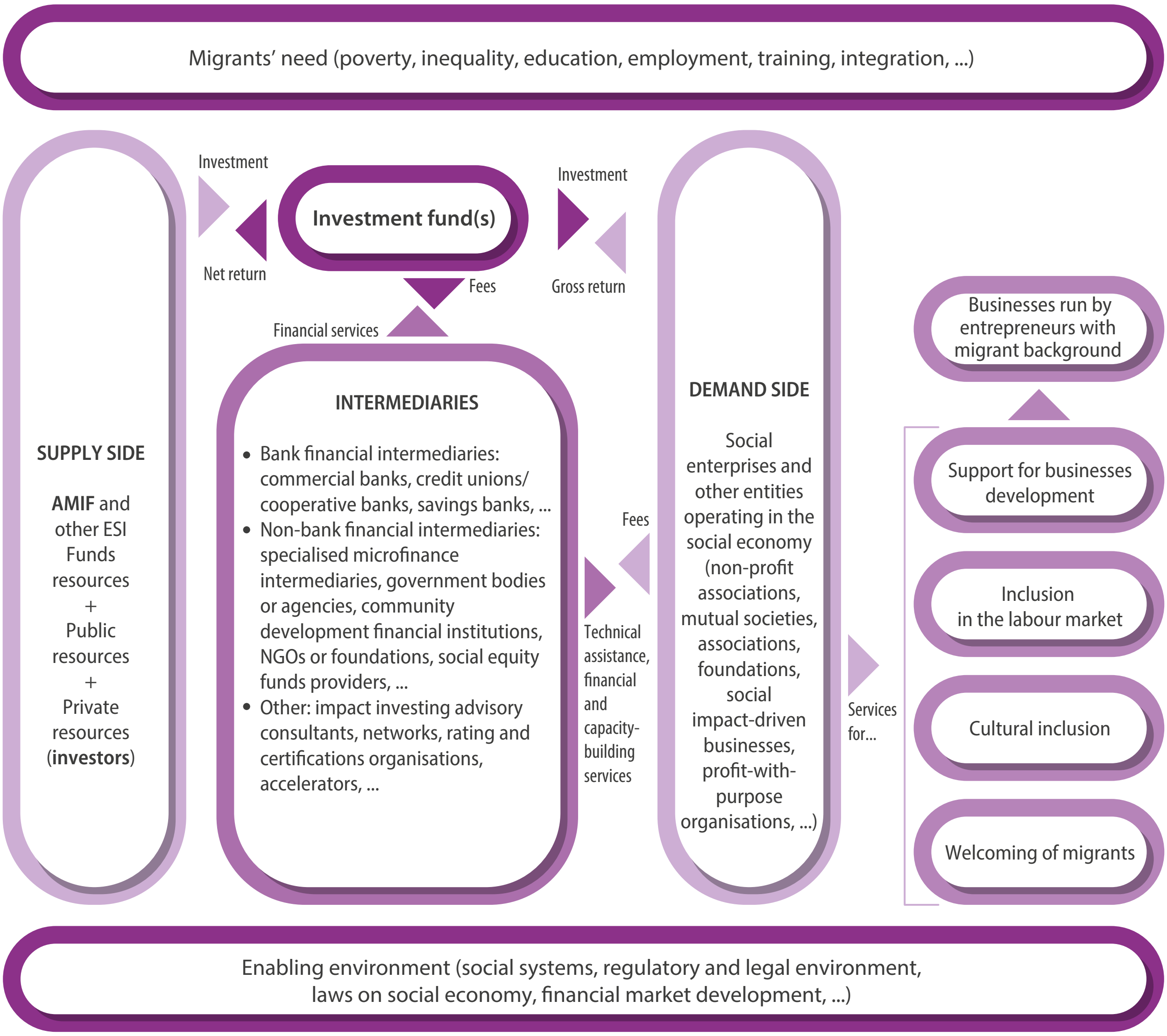
Considering the overall potential framework (see figure below), the **demand side** consists of the variety of organisations that directly address TCNs' needs through their activities, mainly represented by social enterprises as discussed in the previous sections. The **supply side** of the SII ecosystem is represented by AMIF resources (or other ESIF resources, such as from the ESF+, foreseeing interventions to support TCNs), plus additional potential resources either from the public or private sector (i.e. investors).

Concerning investors, the supply side can include[227] both public investors – governments, multilateral development banks, development finance institutions (DFIs), etc. – and private investors such as foundations, high-net-worth individuals and philanthropists, banks, pension funds, sovereign wealth funds, and other financial services firms and intermediaries. Among these, foundations are often seen to play a critical role in the development of the SII market, ranging from building market infrastructure, to providing 'catalytic' capital or actively investing. Private foundations have the advantage of being independent from government and the markets, and therefore are in a position to take on greater risk than other private investors and provide long-term 'patient' capital. This gives them the freedom to explore and create innovative ways to address social, economic and environmental challenges. Moreover, private philanthropy is also a growing important source of development finance[228]. Philanthropies are emerging actors in blended finance due to their relatively low levels of risk aversion, increased focus on mobilisation and willingness to invest in innovative business concepts and financing models. Many philanthropic investors are shifting from a grant-based approach to impact investing, with a growing interest in ESG investing in order to incorporate information regarding environmental, social and governance risks and opportunities into portfolio investment and management[229]. Overall, a philanthropic impact investment approach differs from venture capitalist investment, as it pursues an explicit and measurable impact goal, with more patient, longer-term financial return expectations[230]. It also differs from traditional philanthropic appraoch since it aims to achieve a clear financial return expectation with a higher focus on market solutions, and hence a higher likelihood of longer-term sustainability.

The supply side may provide finance directly to investees, and thus receive direct financial returns. Nevertheless, as outlined in the previous sections, SII transaction costs may be high, social enterprises with the sufficient capacity or willingness to manage the entire investment process on their own may be very few, and, more importantly, managing authorities may not have the capacity to directly manage the SII schemes. Therefore, the most common way is to create a (social impact) **investment fund** that invests in organisations that address social needs.

227 Based on OECD, 2019, *'Social Impact Investment: The Impact Imperative for sustainable development'*.
228 See OECD, 2019, *'Social Impact Investment: The Impact Imperative for sustainable development'*, p.56.
229 See OECD, 2021, *'Private Philanthropy for Development – Second Edition - Data for Action'*.
230 Farber V., 2019, *'Philanthropic impact investing: four keys to success'*, International Institute for Management Development.

