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ERENET WINTER MESSAGE

Distinguished Readers and Friends,

As er approaching the the end of the year it is time to make an account what did the year 2021 and what is our expectation for the New Year. It is It is primary the extremely mysterious covide epidemic, which leaves its mark on our everyday life. Almost two years into a pandemic that has claimed more than five million lives and affected billions more. We still do not know where are it coming from and where it goes, why it came, and if it goes, why it will going there. We hear pro and con statements on the epidemic, and still teher are people who are spectic and refuse to accept the vactination the only mean the get protection against this desease. According to McKinsey & Comnpanys study the base-case scenario has the potential to place a severe strain on healthcare systems.

"The optimistic scenario would see a peak of disease burden close to that seen over the past six months, while the pessimistic would see a very significantly higher burden of disease than in the past six months. Note that in every scenario indicates that hospitalizations will likely be higher in the next six months than they were in the past six months."

Over 70 years of European integration brought peace, prosperity and security for our continent. But the 21st century brings its own challenges and opportunities. The **Conference on the Future of Europe** kicked off on Europe Day on 9 May 2021, to start an open an inclusive discussion with more than 400 million Europeans. Renew Europe aims at bringing conferences to all corners of the EU so that anyone can join the conversation. Discussions are oriented towards the following points: (i) Climate change & Environment: (ii) Health; (iii) Economy, job & social justice; (iv) The EU in the world; (v) Values & rights, rule of law & security; (vi) Digital transformation; (vii) European democracy; (viii) Migration and (ix) Education, culture, youth & sport. The final discussion will be held on 12-13 February 2022 in Strassbourg.

It is still sadly found the European Union's main men remained haughty and superior, lecturing tone of voice, and the fact that Europe is losing its values, and the prestige of its original mission of every moment. It is pitty that the EU is acting time to time on "expert governance". It is undeniable that we have not been able to figure out how to interpret expert governance, which obviously did not come in most countries of the Union. After all, if they were run not by political careerists, money and power lovers, but by patriots. At the moment the EU is struggling with energy problems, without being able and unable to deal with any economic and lifestyle problems, such as migrant reception. The only solution for energy crises is riasing of prises and let the European citizens pay more money to satisfy the interest of the big enery producers.

In Germany the Angela Merkel chanselor finished her long-lived Christian democratic reign. She made a clever diplomacy in EU. Her successor Olaf Scholz became a new German chancellor, a radical socialist calling for the capitalist economy to be overcome. He already touched a wrong unfriedenly chord threatening the V4 countries. Next year we shall face parliamentary election. Opposition forces in Hungary managed from abroad and double-dealers policymakekers already blow the tombon. In France the presidental election will be held on 10 April 2022. The ourcome of the both elections will significantly reshape the political scenarion in Europe.

Last but not least **I wish all our ERENET members, Friends and their familie members Merry Christmas and Happy and Prosperous 2022!**

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PAPERS

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THE WORLD MUST WAKE UP

ABSTRACT

Here's the full text of UN Secretary-General António Guterres address to the General Assembly at the start of the General Debate on 21 September 2021.

A clear and compelling statement from the leader of the United Nations. A stark wake-up call to the nations of the world - and the United Nations - to help make the choices needed to address the problems facing the world today. A clear call to focus on actions needed to bridge the "six great divides" - the peace divide, the climate divide, the gap between rich and poor - within and between countries, the gender divide, the digital divide, and the divide among generations.

Keywords: Covid-19, climate change and alarm, six great divides: peace, climate, bridge the gap between poor and rich, gender divine, digital divine, bridge the divin between generations.

JEL Classification: A19, C33, C42

Mr. President,
Excellencies,

I am here to sound the alarm: The world must wake up.

We are on the edge of an abyss — and moving in the wrong direction. Our world has never been more threatened. Or more divided. We face the greatest cascade of crises in our lifetimes. The COVID-19 pandemic has supersized glaring inequalities. The climate crisis is pummeling the planet.

Upheaval from Afghanistan to Ethiopia to Yemen and beyond has thwarted peace. A surge of mistrust and misinformation is polarizing people and paralyzing societies. Human rights are under fire. Science is under assault. And economic lifelines for the most vulnerable are coming too little and too late — if they come at all.

Solidarity is missing in action — just when we need it most.

Perhaps one image tells the tale of our times. The picture we have seen from some parts of the world of COVID-19 vaccines … in the garbage. Expired and unused.

On the one hand, we see the vaccines developed in record time — a victory of science and human ingenuity. On the other hand, we see that triumph undone by the tragedy of a lack of political will, selfishness and mistrust.

A surplus in some countries. Empty shelves in others. A majority of the wealthier world vaccinated. Over 90% of Africans still waiting for their first dose. This is a moral indictment of the state of our world. It is an obscenity.

We passed the science test.

But we are getting an F in Ethics.

Excellencies,

The climate alarm bells are also ringing at fever pitch. The recent report of the Intergovernmental Panel on Climate Change was a code red for humanity. We see the warning signs in every continent and region. Scorching temperatures. Shocking biodiversity loss. Polluted air, water and natural spaces. And climate-related disasters at every turn. As we saw recently, not even this city — the financial capital of the world — is immune. Climate scientists tell us **it's not too late to keep alive the 1.5 degree goal of the Paris Climate Agreement.** But the window is rapidly closing.

We need a 45% cut in emissions by 2030. Yet a recent UN report made clear that with present national climate commitments, emissions will go up by 16% by 2030. That would condemn us to a hellscape of temperature rises of at least 2.7 degrees above pre-industrial levels.

Meanwhile, the OECD just reported a gap of at least US20 billion in essential and promised climate finance to developing countries.

We are weeks away from the UN Climate Conference in Glasgow, but seemingly light years away from reaching our targets. We must get serious. And we must act fast.

Excellencies,

COVID-19 and the climate crisis have exposed profound fragilities as societies and as a planet. Yet instead of humility in the face of these epic challenges, we see hubris. Instead of the path of solidarity, we are on a dead end to destruction.

At the same time, another disease is spreading in our world today: a malady of mistrust. When people see promises of progress denied by the realities of their harsh daily lives…When they see their fundamental rights and freedoms curtailed…When they see petty — as well as grand — corruption around them…When they see billionaires joyriding to space while millions go hungry on earth…When parents see a future for their children that looks even bleaker than the struggles of today...And when young people see no future at all…

The people we serve and represent may lose faith not only in their governments and institutions — but in the values that have animated the work of the United Nations for over 75 years.

Peace. Human rights. Dignity for all. Equality. Justice. Solidarity. Like never before, core values are in the crosshairs. A breakdown in trust is leading to a breakdown in values. Promises, after all, are worthless if people do not see results in their daily lives. Failure to deliver creates space for some of the darkest impulses of humanity. It provides oxygen for easy-fixes, pseudo-solutions and conspiracy theories.

It is kindling to stoke ancient grievances. Cultural supremacy. Ideological dominance. Violent misogyny. The targeting of the most vulnerable including refugees and migrants.

Excellencies,

We face a moment of truth. Now is the time to deliver. Now is the time to restore trust. Now is the time to inspire hope. And I do have hope.

The problems we have created are problems we can solve. Humanity has shown that we are capable of great things when we work together. That is the raison d'être of our United Nations. But let's be frank. Today's multilateral system is too limited in its instruments and capacities, in relation to what is needed for effective governance of managing global public goods. It is too fixed on the short-term.

We need to strengthen global governance. We need to focus on the future. We need to renew the social contract. We need to ensure a United Nations fit for a new era.

That is why I presented my report on Our Common Agenda in the way I did. It provides a 360 degree analysis of the state of our world, with 90 specific recommendations that take on the challenges of today and strengthen multilateralism for tomorrow.

Our Common Agenda builds on the UN Charter, the Universal Declaration of Human Rights, the 2030 Agenda for Sustainable Development, and the Paris Climate Agreement.

It is in line with the mandate I was given by the UN75 Declaration to seek a pathway to a better world. But to reach that land of our promises, we must bridge Great Divides.