Figure 15: The SII ecosystem to address TCNs' needs



Source: readapted from OECD (2015a), Social Impact Investment – Building the evidence base, OECD (2019), Social Impact Investment: The Impact Imperative for sustainable development, and European Parliament (2020), Social Impact Investment – Best Practices and Recommendations for the Next Generation, November.

KOIS Invest, Belgium

KOIS is a leading international impact investment and innovative finance advisory firm from Belgium. It deploys capital in social enterprises and investment funds to generate a financial return, as well as a positive impact on society and the environment. Alongside its investment activities, KOIS offers advisory services to design, structure, and place a diverse range of innovative impact financing mechanisms, as well as to help organisations shape strategies enhancing their societal impact. The accumulated assets under management of KOIS' direct investments and impact investment funds, co-managed with other fund partners, is over $ 313 million, while the amount of funding raised by KOIS and partners through impact finance instruments such as eleven impact bonds has reached over $ 35 million[231]. KOIS is particularly active in designing SII schemes to support refugees. In October 2021, it launched the Refugee Impact Bond in the form of a DIB (Development Impact Bond) together with IKEA Foundation, Novo Nordisk Foundation and Norad, to support vulnerable refugees and host communities in Lebanon and Jordan. With $ 14 million, the Impact Bond intends to provide a four-year results-based risk investment to fund a vocational, entrepreneurship and resilience-building programme. Communities with large refugee populations will be selected based on higher than national average rates of food insecurity, poverty, indebtedness and unemployment. Women and youth, who are disproportionately impacted by crises, will take priority. Moreover, KOIS has supported the development of the Duo for a JOB SIB in Belgium.

A key role is played by **intermediaries**, i.e. entities and independent actors that provide support to both supply- and demand side actors of the SII ecosystem. They provide the links between investors, investees and others in the market and provide innovative new solutions to improving efficiencies in the market. The lack of efficient intermediation in the SII market, in fact, often translates into higher transaction costs caused by fragmented demand and supply as well as complex deal structuring[232]. Depending on their function, intermediaries may be financial or capacity-building entities and be further grouped into bank financial intermediaries and non-bank financial intermediaries. Capacity-building intermediaries provide resources and services to grow the entire impact investment ecosystem by providing information, advice, and technical and financial assistance. Financial intermediaries can include banks, wholesale investment banks, fund managers, stock exchanges and increasingly crowdfunding platforms. Capacity-building organisations can include accelerators and incubators, advisory firms, and networking and knowledge platforms.

231 KOIS, 2020, *'2020 Impact Report'*.
232 See: OECD, 2015a, *'Social Impact Investment – Building the evidence base'*.

DUO for a JOB, Belgium

DUO for a JOB is a Belgian non-profit organisation created in November 2012 that provides an intergenerational mentorship programme, which pairs young migrants with Belgian mentors aged 50+ with the goal of finding a job over a period of 6 months. Young migrants receive insights into the Belgian job market from someone with in-depth knowledge about the country, providing both the mentor and the mentee with valuable intergenerational and intercultural interaction.

KOIS Invest, a company specialised in impact investing, proposed a SIB scheme as a financing solution. The DUO for a JOB SIB was then set up in 2014 as a 3-year impact bond programme. With an initial financial size of EUR 347 000 (i.e. EUR 117 000 per year), the scheme involved: Actiris (Brussels employment agency), acting as the outcome funder; DUO for a JOB as the social service providers; high-net-worth-individuals as the investors; KIOS as the intermediary; the Observatoire Bruxellois de l'Emploi (public agency, part of Actiris) and the Centre for Social Economy at the University of Liège (university research centre) as evaluators.

During each year of the three-year programme the objective was achieved. The SIB allowed 322 young unemployed immigrants to benefit from DUO's 6-month mentorship programme and 42% of the mentees (i.e. 133 migrants) found a job within 12 months, doing 1.28 times better than the control group and with EUR 2 610 in terms of cost of programme per job created. Moreover, all investors got their investment back with an average 4% annual return and EUR 760 000 in total savings - 92% for the government, 8% for the investors - were generated (i.e. 2.1 times the cost of the programme).

Source: based on Impact Europe

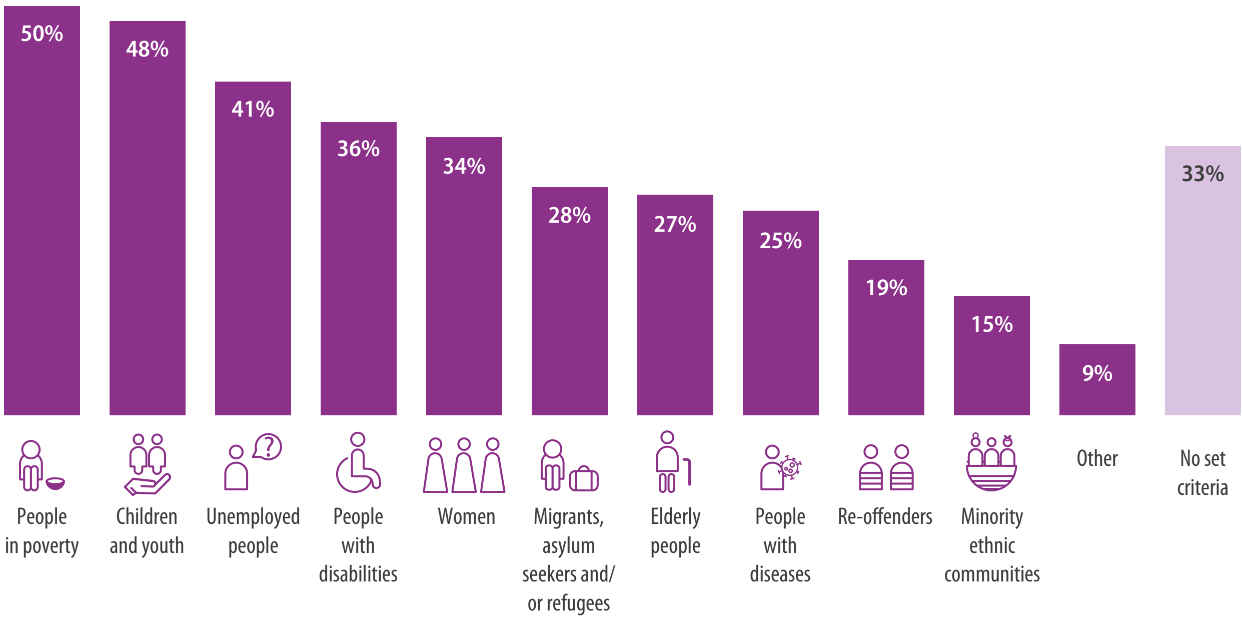
4.4.1 The EU SII market size

The Impact Europe (previously called European Venture Philanthropy Association, EVPA) publishes a report on the current state of the EU impact investment market every two years. The latest report published in 2022[233] estimates the European direct impact investment market (also considering investments in sustainability/ESG) at EUR 80 billion in 2021, corresponding to 0.5% of the European mainstream investment market (EUR 17.8 trillion). From this, EUR 32 billion has some elements of additionality (i.e. positive contributions that would not have happened without the investment). Moreover, 40% is invested outside of Europe. Private debt (62.5%) and private equity (20.5%) are the predominant assets adopted by impact investors, followed by real assets (11%) and social outcome contracts (0.5%). Also, impact investors are found to play a key role in investing in solutions for poverty, inequality, health and education, and with an increasing flow towards climate action and innovation. Moreover, individual investors (26%) are the main source of capital together with financial institutions (28%) and institutional investors (23%). Foundations account for only 1% of the total amount attracted by impact investors, while EU funding accounts for 5% of the funding available to impact investors.

233 Impact Europe., 2022, *'Accelerating impact - Main takeaways from the first harmonised European impact investment market sizing exercise'*.

The previous Impact Europe report published in 2020[234] offers a more disaggregated overview of the SII market by type of beneficiaries. According to this, **investors for impact were estimated to have supported social purpose organisations with EUR 6.2 billion in 2019** (considering, however, as stated before, that a considerable part of the impact investment market is invested outside of Europe). Looking at the investment focus, people suffering from poverty represented the most targeted category of beneficiaries (50%), followed by children and youth (48%), and unemployed people (41%). In the sixth position, there were **migrants, asylum seekers and/or refugees targeted by 28% of investors** (and increased from 26% in 2017 and 13% in 2015, as estimated in the previous surveys)[235]. This figure is also in line with the estimates provided by GIIN (2019)[236], for which 19% of the investors surveyed (27% of which were located in Europe) invested in enterprises providing refugee assistance. A more recent picture, provided by the Impact Europe based on the latest report, shows that, in 2022, approximately 23% of European impact investors focused on migrants and/or refugees.

Figure 16: Type of beneficiaries targeted by investors in the EU, 2019

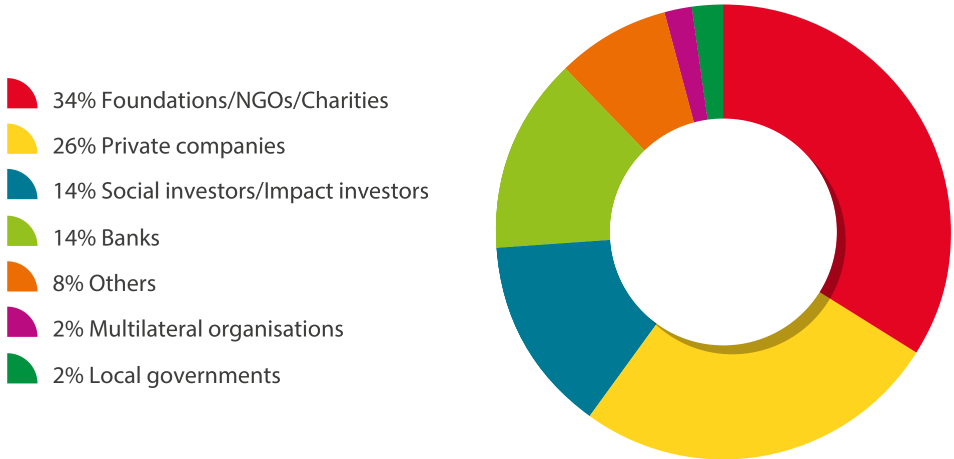


Source: Impact Europe (2020), The 2020 investing for impact survey – Venturing societal solutions, p.9.

A closer overview of social outcome contracts in the EU is provided by the GoLab database. Out of the 276 impact bonds mapped around the world in March 2023, for a value of USD 745 million in terms of capital raised, 74 are found in the EU for a value of USD 109 million in terms of capital raised[237]. Most of these are found in Portugal (28) and in the Netherlands (18), followed by France and Denmark (10 each), Belgium and Finland (4 each), Germany (3), Austria and Sweden (1 each). Of these, 6 impact bonds (3 in the Netherlands, 1 in Germany, 1 in Belgium and 1 in Finland) specifically address TCNs' needs, for a total of nearly USD 18.3 million raised[238]. Moreover, according to the EIB based on data from the GoLab dataset accessed in May 2021[239], the types of outcomes payers in the EU impact bonds are mainly local government (53%), followed by central governments (29%), and regional governments (13%). The type of investors is led by foundations/NGOs/charities (34%), followed by private companies (26%), social investors/impact investors (14%) and banks (14%).

234 Impact Europe, 2020, *'The 2020 investing for impact survey – Venturing societal solutions'*.
235 Impact Europe, 2018, *'The EVPA survey 2017/2018 – Investing for impact'*.
236 GIIN, 2019, *'2019 Annual Impact Investor Survey'*, Global Impact Investing Network, June.
237 Data as at March 2023.
238 However, of this, USD 16 million is from the KOTO-SIB in Finland.
239 EIB, 2021, *'Social Outcome Contracting in Europe - An introductory guide to social outcomes contracting in European Union Member States'*.

Figure 17: Types of investors in social outcomes contracts in EU Member States, 2021



Source: reproduced from EIB (2021), Social Outcome Contracting in Europe - An introductory guide to social outcomes contracting in European Union Member States, European Investment Bank, May, p.10.

However, overall, the EU SII market has not yet achieved its full potential. The maturity level of the SII market in most EU Member States remains low – in four fifths of the EU it is considered to be at its 'incipient' or 'infant' stages[240]. Furthermore, SII market development levels vary significantly across EU Member States and the ecosystem is less developed in Central and Eastern Europe. The different stages of development in SII were also identified among Western European markets, with the groups of south-western regions (Spain and Portugal) and north-western countries (England, Ireland, the Netherlands, Belgium) as 'leading countries' in social innovations and financial support for building initiatives with specific social purposes.