Excellencies,

I see 6 Great Divides — 6 Grand Canyons — that we must bridge now.

First, we must bridge the peace divide.

For far too many around the world, peace and stability remain a distant dream.

In Afghanistan, where we must boost humanitarian assistance and defend human rights, especially of women and girls.

In Ethiopia, where we call on all parties to immediately cease hostilities, ensure humanitarian access and create the conditions for the start of an Ethiopian-led political dialogue.

In Myanmar, where we reaffirm unwavering support to the people in their pursuit of democracy, peace, human rights and the rule of law.

In the Sahel, where we are committed to mobilizing international assistance for regional security, development and governance.

In places such as Yemen, Libya and Syria, where we must overcome stalemates and push for peace.

In Israel and Palestine, where we urge leaders to resume a meaningful dialogue, recognizing the two-State solution as the only pathway to a just and comprehensive peace.

In Haiti and so many other places left behind, where we stand in solidarity through every step out of crisis.

Excellencies,

We are also seeing an explosion in seizures of power by force. Military coups are back. The lack of unity among the international community does not help. Geopolitical divisions are undermining international cooperation and limiting the capacity of the Security Council to take the necessary decisions. A sense of impunity is taking hold. At the same time, it will be impossible to address dramatic economic and development challenges while the world's two largest economies are at odds with each other. Yet I fear our world is creeping towards two different sets of economic, trade, financial, and technology rules, two divergent approaches in the development of artificial intelligence — and ultimately two different military and geo-political strategies.

This is a recipe for trouble. It would be far less predictable than the Cold War. To restore trust and inspire hope, we need cooperation. We need dialogue. We need understanding. We need to invest in prevention, peacekeeping and peacebuilding. We need progress on nuclear disarmament and in our shared efforts to counter terrorism. We need actions anchored in respect for human rights. And we need a new comprehensive Agenda for Peace.

Excellencies,

Second, we must bridge the climate divide. This requires bridging trust between North and South.

It starts by doing all we can now to create the conditions for success in Glasgow. We need more ambition from all countries in three key areas — mitigation, finance and adaptation. More ambition on mitigation - means countries committing to carbon neutrality by mid-century - and to concrete 2030 emissions reductions targets that will get us there, backed up with credible actions now. More ambition on finance - means developing nations finally seeing the promised US100 billion dollars a year for climate action, fully mobilizing the resources of both international financial institutions and the private sector. More ambition on adaptation - means developed countries living up to their promise of credible support to developing countries to build resilience to save lives and livelihoods. This means 50% of all climate finance provided by developed countries and multilateral development banks should be dedicated to adaptation.

The African Development Bank set the bar in 2019 by allocating half of its climate finance to adaptation. Some donor countries have followed their lead. All must do so.

My message to every Member State is this: Don't wait for others to make the first move. Do your part. Around the world, we see civil society - led by young people — fully mobilized to tackle the climate crisis.

The private sector is increasingly stepping up.

Governments must also summon the full force of their fiscal policymaking powers to make the shift to green economies. By taxing carbon and pollution instead of people's income to more easily make the switch to sustainable green jobs. By ending subsidies to fossil fuels and freeing up resources to invest back into health care, education, renewable energy, sustainable food systems, and social protections for their people. By committing to no new coal plants. If all planned coal power plants become operational, we will not only be clearly above 1.5 degrees - we will be well above 2 degrees.

The Paris targets will go up in smoke. This is a planetary emergency.

We need coalitions of solidarity -- between countries that still depend heavily on coal, and countries that have the financial and technical resources to support their transition. We have the opportunity and obligation to act.

Excellencies,

Third, we must bridge the gap between rich and poor, within and among countries.

That starts by ending the pandemic for everyone, everywhere.

We urgently need a global vaccination plan to at least double vaccine production and ensure that vaccines reach seventy percent of the world's population in the first half of 2022.

This plan could be implemented by an emergency Task Force made up of present and potential vaccine producers, the World Health Organization, ACT-Accelerator partners, and international financial institutions, working with pharmaceutical companies.

We have no time to lose.

A lopsided recovery is deepening inequalities.

Richer countries could reach pre-pandemic growth rates by the end of this year while the impacts may last for years in low-income countries.

Is it any wonder? Advanced economies are investing nearly 28 % of their Gross Domestic Product into economic recovery. For middle-income countries, that number falls to 6.5%. And it plummets to 1.8% for the least developed countries — a tiny percentage of a much smaller amount.

In Sub-Saharan Africa, the International Monetary Fund projects that cumulative economic growth per capita over the next five years will be 75 percent less than the rest of the world.

Many countries need an urgent injection of liquidity.

I welcome the issuance of USD650 billion in Special Drawing Rights by the International Monetary Fund. But these SDRs are largely going to the countries that need them least. Advanced economies should reallocate their surplus SDRs to countries in need. SDRs are not a silver bullet. But they provide space for sustainable recovery and growth. I renew my call for a reformed, and more equitable international debt architecture.

The Debt Service Suspension Initiative must be extended to 2022 and should be available to all highly indebted vulnerable and middle-income countries that request it. This would be solidarity in action.

Countries shouldn't have to choose between servicing debt and serving people. With effective international solidarity, it would be possible at the national level to forge a new social contract that includes universal health coverage and income protection, housing and decent work, quality education for all, and an end to discrimination and violence against women and girls.

I call on countries to reform their tax systems and finally end tax evasion, money laundering and illicit financial flows.

And as we look ahead, we need a better system of prevention and preparedness for all major global risks. We must support the recommendations of the Independent Panel for Pandemic Preparedness and Response.

I have put forward a number of other proposals in Our Common Agenda — including an emergency platform and a Futures Lab.

Excellencies,

Fourth, we must bridge the gender divide.

COVID-19 exposed and amplified the world's most enduring injustice: the power imbalance between men and women. When the pandemic hit, women were the majority of frontline workers, first to lose their jobs, and first to put their careers on hold to care for those close to them. Girls were disproportionately hit by school closures that limit their development and increase the risk of abuse, violence and child marriage. Bridging the gender divide is not only a matter of justice for women and girls.

It's a game-changer for humanity.

Societies with more equal representation are more stable and peaceful. They have better health systems and more vibrant economies.

Women's equality is essentially a question of power. We must urgently transform our male-dominated world and shift the balance of power, to solve the most challenging problems of our age. That means more women leaders in parliaments, cabinets and board rooms. It means women fully represented and making their full contribution, everywhere.

I urge governments, corporations and other institutions to take bold steps, including benchmarks and quotas, to create gender parity from the leadership down.

At the United Nations, we have achieved this among the Senior Management and our country team leaders. We will keep going until we have parity at every level.

At the same time, we need to push back against regressive laws that institutionalize gender discrimination. Women's rights are human rights.

Economic recovery plans should focus on women, including through large-scale investments in the care economy. And we need an emergency plan to fight gender-based violence in every country.

To achieve the Sustainable Development Goals and build a better world, we can and we must bridge the gender divide.

Fifth, restoring trust and inspiring hope means bridging the digital divide.

Half of humanity has no access to the internet. We must connect everyone by 2030. This is the vision of my Roadmap for Digital Co-operation — to embrace the promise of digital technology while protecting people from its perils. One of the greatest perils we face is the growing reach of digital platforms and the use and abuse of data.

A vast library of information is being assembled about each of us. Yet we don't have the keys to that library. We don't know how this information has been collected, by whom or for what purposes. But we do know our data is being used commercially — to boost corporate profits. Our behavior patterns are being commodified and sold like futures contracts. Our data is also being used to influence our perceptions and opinions.

Governments and others can exploit it to control or manipulate people's behavior, violating human rights of individuals or groups, and undermining democracy. This is not science fiction. It is science fact. And it requires a serious discussion. So, too, do other dangers in the digital frontier.

I am certain, for example, that any future major confrontation — heaven forbid — will start with a massive cyberattack.

Where are the legal frameworks to address this?

Autonomous weapons can today choose targets and kill people without human interference. They should be banned. But there is no consensus on how to regulate those technologies.

To restore trust and inspire hope, we need to place human rights at the centre of our efforts to ensure a safe, equitable and open digital future for all.

Excellencies,

Sixth, and finally, we need to bridge the divide among generations.

Young people will inherit the consequences of our decisions — good and bad. At the same time, we expect 10.9 billion people to be born by century's end. We need their talents, ideas and energies.

Our Common Agenda proposes a Transforming Education Summit next year to address the learning crisis and expand opportunities for today's 1.8 billion young people. But young people need more than support. They need a seat at the table.

I will appoint a Special Envoy for Future Generations and create the United Nations Youth Office. And the contributions of young people will be central to the Summit of the Future, as set out in Our Common Agenda.

Young people need a vision of hope for the future. Recent research showed the majority of young people across ten countries are suffering from high levels of anxiety and distress over the state of our planet. Some 60 percent of your future voters feel betrayed by their governments.

We must prove to children and young people that despite the seriousness of the situation, the world has a plan — and governments are committed to implementing it. We need to act now to bridge the Great Divides and save humanity and the planet.

Excellencies,

With real engagement, we can live up to the promise of a better, more peaceful world. That is the driving force of our Common Agenda. The best way to advance the interests of one's own citizens is by advancing the interests of our common future.

Interdependence is the logic of the 21st century. And it is the lodestar of the United Nations.

This is our time. A moment for transformation. An era to reignite multilateralism. An age of possibilities.

Let us restore trust. Let us inspire hope.

And let us start right now.

Thank you.

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THE IMPACT OF THE COVID-19 PANDEMIC ON GERMAN SME

ABSTRACT

The intention of the government aids for German SME suffering under the Covid-19 pandemics was not primarily stimulating innovation but helping them keeping their operations going and maintaining liquidity. However, many SME have used thess aids to modify or develop their business models and adapt to the shock of the crisis. Based on a small sample of SME in the service economy, typical incremental strategies of business model development could be identified. What makes business model innovation in a crisis easier are also certain characteristics of SME such as flat hierarchies, low fixed capital, low bank debts, quick decisions, and a non-bureaucratic company culture. Extremely important for success is the dialogue with stakeholders and key partners. The more experience with digital platforms and flexible networks the SME had collected before the crisis, the greater were their chances to incrementally extend their business models.

Keywords: Business model innovation, Covid-19 pandemics, crisis support for SME, service economy

JEL Classification: H12. L 21, L22

The Covid-19 pandemic has hit German SMEs hard with several lockdowns. During the pandemic, in addition to the spectacular rescue of large companies such as Lufthansa, numerous aid measures for small and medium-sized enterprises were granted. In the most cases, this took place by a one-off payment or was based on the reimbursement of fixed costs. Scientific analyses checking the effects of the emergency measures have so far only been available sporadically in Germany. In such analyses, mainly the impact of the one-off payments in spring 2020 was evaluated. However, this evaluation only based on the personal assessment of the respondents.

This one-off emergency aid increased the subjective probability of survival of those companies with up to 9 employees that had received it, but only to a very small extent. Their effectiveness was assessed slightly higher in the sectors that were severely affected by anti-pandemic measures (Block & al., 2020; Stiel & al., 2021).

The priority orientation of the measures towards strengthening liquidity and corporate resources appears to be appropriate in principle because it cannot be the purpose of the aid programs to set the entrepreneurial risk to zero. Therefore, the concentration on pure liquidity support and credit facilitation sems to be justified. Helpful was also the multiple extension of the deadlines for filing for insolvency (Stiel & al., 2021). However, these measures cannot compensate for the damage that is primarily caused not by pandemic control measures, but above all by changes in consumer behaviour that quickly switched to online retail, if possible, as a US study shows (Goolsbee & Syverson, 2021).

Among the retailers are both crisis winners and losers, regardless of the size of the company: brick-and-mortar and non-food trade (except for furniture stores, do-it-yourself markets and some other industries) are largely severely affected, while online retail (usually done by large corporations) has been able to expand its market share. The pandemic has reinforced the long-standing structural trend of increasing online retail business. Therefore, politicians should not only ensure the viability of the medium-sized economy, but also take into account their ability to innovate and adapt to possibly long-term changing needs even during the current crisis. A crisis management policy, which is primarily geared to securing liquidity and preventing insolvencies, runs the risk of cementing a structure of SMEs that must be supported with a high amount of subsidies for a longtime, but would play a negligible role in the overall economic recovery.

Some attempts to prioritize aid measures were made already in the early spring of 2020. It was discussed that during the first lockdown, the priority of keeping sectors open should be given to branches with high value creation, or to those with an expected high loss of value added, as it is primarily found in manufacturing industry (Abele-Brehm & al., 2020).

One assumption of the politicians was that a rapid post-crisis recovery and the payment of crisis costs could only be achieved by supporting the export-intensive manufacturing sector. With a view to this sector, politicians focused above all on maintaining the value chains and formulated as an overall goal that the lockdown of export-oriented manufacturing industry must be prevented, while customer-intensive services and public institutions had to bear the burden of the lockdowns. This strategic decision was made although the manufacturing sector in Germany contributes to less than 20 % of the value added.

As a result of this decision, business-oriented services, hotel, restaurants, and retail have been neglected in the pandemic because the burdens of the lockdown were shifted onto them. The inevitable rate of contagion in the manufacturing sector should be compensated by strictly reducing customer contacts in services, trade, and gastronomy, thus reducing the overall impact of the pandemics on the society.

Especially in this area of most intensive customer communication, the support by the government aimed at provisional securing of the existing companies and equity, while the necessary structural adaptation or change currently underway was insufficiently supported. The support was provided by extended depreciation options for investment (particularly on IT) and a loss carry-back in 2020, which was intended to facilitate investments and partly compensate for the loss of equity.

However, only the larger companies benefited from research allowances granted for preparing structural change. In its annual report, the Expert Commission for Research and Innovation therefore criticized the lack of consideration of SMEs (EFI, 2021: 23).

In addition, only during in the second phase of the pandemic in the winter of 2020/21, it became clear that many service companies, which often work at a low fixed costs level, had to record revenue losses that could not be compensated by the emergency aid based on fixed cost reimbursement schemes. Therefore, in November and December 2020, it was decided to grant subsidies based on the sales of the previous year 2019. This resulted in a multiple, sometimes short-term paradigm shift in crisis aid and its calculation bases. These measures were somehow helpful for many groups of companies, but incoherent and incomplete. As the event management company examined in the study of Buchwald study (2021) did not organize events in November 2019 and therefore did not generate any sales, it was not able to apply for the so-called "November aid".

In addition, the question of liability for the cancellation of planned events remained unanswered. Many organizers canceled their events even before the lockdown and therefore remained at their expense. The question of whether the corona pandemic legitimizes a breach of contract or a breach of supply chains due to "force majeure" remains largely unclear. The same applies e. g. to the flight bookings of airlines. Other companies submitted their applications too late at a time when they were already recovering sales and had to repay amount.

EMPIRICAL FINDINGS

It can be said that the political objective of preserving large parts of the German SME landscape has been reached, especially in the production of physical goods. Business liquidations in the commercial economy have even decreased considerably by 18.9 % in 2020, mainly due to the changed insolvency rules, but also the number of business start-ups fell by 11.7 %.

As the number of liquidations fell more sharply than that of start-ups, the commercial start-up balance of around 11,000 was even positive for the first time since 2011. Compared to 2019, the start-up rate fell most sharply in the manufacturing sector alone (around minus 20 %). It remained constant compared to 2019 in the areas of financial and insurance services, real estate, house construction and health. The number of part-time start-ups even rose to a record level. We interpret this as attempts to test new business areas and models in addition to the main profession or a previous company foundation, to compensate for sales declines in the main business, or to build up another business pillar using the free time in shorttime work or in the home office (Kay & Kranzusch, 2021: 3 ff.).