4.4.2 Examples of SII schemes focusing on TCNs

Typically, financial schemes implemented in the SII market can entail the use of 'traditional' debt instruments or equity to deliver a (measurable) social return as well as a financial return. There are also new innovative schemes capturing more attention, such as the social outcome contracting (SOC), frequently used as a broad term denoting the procurement of services based on outcomes rather than outputs[241]. SOCs can be in the form of pay by results schemes (PbR), in which the service provider itself comes up with the upfront capital, with or without contributions from the commissioner. When the SOC foresees the involvement of a third party - paying for the activities of a social service provider – it is generally intended as a social impact bond (SIB). In the SIB, the investor provides social service providers with upfront capital - both taking the financial responsibility for tackling a social issue as well as bearing all (mostly) the financial risks – and the public sector then only pays for the proven outcomes. The key advantage of a SIB is that it normally links the achievement of pre-agreed outcomes to the savings generated in the public sector, then used to pay back investors. In this sense, a SIB can also generate an 'impact' on the public budget.

240 See: JRC, 2018, *'Social Impact Investment in the EU. Financing strategies and outcome-oriented approaches for social policy innovation: narratives, experiences, and recommendations'*; OECD, 2019, *'Social Impact Investment: The Impact Imperative for Sustainable Development'*; European Parliament, 2020b, *'Social Impact Investment - Best Practices and Recommendations for the Next Generation'*, November.

241 European Commission, 2021, *'Study on the benefits of using social outcome contracting in the provision of social services and interventions – A cross-country comparative assessment of evolving good practice in cross-sectoral partnerships for public value creation'*.

Currently, there are very few cases in the EU of SII schemes specifically addressing TCNs. Most of these started a few years ago and some are small pilot projects, so detailed data on achieved results and impact are not always available. However, some key lessons derive from the examples reported in the following sections:

- **SII schemes can ensure financial stability** (at least in the medium term) **and decrease financial barriers to social organisations**, and act as leverage to raise additional funds for the services provided that would not otherwise have been funded (or even scaling up);
- **Intermediaries play a fundamental role in aligning the interest between supply and demand**, in mobilising capital for social enterprises, advising on designing and implementing suitable financing models, structuring SII schemes and their governance, and increasing their awareness among public authorities and private stakeholders;
- **Ongoing dialogue and cooperation between service providers, outcome founder and investors** are strategic in making these schemes properly functioning and adaptable to changes;
- **SII schemes for TCNs are generally used for their integration into the job market, but small pilot projects can also be experimented in different issues**, such as in education, by supporting young students with a migrant background;
- When SII schemes are in the form of a SIB, they can provide **significant savings for public budgets** and change the mindset of public authorities in financing social services;
- **Measuring social impact with a structured methodology can be of great added value for social service providers** in providing social services in a more efficient and effective way. As stated in the sections above, the support by capacity-building intermediaries is crucial to make investees impact-ready.

The KOTO-SIB, Finland

The KOTO-SIB programme[242] was launched in 2017 for a period of three years by the Finnish Ministry of Economic Affairs and Employment. It supports migrants in finding employment by linking tailored vocational and language training to shortages in the Finnish labour market. It was designed to encompass language training, general career coaching, as well as more specific work skills.

The fund was set up as a limited partnership qualified as a social entrepreneurship fund under the Regulation on European social entrepreneurship funds regulation[243] and received investors' commitments for EUR 14.2 million, with another EUR 10 million from the EIF, using EFSI SME Windows resources[244]. The fund manager identified several social service providers from the training and recruitment sector[245] to provide migrants with work-life-oriented training to help them access the labour market and support them in their interactions with potential employers. Finally, an independent evaluator is expected to assess the impact of the programme and the amount of government savings[246].

The Ministry acts as the outcomes payer, i.e. it pays back investors for achieved outcomes and bears only the cost of proven impacts. As the achieved outcomes lead to cost savings (for the community and therefore for the government), investors are paid back through a portion of these savings. The government's budget savings are

242 Detailed information on the KOTO-SIB is provided in: EIB, 2021, *'KOTO-SIB structure: fast integration and employment programme for immigrants in Finland – Case study'*.

243 Regulation 2013/346/EU.

244 The other investors are: Sitra (EUR 1.5 million), SOK Corporation (EUR 1 million), City of Espoo (EUR 0.5 million) , Tradeka (EUR o.25 million), Orthodox Church of Finland (EUR 0.2 million), Epiqus Oy (o.14 million), Tom Tukiainen (EUR 0.1 million). The remaining resources were provided by Sewatek Oy, Erkki Turanlahti, and Arowana Advisors Oy.

245 In Finland, social enterprises can adopt a variety of legal forms and ownership structures. The majority of social enterprises are limited companies (as in the case of the KOTO-SIB), but some are also cooperatives, foundations and associations. See: European Commission, 2019, *Social Enterprises and their Ecosystems in Europe – Country Report*, Finland.

246 The programme ended on 31 December 2019 and foresaw a monitoring period of three years. The evaluation started at the end of 2022.

intended as the combined effect of the reduction in the provision of unemployment benefits and of an increase in income taxes collected from the salaries of the employed migrants.

At June 2022[247], nearly 2 200 migrants were involved, about 77% of which got training for at least 70 days. 1 219 in training have secured employment (71% of all the migrants involved in the programme). The savings to the government were estimated to be at least EUR 15-20 million as at the end of 2020.

FASE and Social-Bee, Germany

Formally established in 2013, FASE (**Financing Agency for Social Entrepreneurship**) is a German financial intermediary that helps connect social enterprises with impact investors and philanthropic capital providers, in order to mobilise growth capital for early-stage social enterprises to enable them to scale up their impact. It also provides extensive non-financial support to help social enterprises become investment-ready and master the often time-consuming process of attracting impact investment.

FASE has supported **Social-Bee**, a social enterprise founded in 2016 in Munich, which acts as an employment and integration service provider that adapted the traditional temporary employment model to the refugee situation (i.e. 'social temporary employment provider'). Social-Bee offers refugees and asylum seekers a job opportunity by hiring and placing them as temp workers for partner companies, taking on all the bureaucratic process of hiring a refugee, including visa and asylum applications. During the employment term of up to 18 months, it provides them with a fixed salary and supports their language and professional education as well as the cultural and corporate integration through targeted programmes. For corporates, this service substantially reduces the administrative burden to hire refugees and offers the opportunity to test their potential future employee.