However, studies show that many SMEs set their priorities differently from what politicians or scientific experts had in mind or tried to control by the support measures. While an expert survey revealed the following priorities:

1. securing liquidity,
2. ensuring the ability to innovate,
3. digitization,
4. securing the pool of skilled workers,

most SMEs saw their main tasks after securing liquidity and maintaining operational business operations above all in the flexible short-term adaptation of business models (Brink & al., 2021). Extended digitization projects, e. g., were rarely tackled during the crisis. Van Laak & Vatanparast (2021: 30) also criticize the fact that not enough state support has been offered to compensate for the digitization deficits of SMEs.

However, it must be asked whether the liquidity support and the activities to "maintain operational business operations" only served to avoid insolvency. In fact, small companies often "creatively misappropriated" the funds, e. g. for process-related and organizational innovations that could be carried out without a large capital investment, or for modifications of the product spectre. We suspect that the statistics may paint too bleak a picture of the reactions of SMEs that does not properly reflect their actual creativity and flexibility, which have not been limited to cost reduction or perseverance at low levels.

Ritter & Pedersen (2020) developed a model for estimating the impact of the crisis on business models and found that numerous business models simultaneously offer several points of attack in current or similar crisis situations, including those of smaller companies. The Covid-19 crisis confirms that the situation for SMEs and companies with local markets is increasingly characterised by VUCA (Volatility, Uncertainity, Complexity, Ambiguity). As Buchwald (2021) has shown, SMEs had reason to be dissatisfied with the inconsistency and hesitancy of government measures. Careful crisis planning was hardly possible for them, which led to a loss of trust in state institutions.

Buchwald examined seven business cases in four industries (events, travel, IT technology, consultancy). Four case studies were based on interviews with extern consultants being involved in the innovation process, while three case studies based on interviews with the CEOs of the companies. In three cases the business model was not affected by the crisis. Four companies have changed their business models to a certain degree (travel agency; event management and exhibition stand construction; regional online distribution platform; lobby, consultancy, and training for SME).

THE IMPACT OF THE CRISIS ON BUSINESS MODELS OF SELECTED GERMAN SME

How does a crisis such as the simultaneous supply and demand shock triggered by Covid-19 affect business models, when it is also associated with a financial shock (Lanzer & al., 2020: 17)?

Teece (2010) brought some clarity to the many attempts to define business models when he defined a business model as a certain logic of value creation logics. However, we base our considerations on choosing a pragmatic model of business model (Baker-Brunnbauer, 2021). Therefore our starting point is the business model canvas designed by Osterwalder (Osterwalder & Pigneur, 2010), which is widely accepted in Germany. This model includes 9 core categories that appear fat in the following.

As consequence of the Covid-19 pandemics, it is to be expected that the collapse of international logistics chains will particularly affect those companies that rely on preliminary work from **key partners** from the Are dependent abroad.

This endangers the supply of physical **key resources**, especially in manufacturing industries. In services, it was above all the supply of personnel and in many other industries (except in the booming online trade) the supply of liquid funds due to falling sales that turned out to be critical factors. But the IT infrastructure can also prove to be a bottleneck if suddenly more purchases or business meetings are being carried out online, employees are being sent to their home offices, or trainees cannot be hired any longer.

While the **key activities** will be reduced but not completely change in the crisis, the **value proposition** may focus on completely new aspects for the customer: the ability to maintain delivery in the face of hamster crises, the speed of the delivery of goods, the virtual presentation of the offer, for service providers also good infection protection of the customer, which must also be signaled visually (by disinfecting tables, using disposable menu cards, etc.).

In contrast, the price and the brand loyalty may lose their importance during the crisis. **Customer relations** are likely to change decisively: personal handling and service are made difficult or impossible, face-to-face contacts with customers are reduced, while online contacts are increasing. Many customers will churn if the company is not able to deliver or deliver quickly enough. The preferred **distribution channels** are also changing. While the importance of stationary trade is decreasing, new sales channels must be established in cooperation with logistics companies who can thus become new key partners. Replacing traditional with digital sales channels can extend the regional reach. Hybrid (analog / digital) channels, however, require more effort and pose interface problems.

The effects on the structure of the **customer segments** are difficult to predict: less online-savvy customers may stay away, while other groups will reduce their overall consumption. Many younger people changed their consumption patterns completely and were lost as customers, while the elderly showed a lot of resistance (Weissbach 2020). However, new target groups can also be reached through the new digital channels. The tendency to save money in a crisis means that less durable and luxury items are sold, which can also have an impact on the customer structure. The proportion of domestic consumption increases sharply in relation to consumption outside the home (travel, gastronomy, cultural events).

The consequences for the **cost structure** of SME are very uneven. It can be assumed that most SMEs barely can reduce some of the fixed costs such as rent, but significantly reduce personnel costs through the short-time work financed by the government. In some cases, employees also quit voluntarily if there are no signs of a rapid recovery in business activity. At the same time, costs are rising due to hygiene measures. Storage can be reduced, which, however, has a negative effect on the ability to deliver. Regarding procurement costs for preliminary products and components, price increases are to be expected to a large extent. IT investments and ongoing IT costs are also likely to rise if the majority of employees work from home and customer contacts are made online; however. In the upswing that follows the pandemic, however, this may mean considerable costs for the acquisition and possibly re-qualification of staff who have now often left the industry, and for making up for investments that have not been made.

What the crisis means for **revenue streams** is probably clear to most SMEs. This is where the impact is strongest, followed by customer relations and the value proposition, as the study by Baker-Brunnbauer (2021) shows. His (non-representative) online survey of Austrian, German and Swiss companies (including around 60% SMEs) in the 19th calendar week of 2020 shows, however, that 91.7 % of the surveyed companies continued their business during the pandemic, although most of them were affected mostly by losses in sales. Only 8.3 % of the companies completely stopped their business, while 4.2 % were affected in areas that were critical for the continuation of business. What is particularly interesting, however, is the fact that as early as the 19th calendar week of 2020, 35 % of the companies recognized future opportunities for new business models. At that point in time, the majority of the companies surveyed were already working on changes to their business.

Under normal non-crisis conditions, such a business model innovation is a rather rare process in SMEs. According to a study by Zimmermann (2020: 1), German medium-sized companies mainly implement process innovations (21 %); only 14% innovate their business models. In addition, family-owned companies are less willing to invest from generation to generation (Weiter & al., 2016: 8). Many SMEs are not even aware of their business models or have never formulated them precisely. That seems to change in the crisis. As early as June 2020, 77 % of German SMEs were involved in innovations, and 16 % planned to implement them (Zimmermann, 2020: 2). Compared to large companies with their greater differentiation of internal company processes and structures, SMEs tend to have fewer difficulties when converting to home office, implementing hygiene requirements, or creating separate work areas. However, large companies have, on average, significantly more expertise in information and communication technology (van Laak & Vatanparast, 2021: 10).

Buchwald's empirical findings (2021) are summarized in the following table:

	SME Association	Regional online distribution platform for SMEs	Event Management Company	Travel Agency
Key Activities	• Network of 960.000 SMEs • Organization of events and projects regarding e.g., innovation and digitalization • Political representation of SME	• Platform as a digital distribution channel in North Germany • Combination of online shop, events, and information exchange forum	• Organization of physical theme-based fairs, seminars, and congresses throughout Germany • **Online theme-based fairs with digital experience**	• Agency at regional location • **Introduction of corona-based projects like trainings, digital consultance and public health department cooperation**
Key Partners	• Expert advisors for legal, technical and industry topics • Universities, technical colleges and R&D centers • Partner associations	• Website owner • Delivery companies • Partner associations • Regional politicians • Payment providers	• Trade fair constructors and hall operators • **Web and virtual software agency** • **Marketing agency**	• Airlines, hotels and tour operators • Franchise partners • **Training facilities** • **Public health department**
Key Resources	• Regional headquarters • Network of corporate contacts • Established event locations throughout Germany • **Software for digital events**	• Website (mobile and desktop) • Mobile App • Supplying system • ERP system • Service technicians	• Database: visitor information history • **New technical infrastructure**	• Skilled employees • Technical infrastructure • **Interface management technology and competence**
Value Proposition	• SME Network for best purchase conditions • Political influence • Access to the latest trends **e.g., financing during corona times**	• Easy access to a digital sales environment • Flexible connection options to the ERP system • **Increased visibility of partners**	• Fairs throughout Germany • Bringing together industry representatives and visitors • Networks between partners • **Unique digital event experience**	• Custom travel package • **Employee training for future customer or market trends** • **Supporting the follow-up process from corona patients**

Customer Relations	• Regional contact partner • Physical personalized customer counselling • **Personalized digital customer counselling**	• Regional contact partner • Physical personalized customer counselling • Strong persuasion and building confidence	• Personal contact to the person in charge • Personalized counselling • Evening get-togethers before exhibitions	• Physical personalized customer counselling • **Digital personalized customer support and counselling**
Channels	• Website and Social-Media • Newsletter • Newspaper • Magazines and publications	• Website and Social-Media • Newsletter • Newspaper and radio • Television	• Offline marketing incl. regional out-of-home campaigns • **Online marketing**	• Website incl. **digital appointment booking** • Shop window advertising • Newspaper and radio
Customer Segments	• SMEs with limited number of employees and annual turnover • SMEs with owner or family management	• Dealers and service providers in North Germany from different industries • Event management companies • **Restaurants and hotels**	• B2B: Industry representatives • B2C: Elderly people from the regions + **young people throughout Germany via internet**	• Elderly singles and families from the region • **Younger customers outside the region via internet** • **Corona contagion follow-up by local health department**
Cost Structure	• Organization costs for physical events and **digital meetings** • Marketing and Sales • Public Relations • Administration	• Installation costs • Platform development and maintenance • Marketing • Public Relations	• Costs for trade fair constructors • Location costs • **Costs for programming and software extensions** • **Expanded marketing costs**	• Office and staff costs • **Training costs** • **Costs for software extensions** • **Acquisition costs regarding new cooperation**
Revenue Streams	• Membership fees • Optional membership card • Revenues due to trainings and paid consulting services	• Monthly fee (one-year contracts) • Sales Commission • State subsidies	• Revenues from stand reservation fees and stage performances (defaults by corona)	• Sales Commission (defaults by corona) • **Payment due to health department cooperation**

Table 1: *How were the business models of the SME surveyed affected?* (After Buchwald, 2021). Elements of business model innovation are printed **fat**.

HOW DOES BUSINESS MODEL INNOVATION WORK IN A CRISIS?

Clauss & al. (2021) developed a proposal for radical business model innovations (BMI) and agile adaptation to the crisis. Foss & Saebi define BMI as "designed, non-trivial changes to the key elements of a firm's BM and / or the architecture linking these elements" (Foss & Saebi 2017: 217). However, in a crisis such as in the face of the pandemics, the trust in government support and / or a rapid recovery of the market is not so great that radical innovations or even a complete reconfiguration of the corporate architecture occurs are initiated. in the context of another research project, Clauss & al. (2021a) admit that less profound, but short-term "tactical" BMI could also be expedient. Process innovations that have long been underway are also accelerated in this way: In many retail companies the digitization of sales channels, which was already under way, was tackled more quickly, partly with the help of logistics specialists.

According to the authors, a successful digital platform is often the prerequisite for further innovation steps. Buchwald (2021) gives several examples of companies that have already pursued successful, innovative change or crisis management approaches in the past, had better chances of responding to the challenges of the pandemic. The travel agency she investigated had already carried the innovative idea forward for several generations and was therefore able to successfully qualify and deploy its own key resources - above all skilled workers. The company was able to adjust to video consultation with online appointment booking. This process and business model innovation (which affects the most important contact and distribution channel) has increased their regional reach. A creative variant of using the key factor ''employees' can also be found in the travel agency investigated by Buchwald. Those employees who were not busy with video counselling, were loaned to the overburdened municipal health authorities for digital and analog tracking of corona contacts. The event and fair stand builder, who only operated in the physical world before the pandemics. succeeded in organizing a digital trade fair, thus opening a new business area with a greater regional reach. A heating contractor used the crisis to expand its remote service.

The examples indicate that the crisis has partially shifted business from production to digital services. Above all, skilled workers are required for such innovations. Only a few companies fired their skilled workers during the pandemic; the shortage of skilled workers even increased during the pandemic. The number of new training contracts also fell sharply. However as well as the number of applicants for trainee positions (Federal Institute, 2020).

Clauss & al. (2021a) have another type of innovation in mind as a crisis reaction (2021a: 3 f.), which they call temporary innovation. This means, e. g. the temporary establishment of a parallel business model. They describe the cases of an Austrian distillery that is converting to the production of disinfectants. Other examples from Germany are breweries that fill bottled beer instead of draft beer, or also produce disinfectants from excess alcohol, or noble restaurants who deliver high-quality menus for ready-to-cook meals with matching wine, or switch to the production of expensive burgers to take away). In these cases, the companies' core competencies remain unaffected, which is helpful for the success of such adaptation reactions. Buchwald (2020) finds similar examples. The event stand builder she interviewed produced acrylic partitions for supermarket checkouts. Even when working in the home office, it is usually a temporary, at least retrievable innovation. Clauss & al. (2021a: 9) point out that in cases of preparing a parallel business model, decisions have to be made quickly and resources have to be mobilized quickly, if necessary by reallocating from the other areas and foregoing investments planned there. Sometimes a quick (re-)branding is also required. This was even necessary for products that, like Corona beer, were incorrectly associated with Corona beer for purely semantic reasons, which led to a drop in sales (Muniel, 2020).

WHAT MAKES BUSINESS MODEL INNOVATION IN A CRISIS EASIER?

What makes business model innovation easier in a crisis are certain characteristics of SMEs such as flat hierarchies, low fixed capital, low bank debts, a high equity ratio, quick decisions, and a non-bureaucratic company culture. What is extremely important, however, is the dialogue with stakeholders and key partners. Buchwald (2021) shows that medium-sized companies deal flexibly with cooperation or establish new cooperation relationships in times of crisis. While remote work plays a lesser role in SMEs, the creation of IT interfaces to partners, the professional qualification of employees and the conviction of stakeholders represent clear challenges, according to Buchwald.

Crises like that of the pandemic are often subjectively perceived extremely differently by shareholders and stakeholders. In family businesses, for example, conflicts often arise between main owners, managers, other family members as investors and banks. This can lead to disillusionment and a loss of a common view of the business. The need for business model innovation in this situation is only a metaphor for the conviction that "the known way of doing things is going to be soon no longer valid, but we do not know how or when". In any case, such a situation forces a constant dialogue between the shareholders and stakeholders (Massa, 2020). During the innovation processes, goals are often shifted; many innovations get stuck even in the early phases. In the case of the IT platform examined by Buchwald, the focus of development shifted from its function as an online shop to a marketing tool (as a digital shop window).

Regarding the methodology of innovation in a crisis, it should be noted that the classic methods of project management do not work. They can even become obstructive. The methods of idea management also tend to generate "bubbles" rather than sensible solutions (Buchwald 2020: 55). Buchwald (2020: 70 ff.) recommends an agile methodology for innovative management of crises and for anchoring innovation following crises, which includes the following suggestions:

- Create a flexible partner landscape and a resource pool including external resources that can be easily accessed.
- Anchor firmly your customer relationships in the business model if they have been damaged during to the crisis, while at the same time identify new customer segments.
- If necessary, reformulate your customer relations.
- Avoid system breaks between the analog and digital world to ensure a holistic customer experience.
- Involve your stakeholders in the change process.

These suggestions go in the direction of Teece's (2010) model of dynamic capabilities, with which companies in unstable environments can provide adaptation services, primarily through flexible management of external resources.