As an intermediary, FASE supported Social-Bee in the entire process of raising a round of social investment of approximately EUR 600 000. This included advice on designing and implementing a suitable hybrid financing model for all the stakeholders involved. FASE managed to attract various types of investors: several foundations (Schöpflin Foundation, Hans-Weisser Foundation, Canopus Foundation, Ippen Foundation), business angels as well as a family office. When structuring the financing model, it was decided to opt for a four-year subordinated loan with an embedded impact incentive, by linking the loan to a specific, pre-defined social impact milestone. This made financing conditions more attractive and inexpensive for Social-Bee once it has successfully achieved its output targets at the end of the loan tenure. The mechanism builds on the KPI 'integration success rate', measured by the number of successfully placed migrant workers, divided by the total number of migrants who have been in the social enterprise's temporary employment and qualification programme for longer than 3 months.

The Brabant Outcomes Fund, the Netherlands

In December 2018, the Province of Noord-Brabant, the Netherlands, set up the **Brabant Outcomes Fund (BOF)** through a SOC scheme focusing on upscaling impact-driven social enterprises[248].

Five initiatives out of 82 applications were selected for an intensive training process, including impact measurement, online visibility and earning models. In July 2019, the Fund signed a contract with four social entrepreneurs who received working capital from three investors jointly (Rabo Foundation, Stichting DOEN and Oranje Fonds). An assessment of the results was conducted by an independent party and, once the predefined targets are achieved, the Province of Noord-Brabant, as the outcomes payer, repays the investment to the investors. Additional organisations and a consultancy company are involved in the selection process of the service providers, in defining and measuring results, monitoring and evaluation of the implementation process, and in technical assistance activities.

247 Mika Pyykkö, 2022, *'About SIBs and especially Koto SIB, Public Private Partnerships in Social Finance', Stockholm*. (An external evaluation started at the end of 2022.)

248 Impact Europe, 2020, *'Brabant Outcomes Fund - National Policy Nexus - Best practices in policy initiatives across Europe'*; EIB, 2021, *'Case Study: Brabant Outcomes Fund in the Netherlands'*, European Investment Bank, December; Provincie Noord-Brabant, 2021, 'The Brabant Outcomes Fund's first expedition' – Annexes.

In the first pilot round (BOF1), private investors were willing to pay EUR 800 000 for the selected social enterprises, and an additional EUR 200 000 was provided by the province for expertise on social innovation and impact monitoring and how to build public private business investment. The second round (BOF2), launched at the beginning of 2021, aims at a total investment of EUR 20 million, also foreseeing the participation as co-investor of the European Investment Fund (EIF). Of the total amount, EUR 17 million is intended for participations and loans in approximately fifteen growth companies and EUR 3 million as working capital for approximately five young companies. The province guarantees EUR 1.5 million for the participations and loans and EUR 2.5 million for the working capital.

Among the four selected social enterprises, two work with migrants and refugees, the Refugee Team and Stichting Sarban de Toekomst, each with a capital raised of EUR 200 000[249]. In the case of the Refugee Team, the social enterprise deploys refugees as volunteers at sporting events and supports them in their personal and professional development. In the SII scheme, it aims to engage 220 refugees who receive government welfare benefits, in activities for at least five months. They will join a social network, practise language skills and will be supported in job applications. As intermediate outcomes, the supported refugees will develop professionally, for example in terms of their attitude to work, and will become empowered.

The Social Innovation Initiative, Portugal

The Portugal Social Innovation Initiative is a government initiative created at the end of 2014 aimed at promoting social innovation and stimulating the social investment market in Portugal[250]. Among other vulnerable groups, it also targets migrants and refugees. The initiative is based on four different steps which foresee the combination of different forms of financial products and schemes:

- A capacity-building grant scheme (Capacity Building for Social Investment), an innovative ESF financing instrument aiming to improve the organisational and management competencies of organisations and teams directly involved in social innovation and social entrepreneurship projects, narrowing their skills gap and preparing them to attract and apply social investment. It is a grant support up to EUR 50 000 (in the form of vouchers) to finance small capacity-building plans (up to 18 months of duration), directly applied to social innovation and social entrepreneurship projects. It funds 100% of eligible costs to beneficiaries (85% ESIF-ESF + 15% from the Portuguese State Budget);
- A venture philanthropy matching-fund scheme (Partnerships for Impact), ESF financing to support the early growth of social innovation or social entrepreneurship projects. It is a EUR 50 000 grant structured as venture philanthropy financing, leveraging other social investments to support high potential impact projects. The grant supports projects that intend to further develop proven social innovation concepts – innovative products, platforms or services to help solve societal problems. It matches 70% to 30% the funding provided by social investors (ex. Foundations, Municipalities, Corporate Social Responsibility of private companies, etc.). It funds 100% of the eligible cost to beneficiaries (85% ESIF-ESF + 15% Portuguese State Budget), with no maximum threshold per project;
- A Social Impact Bonds (SIBs) Programme, an ESF financing instrument that uses an outcome payment mechanism to support innovative projects addressing societal problems in specific public policy areas. It consists of a grant support to pay for validated outcomes achieved by specific social innovation projects in an area of public policy. It funds 100% of the eligible cost financing to beneficiaries (85% ESIF-ESF + 15% Portuguese State Budget), upon validation of contracted outcomes, with no maximum threshold per project. Project durations are long, going up to five years between project start and outcome validation and payment;

249 The Refugee Team enables refugees to integrate faster and better and strengthens their social position by encouraging them to volunteer at sporting or cultural events. The final outcome is to guide them into a job, internship or training course. Stichting Sarban de Toekomst is a catering company run by two former refugees from Afghanistan that offers opportunities to (young) refugees on the fringes of the employment market so that they become self-reliant. Refugees are trained to work in restaurants and become restaurant owners. Information on the capital raised through the scheme is from https://golab.bsg.ox.ac.uk/.

250 Additional detail in: fi-compass, 2018, 'The Portuguese Social Innovation Initiative - The Social Impacts Bonds Programme Using ESF to finance Social Innovation and Social Entrepreneurship'.

- A Social Innovation Fund (a financial instrument using ESF for social investment), designed to serve the stages of growth and dissemination of social innovation and social entrepreneurship projects. It is structured as a hybrid model of fund with two financial instruments: a debt financial instrument with a wholesale approach, designed to ease the access to finance for the social economy entities and a retail equity financial instrument to foster the social investment market. On the debt financial instrument, the Fund provides guarantees so financial institutions can provide loans to social economy entities at below the market conditions. On the other hand, the equity financial instrument co-invests alongside private investors in SMEs that are implementing social innovation projects. Both financial instruments of the Fund are managed by a 100% public financial entity.

The SIB pilot project for education in Mannheim, Germany

The city of Mannheim, together with other partners, has been running a **SIB pilot project**, scheduled to run for five years, to improve the educational opportunities of children with a migrant background in the Pestalozzi School elementary school since the 2017/18 school year. The project is intended to test whether the educational opportunities of these students, who are at risk of poor educational performance, can be improved through the 'Integrative Campus Pestalozzi School'. This offers additional teaching hours in German and in mathematics, courses and afternoon groups to strengthen personal and social skills, individual supervision of the children's mentors, and supportive work with parents.

The pilot project is being implemented with the help of a SIB, which enables private pre-financing of the project. The partners of the SIB are the city of Mannheim as project sponsor of the School Campus, the Pestalozzi School as the selected location, BASF SE as the social investor, bearing the financial risk for non-achieved impact targets, PHINEO, a non-profit analysis and consulting company as project coordinator and the Bertelsmann Foundation supporting the project design and monitoring and evaluating its implementation. The city of Mannheim only has to pay for the measurable positive impact. A year of intervention is deemed successful if it manages to significantly reduce any disadvantages due to family background with regard to the recommendation rate for a secondary school. Another condition for success is an increase in the average cognitive skills of the intervention classes compared with those of the previous class years.

The Direct Equity Investment 'Affordable Home', Slovakia

The Direct Equity Investment 'Affordable Home' aims to improve access to finance for social housing in the Slovak Republic and to help build a sustainable rental housing sector. SIH supported the launch of Affordable Home in the form of a direct equity investment together with co-investors, the SLSP-owned Social Financing SK and the SLSP Foundation. The main objective of Affordable Home as a social impact enterprise - subject to achieving economically sustainable, viable operations – is to provide housing, management, maintenance and renovation of housing stock for disadvantaged persons or socially vulnerable groups, in order on the one hand to increase employability and labour mobility, and on the other hand to improve housing conditions specifically also for the residents of the Marginalised Roma Communities (MRC). The specific content of the activities is (a) the provision of adequate housing, along with support in the form of social services for these persons; (b) the provision of housing for these persons at rent levels below market rates.

Social services are outsourced to the NGOs that rent the apartments from Affordable Home. These services concern the transition into housing for persons who were previously homeless or living in unsanitary/substandard conditions, or in case any other needs arise.

The joint venture Affordable Home is the final recipient of the financial instrument. Once the funds are provided, the joint venture Affordable Home purchases apartments and leases them either to a co-operating NGO, which then sublets them to target group tenants, or directly to a natural person. The target group is composed of a) disadvantaged persons; b) vulnerable persons; c) persons with a need for mobility or adaptability; d) low-income persons.

4.5 Financing gap

According to the 2020 European Parliament's study on SII in the EU[251], an overall funding gap for SII still exists in Europe, as a result of three key factors:

- The SII approach is not sufficiently used in EU funds;
- Institutional investors (e.g. pension funds) dispose of large funds but play only a negligible role;
- The attractiveness of the SII approach remains limited looking at it from the perspective of private investors (high transaction costs, especially in the case of small investments, high risk, not enough evidence of profitability).

However, there are no available detailed estimates of the financing gap concerning the SII sector with a focus on social organisations working with TCNs. Nevertheless, a study by the European Commission in 2020 provides an indication of the broader financing gap of social enterprises in the EU [252]. The study considers the number of social enterprises per country as estimated in the European Commission country reports on social enterprises and their ecosystems. Therefore, it is in line with the EC definition of social enterprise adopted in the Social Business Initiative while at the same time not covering the broader market of profit-oriented impact-driven enterprises. Moreover, three databases were used to calculate the supply of debt capital to social enterprises across Europe. The sample included the guarantees provided through the EaSI programme and published on the website of the EIF as well as all GABV and FEBEA members[253]. The calculation of existing equity financing comprises capital invested by social venture capital funds and equity crowdfunding platforms as well as equity provided by ethical banks and cooperatives. Therefore, even if in a broad way, it includes the potential gap specifically referring to the SII.

The resulting funding gap is in the range of EUR 514 million to around EUR 1.4 billion per year and is split as follows:

- in terms of debt amounts, from EUR 321 million to EUR 783 million per year;
- in terms of equity amounts, from EUR 230 million to EUR 605 million per year.

The study therefore estimates a total funding gap for the period from 2021 to 2027 ranging from EUR 3.6 billion to EUR 9.7 million, i.e. an average of nearly EUR 6.7 billion. Considering only those social enterprises working with TCNs (around 20% as estimated by Euclid Network for 2021[254]), this corresponds to **EUR 1.34 billion**. However, this broad estimation reveals that public support alone is not able to cover social enterprises' financial needs and more innovative approaches to financing are needed. The examples provided above in the previous sections indicate that SII schemes can be an efficient and effective way to attract new private resources, achieve social goals, ensure financial returns and change the mindset towards the measurable approach of the impact of public policies. However, these also underline the importance of capacity-building activities and the key role of experienced intermediaries in delivering these services.

251 European Parliament, 2020b, *'Social Impact Investment - Best Practices and Recommendations for the Next Generation'*, November.
252 European Commission, 2020b, *'Social enterprise finance market - Analysis and recommendations for delivery options'*.
253 Data was given in three different formats (total loan portfolio, annual loan provision and loans provided to social enterprises) and annualisation factors were used to make them comparable.
254 Dupain, W., Pilia, O., Wunsch, M., Hoffmann, P., Scharpe, K., Mair, J., Raith, M., and Bosma, N. *'European Social Enterprise Monitor 2020-2021 - The state of social enterprise in Europe'*. Euclid Network. 2021.