LONG-TERM CONSEQUENCES OF THE PANDEMIC FOR SMES

The answer to the question of whether the innovations from the Corona period will be retained, or whether a return to the pre-Corona period is possible and desirable will be differentiated. Many of the low-threshold innovations focused by Clauss & al. (2021a) are retrievable and will be retrieved because the revenues generated are too low or too far from the core business in the long term (breweries / disinfectants, textile companies / masks, travel agencies / loaning employees to health authorities).

Remote work will also be revised to a great part, because online cooperation is difficult and the cost reduction impact is rather low, especially with SMEs without a large IT infrastructure and large office-buildings. However, the expansion of digital customer relationships has proven itself in many cases und will be retained. The event and fair stand building company states that the online trade fair will not only allow him to expand his spatial field of operations, but also reduce the frequency local trade fairs and enables them to give up less visited trade fair locations (Buchwald 2021: 65).

After the pandemic has subsided, many questions remain unanswered, not just whether a new lockdown can be expected in winter 2021/22. It remains also an open question whether and when companies can move from issue-based strategic planning to goal-based strategic planning (Buchwald 2021: 86), as the market in autumn 2021 held many surprises in store. It should also be asked whether accelerated digitization is strengthening the market power of large IT companies over SMEs (van Laak & Vatanparast, 2021: 39).

The main problem towards the end of 2021, however, seems to be a persistent and even growing mismatch between supply and demand, which makes it difficult to achieve a stable orientation in business model development. In the mid of 2021, there was a sudden increase in demand, to which many companies were unable to respond by expanding production due to the increasing supply chain problems or the shortage of skilled workers that existed before the crisis (Buchwald 2021: 17). In the service sector and for its customers, the shortage of skilled workers paralyzed particularly IT innovation. There are still a lot bureaucratic hurdles to recruiting from abroad, and SMEs cannot pay high salaries or integrate international specialists due to the lack of adequate career paths. Even simple facility renovations are made difficult by a lack of materials and a shortage of skilled workers. In addition, there are the increased climate policy requirements for companies and the massively rising energy prices as well as rising inflation in the European Union.

The basics of future business model development are currently uncertain for many companies. They will have to learn the ability to make external strategic resources compatible and sensibly integrate them into their own organization, as well as to coordinate and permanently reorganize the existing internal strategic competencies and resources. These resources include knowledge, processes, human resources, and technology (Teece & al., 1997).

This approach breaks the narrow concept of core competency, which in the age of open innovation and networks has lost its meaning and has not been confirmed empirically either. Instead of the notion that existing resources and skills are gradually expanded with each growth step, the conviction should be given that SMEs need growth to acquire necessary but previously non-existent resources and develop skills when requirements change.

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Wallberg Landscape, Dezember 2021, Germany

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PROFESSIONAL PRINCIPLES RELATING TO THE DEVELOPMENT AND OPERATION OF MICROCREDIT SCHEMES

ABSTRACT

Microcredit is a special field, which is becoming a more and more widely used tool to finance businesses. It basically means the provision of loans to people who intend to engage in gainful employment, but cannot have access to small loans granted by the main players of the money market, i.e. commercial banks. It is bless- ed by some and cursed by others, but the majority of people completely misunderstand the essence of this activity. There are a lot of organizations dealing with the provision of microcredit with various methods and results all over the world. Due to its expected positive social impact more and more public funds are allocated for the provision of microcredit by the specific states and by the European Union itself.

As microcredit is an increasingly widespread activity carried out by tens of thousands of organizations around the world, with significant investment by the European Union itself, there is a growing demand for training microcredit professionals in higher education. In response to this need, the Spanish University of Cádíz and the Hungarian Regional Foundation for Enterprise Promotion of the Town of Székesfehérvár, with decades of professional experience and international recognition, developed a post-graduate course fully based on e-learning, which allows students to obtain a MASTER's degree accredited in Spain.

One of the main modules of the Master's course called Microfinance, human rights and entrepreneurship development - currently available in the English and Spanish languages - is Microfinance. Upon the completion of the module independently, students can obtain an international microfinance expert diploma.

This paper and the following ones in the next ERENET PROFILE we publish based on the permission of the authors from Székesfehérvár.

Keywords: microcrediting, microcredit terminology

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In this training module we will discuss the most important knowledge and principles necessary for the creation of microcredit schemes (programmes). This is extremely important because the goal of our microcredit scheme cannot always be reached without the conscious planning of these principles. We consider the positive social impact of the schemes as a predominant criterion. That is why we will focus on how and under what conditions social impact can be maximized. We will discuss the basic concepts because we need to understand what we mean by a specific concept when we talk about it.

We will tell you about the principles one must be aware of if we are to achieve the desired social impact. We will provide an overview of the positive and negative phenomena related to microcredit and their economic background. We will look at how we can organize the various microcredit programmes so that it can be established - through their analysis - whether the given programme indeed satisfies positive social goals and has positive impact, or only the operators of the programme claim it. We will review the international directives and recommendations developed by European microfinance network professionals for decision-makers to optimize the positive social impact of publicly funded microcredit schemes. We will also focus on the rules of microcredit schemes funded and launched from public money. The operation of profit-oriented programmes funded by private in*vestors is basically regulated by the rules of the market, therefore we will not spend too much time on it.*

In this field it is extremely important how public money is used. It is inevitable that the programme should have a positive impact on society. That is why we will examine thoroughly and in great detail under what conditions we can provide this effect. We will briefly discuss the regulatory attempt and funding practice of the European Union, and provide positive and negative examples.

We will also give you a brief insight into the principles that should be used to establish the internal regulation of an MFI.

We will then deal with practical issues, such as the lending process. In particular, we will deal with the requirements and operational aspects set for the most up-to-date Internet-based loan assessment management systems to manage this process.

We will look at the practical implementation of loan assessment, and how we can create our own credit scoring system. We will give you a brief insight into how the various collaterals can be assessed where they are required. In addition, we will provide a very short overview of the indicators that can be used to assess and analyse the loan portfolio, briefly describing the most frequent errors of interpretation.

During the last week of the course, we will have a look at the requirements a modern electronic Management Information System has to meet in the field of microcredit.

We will look at practical ways to measure the social impact of microloans, explaining the methodology and discussing the connected business development services, which help to maximize the social impact of the microcredit.

At the end of the block, there is a separate chapter concerning customer (client) outreach.

We will briefly present the most up-to-date methods of contacting prospective customers and involving them in microcredit.

2. TERMINOLOGY – DEFINITION

2.1 CREDIT

Credit is an economic term. It refers to the temporary transfer of goods or money in return for interest payments.

2.2 LENDING ACTIVITY

The lending activity assumes the conclusion of a contract, upon which a loan is not necessarily made available or disbursed. The creditor only undertakes to maintain a certain credit line (envelope) for the debtor in return for a commission, based on which – if the relevant contractual terms are satisfied – the creditor concludes a loan agreement with the debtor up to the credit line.

2.3 GRANTING OF LOANS

The granting of loans means that the creditor makes the relevant amount available for the debtor (hands it over in person, or transfers/disburses it), which must be paid back by the debtor at the time specified in the contract (in return for or without interest).

2.4 CREDIT RISK

The basic risk of creditors is that debtors cannot pay back the loan and the interest at maturity, or they do not pay at all. This risk is the so-called credit risk or repayment risk. Creditors try to assess in advance whether the borrowers are capable of repaying the credit and the interest. It can happen that they make a mistake when judging a borrower's creditworthiness, and as a result, they make a loss in the course of the lending activity. In order to prevent this, credit institutions must develop a Credit Scoring System to rate debtors.

2.5 COVERAGE

It is an economic term. It is often confused with the legal collateral of the loan. The coverage of the credit (loan) is an existing or future asset that secures the re- payment of the loan by the debtor. In case of business credit, ideally this asset is the future cash flow com- ing from the revenues of the entrepreneur. In an un- welcome event, it is the income coming from the legal collaterals (e.g. the sale of the real security).