4.6 Readiness and capacity of public bodies

The SII market in the EU, despite its growth, is still in its early stage and social finance and social entrepreneurship ecosystems are in very different stages of development across EU countries. This affects the potential readiness of public bodies across the EU. The lack of a clear regulatory framework, the limited presence of intermediaries to provide technical assistance and capacity-building services, the capacity to understand and assess the market are all factors that can limit the potential design and implementation of SII schemes for TCNs. As a result, few public bodies seem to be ready to adopt these innovative financial solutions. This has clearly emerged from the interviews and the workshops, but also from the six country reports annexed to this report; it is in fact evident that only France, and, to a limited extent also Germany, are contexts in which SII schemes can be directly applicable to support TCNs also using EU funds, due to the mature experience that both investors and public bodies already have here in this type of financing. Other contexts, despite having a well-developed social economy (Poland or Italy for instance), are still lagging behind, so the use of more traditional forms of financial support can be more easily adopted to prepare the social economy supporting TCNs for future more advanced and innovative forms of support. Small pilot projects, however, can also be experimented in those countries lacking a well-developed market.

Other than different supply- and demand side barriers illustrated in the sections before, there are also several obstacles in the enabling environment preventing the adoption of more innovative impact financial solutions. These mainly concern the way public authorities can create the conditions for effective development of the SII market. For instance, the **regulatory barriers concerning the legal status and definition of demand side actors is still an issue across EU countries**. The large heterogeneity between definitions of social enterprises across the EU creates significant confusion among investors. The same type of organisation might be interpreted as a potential suitable investee in SII in one country, but an unsuitable candidate for SII in another one. Moreover, most EU Member States do not have a specific policy framework for supporting the development of social enterprises or specific legislation to recognise, regulate and finance their activity, lacking therefore specific or strict requirements concerning funding to social enterprises. Some regulatory barriers (for instance, rules regarding foundation investments in for-profit enterprises) can even prevent the mobilisation of private funds towards impact investment. Also, this confusion is further increased by the regulatory barriers concerning the legal status of TCNs, refugees and asylum seekers, which vary a lot across the EU Member States. Targeted measures to support social enterprises and build sustainable financing structures in the impact-oriented investment market can therefore only be developed in those contexts where clear criteria, definition and legislation for the social organisations are established.

Moreover, in most EU countries, there is also a **lack of a unified and precise definition of SII, insufficient awareness about it, together with the presence of information asymmetries**. Social entrepreneurs and investors have limited knowledge about it or how to connect with others in the marketplace. Tighter EU regulation on the taxonomy of sustainable investment products might also lead investors to simply rename their investment as 'impact investing'. However, the lack of knowledge and awareness primarily concern public bodies. Most EU countries, in fact, do not have comprehensive national strategies presenting the guidelines and objectives of SII and only very few (government) entities focus on the development of SII. Furthermore, impact measurement practices in the majority of EU Member States are still underdeveloped and the lack of uniform definition and methodological guidelines on assessing impact is also an issue for public bodies, which are the first actors lacking a systemic approach to measure the impact of their social policies (that can have, in turn, an impact on their budget through cost savings).

However, across the EU, there are some ongoing SII good practices, which are providing significant added value in addressing TCNs' needs and in reducing the barriers social organisations may have in accessing finance and scaling up. Nevertheless, these successful stories all indicate that the **presence or the creation of an efficient intermediation infrastructure is one of the critical aspects for the development and proper functioning of the SII market**. Other than favouring an effective match between investors and investees' needs, intermediaries providing capacity-building and technical assistance services have been found to be fundamental in also enhancing the readiness of the public bodies involved in the design and implementation of SII schemes. The expertise provided by intermediaries can be decisive in breaking the reluctance of public bodies in financing projects and social organisations perceived as too risky. At the same time, in most EU SII markets, there is a strong need of capacity building for both social enterprises (to make them both investment- and impact-ready) and investors, to co-invest and co-create financial instruments which can properly address and solve TCNs' social issues.

There are other hurdles affecting public bodies' readiness[255]. Designing an SII scheme requires **an appropriate understanding of the local context**, its key actors and the potential financial gap. Public authorities often lack funding for the feasibility studies other than the expertise to screen and analyse a market where it is often difficult to obtain detailed information and data. Moreover, as also demonstrated by the recent migration crisis due to the war in Ukraine, public bodies dealing with migration are often small local and regional authorities such as municipalities. For these, **the demand for providing social services and support for refugees is often highly volatile** and different local contexts can be affected by different short-term migration peaks. In these cases, financial support for social providers should be flexible and promptly provided. Therefore, using SII schemes to face emergency situations can be challenging, due to the significant time required to design them, to ensure effective financial returns to the investors, and to respond to the social enterprises' needs to scale up. Similar problems are generated by the fact that, overall, the attention paid by public bodies to TCNs is often influenced by the political volatility, creating uncertainty on the duration of the public financial supporting schemes. Moreover, SII schemes may **require coordinating different public entities** around different TCNs' social challenges that touch on numerous aspects and thus jurisdictions (for instance, work and cultural integration, education, training). Similarly, cooperation and coordination should be ensured among different actors, i.e. investors, investees, intermediaries. Also, in this case human, financial and time resources are needed, and the majority of public bodies – especially the smallest ones – can lack these.

4.7 Justification of the use of financial instruments[256]

The use of SII financial instruments to support social enterprises and organisations working with TCNs and refugees is justified by the significant financing gap existing in the EU social economy. Even if this concerns the overall financing needs and is therefore not specific for the impact investing finance and for migration issues, there is evidence that social and financial innovations are both needed. Several public bodies across the EU are in fact suffering significant budget pressures due to the overlap of several social and economic crises in the last years, often impacting on existing structural deficiencies. Similarly, the social economy in the EU has considerably grown in the last decade, but several barriers prevent entities working in it to access finance and to scale up.

SII can therefore contribute to partially cover the financing gap by providing innovative ways to address social organisations' financial needs and mitigate the pressure on public budgets by shifting the investment risk to investors. Moreover, they can contribute to changing the mindset of public bodies, called to measure the effectiveness of public interventions in terms of impact (and make a more efficient use of public resources), and of social enterprises, which need to better adapt their business strategies towards a more innovative approach in delivering social services. Similarly, SII schemes can increase the interest of investors for solving social challenges, such as those posed by migration.

255 See: Impact Europe, 2021, *'EVPA Contribution to the EU Consultation on Reinforcing Social Europe Delivering on the European Pillar of Social Rights'*.

256 The benefits of financial instruments for migrants are further described in Asylum, Migration and Integration Fund (AMIF) – Financial instruments.

Designing and implementing efficient and effective SII schemes is not easy. It requires time, resources, coordination efforts, and specific and advanced expertise. Their potential applicability seems currently quite limited in most EU countries and regions. More traditional forms of financial instruments, such as loans or guarantees, or even a combination with grants for non-financial support, can be more appropriate to support social enterprises and organisations working with TCNs in those contexts lacking the required capacities, to make them more financially sustainable and investment-ready to receive more innovative forms of financing. Also, impact targets can be introduced gradually through traditional forms of finance (including grants), to make the different actors involved more familiar with impact measurement. Finally, given the fundamental role played by intermediaries, the creation and the support of this infrastructure is also crucial, so that combining financial instruments and grants can be an option to be considered in preparing the ecosystem for SII.

05 Conclusion

Microfinance

The market assessment report related to microfinance explored the barriers and opportunities that exist to boosting TCN entrepreneurship in the EU. It also provided a detailed analysis of the demand and supply side for microfinance as well as BDS support. Furthermore, it discussed the stakeholder readiness to become involved in financial instruments and other support activities related to microfinance.

The report found significant economic opportunities in unleashing the entrepreneurial potential of TCNs, a potential that in general is still underutilised across the EU Member States. The report also found that a robust and affordable microfinance offer can play a major role in providing the necessary access to finance for entrepreneurial TCNs. It also concluded that availability of BDS in the form of e.g. training, mentoring and coaching and tailored to the needs of TCNs is important to accompany the microfinance support to increase the changes of TCNs of success with their entrepreneurial ideas.

The microfinance chapter of this market assessment report identifies also a number of examples how microfinance providers as well as tailored BDS already support TCNs in a number of Member States. However, the market assessment report calculated a significant financing gap for microfinance as well as the BDS support available for TCNs and identified the underlining need for more public investment for both, microfinance and BDS.

Key needs to be addressed in order to make microfinance and BDS support more effective include more credit risk coverage available for providers of microfinance, a dedicated financing support for BDS and more liquidity support to providers of microfinance, enabling them to provide more microloans to entrepreneurial TCNs. Other, more general measures such as reduction of barriers that TCNs face in setting up businesses, a more enabling legal and regulatory environment for microfinance, especially for TCNs, and a stronger awareness among the stakeholders how financial instruments can support the economic inclusion of TCNs, can also pay an important part in enabling more entrepreneurship among this vulnerable group.

Housing

The housing chapter assessed the potential of a financial instrument, co-financed by the European Union, to improve access to finance for reception conditions for asylum seekers and to finance housing for migrants in Europe. Europe's large and diverse migrant populations face significant challenges in accessing affordable and decent housing, despite evidence that this is a critical factor for integration, and this is increasingly the case for native populations, unlike other sectors, also putting pressure on the housing sector. Housing is a national competence, but the EU seeks to provide incentives through soft law and financial instruments to support asylum seekers, refugees and the beneficiaries of international protection. These are among the most vulnerable groups facing financial and regulatory barriers as well as discrimination in accessing housing finance.

A critical bottleneck is the moment at which most of them have to leave the reception system to find accommodation in the private rental market within a few months. This often means that TCNs become homeless, live in overcrowded accommodation and are overburdened by housing costs, increasing their risk of living in poverty. On the other hand, public sector housing providers (local or national government) and their affiliates (e.g. social housing agencies, reception centres) also face financial and regulatory barriers, while the number of non-institutional housing providers such as private households (e.g. those who have recently received Ukrainians) is decreasing due to the lack of rent subsidies.

The housing chapter identifies examples of personal micro-credit for housing for TCNs as a potential empowerment tool for financing housing, as positive impacts on employability, health and mobility could be demonstrated within the same segment. Amidst the changing financing landscape of the social housing sector, driven by reduced public investment, social housing providers have adopted a variety of financing strategies involving debt and equity. These include selling existing dwellings to secure further borrowing, using a mix of government-backed and market loans, and drawing on different sources such as public grants and private loans.

A significant financing gap has been calculated and identified in the market assessment, underlining the need for more public investment to finance the housing sector, as well as the necessity of supporting access to financial services, especially for third-country nationals. At the same time, financial instruments targeted at TCNs can avoid discriminatory practices and increase their agency compared to the current subsidy and grant based mechanisms.

Social impact investments

The analysis of the SII market shows that SII schemes could be an innovative way of addressing TCNs' needs while, at the same time, reducing the financial constraints affecting enterprises and organisations working in the social economy.

The social economy plays a key role in the European economy, with nearly 3 million entities operating in it, of which around 400 000 are social enterprises which are often seen as key drivers in creating new business models and innovative social solutions for addressing social challenges. They also play a key role in supporting TCNs, as these are targeted by nearly 20% of EU social enterprises. However, they suffer several challenges, for instance, in terms of a lack of visibility and unbalanced legal framework and difficulties in accessing markets. Financial support is by far the most common barrier for these, as they lack options for financing (especially in the initial phase after the establishment of the organisation), public support schemes, supportive fiscal framework and long-term capital. Overall, nearly 40% of social enterprises' funding needs are unmet. Financial needs for social enterprises, in general, are up to EUR 250 000 with the most common going up to EUR 50 000. They mostly rely on public financing or self-financing in the form of cash flow and own savings. Rarely do they look for financial instruments, such as a loan. Moreover, a very limited number of social enterprises seeks impact investment. Different factors can explain this low preference for more innovative ways of financing: social enterprises tend to be small in size, they have a low investment readiness, their governance model is not attractive for investors, and the time horizon for the targets to be achieved by social enterprises and investors is often not aligned.

By contrast, the SII supply side shows a nascent but growing market in the EU. Investors for impact were estimated to have supported social organisations with more than EUR 6 billion in 2019, and nearly 30% of them have targeted TCNs. In recent years, innovative SII schemes supporting social organisations working with TCNs have generated a significant added value, in terms of financial stability for investees, continuous dialogue and cooperation between services providers, outcome founders and investors, savings for public budgets, and capacity to monitor and assess the social impact. In all these experiences, the existence of an efficient intermediation infrastructure, the appropriate understanding of the local context, and coordination among the different public bodies have been crucial for the successful achievement of the expected impact targets, for the reduction of the information asymmetries, and the encouragement of public authorities to gain experience in using innovative financial instruments. Without these elements, implementing a SII scheme could be very challenging. In most of the EU contexts, therefore, a gradual approach to SII is recommended.

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