2.6 LEGAL COLLATERAL

The legal collateral – which is a legal term – is an accessory obligation that is stipulated in conjunction with the primary obligation. In practice, the primary obligation usually means the proper performance of a specific credit contract. When granting loans, creditors try to reduce their risks to the smallest possible level, and protect their lending position from the possible changes that might affect the financial situation of the debtors negatively.

The tools used for this purpose are called legal col laterals. Ideally, the loan is repaid from the future revenues of the debtor (this provides coverage for the repayment of the loan). In the event the debtor is unable to repay the loan, the creditor tries to enforce his claims through the enforcement of the accessory obligations, (e.g. in case of a real security by selling the assets). Thus, in this case the legal collaterals will provide the actual coverage to secure the loan.

2.7 LOAN PORTFOLIO

The word portfolio is of Italian origin. It means dossier and it refers to all the documents selected based on certain criteria. In terms of genre, it is a collection. It is also a well-known term in the world of business and art. The loan portfolio is the total of principal claims which arise from the **credit contracts owned by the creditor at a given time.**

2.8 PRINCIPAL

It is part of the repayment instalment of the loan, the amount of which reduces the outstanding debt.

2.9 INTEREST

It is the cost of borrowing money, i.e. it is the fee charged for using the money expressed as a percentage. The interest rate is expressed as an annual rate even if the loan has to be repaid within one year.

2.10 DURATION

It is a period of time specified in the credit contract concluded between the creditor and the debtor, du ring which period the debtor has to repay the granted loan, including all the fees, interests and charges. *The duration may be modified by amending the original contract.*

2.11 GRACE PERIOD OR MORATORIUM ON PRINCIPAL REPAYMENTS

When repayment begins, it is a period of time during which the debtor only pays the interest and handling fee (if any) but not the principal itself. When the gra ce period expires, the debtor has to start repaying the principal, including all the additional costs.

2.12 MICROCREDIT

Microcredit and micro-lending have no generally accepted definition at international level. As a result, creditors may call any credit as microcredit.

When this curriculum is written, the European Union considers credit under EUR 25 000 promoting self-employment as microcredit.

The European Microfinance Network and the Microfinance Centre, the two European networks representing the interests of the microfinance industry in Europe have provided a definition of microcredit for European Union programmes.

In this course material, we mainly focus on **social purpose microcredit and micro-lending.**

According to this definition, microcredit is:

- a loan of small amount (usually smaller than the EU per capita GDP);
- proposed for the creation or expansion of income-generating and job-creating activities or microenterprises, in other words the financing of investments and/or working capital;
- offered to socially or financially excluded people (generally without collateral or credit history) lacking access to mainstream sources of finance;
- with a social and financial inclusion objective, on terms adapted to the analysed repayment capacity (to prevent over-indebtedness);
- and coupled with access to high-quality business development services.

Microcredit is a loan of small amount granted to clients who do not have or have only limited access to loans/credits granted by profit-oriented commercial banks but wish to pursue an independent in-come-generating activity or business. This reduced creditworthiness could be attributed to the small borrowing requirement of the clients, the inadequate number of legal collaterals offered by them, or to the fact that they are start-ups, and as a result, they have no entrepreneurial past that could be evaluated.

One of the most important aspects of social pur pose microcredit is the non-profit aspect, because in case of this type of credit the achieved social impact is more important than making profit. Microcredit must be coupled with intensive and efficient mentoring activities and technical assistance, as well as high-quality business development services.

2.13 SUSTAINABLE DEVELOPMENT

A Sustainable development is to be based on three pillars: economic, social and environmental, and all the three factors must be considered when develop ing various development strategies and programmes, as well as in the specific actions and measures.

This process of development "meets the needs of the present without compromising the ability of future generations to meet their own needs". (Brundtland Report, 1987, United Nations).

An important factor that should be overcome is the deterioration of the environment, which should be achieved by not giving up on economic development or the need for social equality and justice.

In order to achieve the set objectives there is a need for educational, awareness-raising and communica tions activities in each sub-area of sustainable development.

The basic requirements of sustainable society:

- Sustainable development means allowing economic growth and the conservation of environmental conditions in order to achieve and maintain social progress *(decent living conditions, social welfare).*
- It recognizes and regards it as an objective to ensure equal rights to adequate standard of living of the successive generations, as well as the satisfaction of related obligations.

2.14 SUSTAINABLE SOCIETY

"**Sustainability means** meeting the current needs of humanity and maintaining the environment and natural resources for future generations." (Transition to Sustainability; Statement of the The basic requirements of World's Scientific Academies. Tokyio, 2000)

- social justice, the basis of which is ensuring equal access to opportunities and sharing social burdens;
- striving for the continuous improvement of the quality of life; which includes health – complete physical, mental and social well-being – and the related material prosperity, healthy environmental conditions, democratic rights, security, education for everybody, etc.;
- the sustainable use of natural resources, the achievement of which requires the society to demonstrate an environmentally conscious and ethical attitude;
- preserving environmental quality;
- systemic approach and governance, which is embodied on an institutional, governance level by the institutional system integrating all the dimensions of sustainable development.

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In order to achieve the set objectives there is a need for educational, awareness-raising and communica tions activities in each sub-area of sustainable development.

3. MICROCREDIT IN GENERAL

3.1 MISUNDERSTANDING ABOUT MICROCREDIT

It occurs to a lot of people whether microcredit is a good or a bad thing. Despite the fact that there are a lot of microcredit programmes that function well from a social point of view, the phenomenon described as the crisis of the microfinance sector is well-known in many countries of the world. In certain countries, the major ity of microcredit clients viewed microcredit as a tool that contributed to their insolvency instead of improv ing their material well-being. That is why a lot of clients committed suicide. Also, a lot of protests were organized against microcredit, and coalitions were set up demand ing a ban of microcredit.

This detrimental social phenomenon cannot be explained with the crisis of the sector due to the fact that there is no uniform microfinance sector. The phenome- non is a consequence of a natural market process, which we call market mechanism. Putting it simply, the point is that in market areas where there is a lot of disposable income continuously, supply is also likely to appear, leading to price equilibrium. It is considered as market failure if supply does not appear and no price equilibri um occurs.

It must also be noted that it is very important to differ entiate between microfinance programmes funded (e.g. from public money) to achieve social goals and pro- grammes serving the interests of the investors as well as the financial interest of the entities involved. Every microfinance programme aims to achieve social goals, at the same time it is completely obvious that the actual operation in certain cases only serves the financial gain of the entities involved.

3.1.1. MARKET MECHANISM

Basic belonging to the topic:

- **Market:** In economic terms, it is the place where supply and demand meet; it is the whole of commodity exchanges. In generic terms, it is the place where sellers and buyers meet, where selling and buying takes place. Its main factors are: *demand, supply, price and income.*
- **Demand:** consumers' demand supported by money.
- **Supply:** possible or intended production or service provision by the producer/service provider.
- **Money and capital market:** It is one type of the market. Securities and foreign currency may be purchased, credits may be taken out. *On the money market* – for a period shorter than one year. *On the capital market* – for a period longer than one year.
- **Market competition in case of the capital market:** creditors compete for the best lending opportunities; borrowers for the cheap credits. The competition is good for both retail customers and businesses.
- **Market mechanism:** a form of economic organisation in which consumers and business organisations interact with one another through the markets to solve the three central problems of economic organisation: What? How? For whom?
- **Market failures:** places in the market processes when government intervention is required in order to maintain undisturbed operation. It also includes incomplete markets, where the private market does not produce the assets in the required quantity or under the required conditions. Certain capital markets can be like this.
- **Monopoly:** the production or services of only one company covers the entire market, excluding others.
- **Oligopolistic market:** only a few big companies rule the market.
- **Demand curve:** representation of the relationship between the quantity of the demand for a given product or service and the price of the product or service.
- **Supply curve:** it expresses the quantity offered by the producers – service providers at various prices.
- **Equilibrium price:** the market price at which the demand and supply quantity of the product – service equals.
- **Free price:** price fixed by the business partners.
- **Price fixed by the authorities:** fixed prices listed by the price act.
- **Nominal income:** income in actual currency terms.
- **Real income:** the purchasing power of the nominal income.

The market is a kind of "procedure" during which buyers and sellers interact with one another to establish the price and quantity of a certain product or service (stock). The basic task of the market is to establish contact between consumers and producers/service providers, to harmonize the needs of the society with production, and to create an economic balance. In market mechanism, the distribution of resources takes place as a result of individual bargaining processes between the owners of the production factors and customers, and on a voluntary basis it is realized in the mutually advantageous exchange. The conditions under which the products and ser- vices of a business can be sold become apparent in the market.

In modern market economies a third actor, i.e. the state also appears in the market in addition to consumers and entrepreneurs. Its active presence pro- vides a kind of regulation for spontaneous market processes. Self-regulating (market) co-ordination and bureaucratic co-ordination are two basic forms, and there are significant differences between them concerning their content. In case of market co-ordination the market has two players: the seller and the buyer, and only commodity-money relations exist between them. The market players create their own norms of conduct, so this market is also called norm-creating market. The players are autonomous, and the balance is achieved through the independent movement of the market. The players may only achieve economic advantage with market competition. The most important basic assumption of this theory is that the players make their decisions rationally, maximizing their own profit. The essence of rationality for the consumer is to satisfy his own needs to the maximum, that is why he acquires the most appealing goods from his disposable income. The es sence of rationality for the producers and businesses is to maximize their income.

In case of bureaucratic co-ordination a coordinator enters between the two basic players of the market, who replaces the market with instructions, regulations, etc. This time the presence of goods and money relations is not necessary, the interest of the players is not profit-oriented. The players are not autonomous, their conduct on the market and the rules concerning their behaviour are embodied by the norms issued by the co-ordinator, so this formation is also called as norm-accepting market. The market players pursue a so-called administrative competit ion in order to gain advantage, in other words their success depends on gaining the favour of the "main authority". The co-ordinator replaces the independent movement of the market with pre, post and in transit regulation.

Demand means that the consumer is willing to and able to purchase a product or service (e.g. loan). Ther efore, demand is a need that can be supported and realized by money. Supply means that the company (or credit institution - bank) is willing to and able to produce a product or service (or in case of the money market to lend money to a specific market group).

The demand relationship curve reflects the correlation between the price of the specific product and the quantity demanded, in other words it expresses the amount of solvent demand for a given product in relation to the price of the product. It does not rep- resent actual purchases but the total of prices and quantities demanded, which can theoretically be realized on the market of a good. If a good has very high price, it may not have any customers. The dem- and curve typically has a downward slope, in other words, the lower the price, the higher the quantity demanded and the higher the price, the lower the quantity demanded.

The supply relationship curve demonstrates the quantities that will be sold by the producers at various prices. The higher the price, the higher the quantity supplied. The demand and supply relationship cur- ves characterize the whole market of a product tog- ether. These two curves can also be illustrated in the same co-ordination system. In both cases the price of the product is the independent variable, and the quantity of the supplied and demanded goods refer to the same product, and it is in the same dimension.

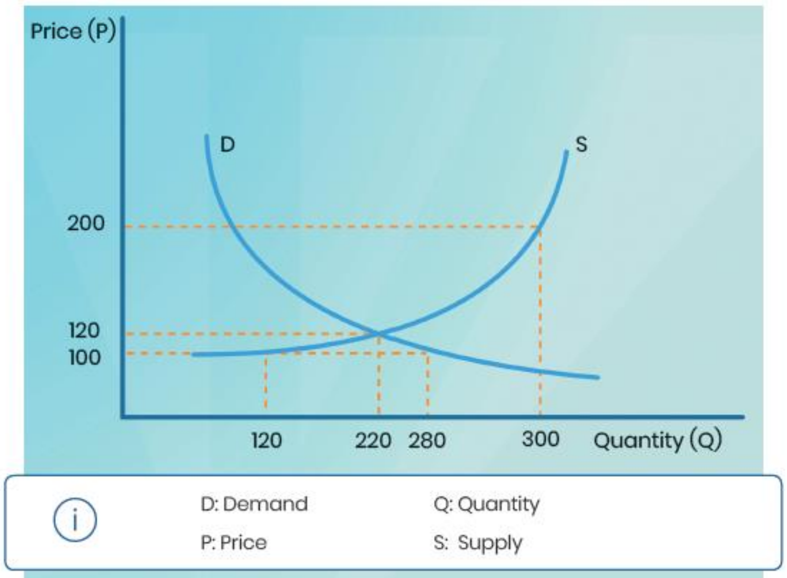
The mutual diagram of supply and demand is also known as the Marshallian Cross. The work of *A. Marshall* provided the basis for the microeconomic exp lanation of the market phenomenon.

Demand equals supply, in oth- er words, there is no surplus or shortage at a given price. (The quantity of goods and services sought by buyers is equal to the quantity of goods and services produced by sellers.)

Excess demand: in case of a price that is lower than the equilibrium price the demand for a product is greater than the supply (shortage).

Excess supply: in case of a price that is higher than the equilibrium price the demand for a product is smaller than the supply (surplus). In the longer term in case of perfect competition – only the equilibrium price of a product may survive. In case of other prices significant movements and rearrangements may be expected either on the demand or on the sup- ply side. These movements push both the price and the quantity on the demand and supply side towards the equilibrium, because the change of one factor changes all of the other factors.

Professional principles relating to the development and the operation of microcredit schemes :



Equilibrium price:

Operation of the market mechanism:

In case of shortage, the producers observe that there is greater demand for their products than what they can satisfy, therefore they raise their prices. Due to the higher prices, the supply increases and demand decreases, and the price moves closer towards the equilibrium price.

In case of surplus, the producers cannot sell their products, therefore they are forced to reduce their prices. Due to the lower prices, the demand increas es, the supply decreases, and the price moves closer towards the equilibrium price.

Basically, the market is moved by the competition of the market players, which plays a significant role in the process of aligning demand and supply. Market players try to achieve their own goals – by taking advantage of the opportunities provided by the de- mand and supply – by competing with one another.

Market competition can take various forms, which is greatly affected by how the size, the power and eco- nomic weight of the players relate to one another. In this approach a variety of the actual market can be seen between the two extreme cases, i.e. the perfectly competing market and the monopoly market.

3.1.2. Theory of market failures

If the market mechanism does not function properly for any reason, and the problem of excess demand or excess supply is not solved, we talk about market failure. Such cases may justify government intervention.

Such failure is when the money market and capital market players fail to satisfy the funding requirements of certain groups. One reason for the reduced creditworthiness can be the small loan requirement of the clients, the inadequate quantity of the legal collaterals, or the fact that they have no entrepreneurial history. This is also considered as market failure because the arising demand is not met by ad- equate supply, and the group having the funding re quirement remains unserved.

3.1.3. The necessity of government intervention

The problem of the above-mentioned market failure - the group having an unmet funding requirement – justifies the intervention of the government due to its harmful social consequences.

If the government fails to intervene and market players responding to the unsatisfied permanent demand appear with very high prices and take advantage of the vulnerability of the target clients, it can have ex tremely damaging social effects, which will also re- quire the intervention of the government.

Thus, as an effect of the above described market processes, a financial service providing sector, whose ac tivity is classified as micro-lending, emerged in those countries where there is a great number of poor and vulnerable people who are able to pay – even at great sacrifice – the operating costs, the losses and the ex tra profit expectation of the investors by paying a high risk premium (since they have no other choice if they want to survive) due to the internal legislation of the specific country (the leniency or the deficiency of the legislation). Some people call the consequence of this spontaneous, but completely natural market process as the crisis of the sector. Governments can basically do two things in the field of legislation to avoid the harmful social impact of the phenomenon. On the one hand, they can limit the maximum interest rate that can be applied by the market play ers with administrative regulatory tools, and on the other hand, they create artificial supply with limited interest rates by involving public money and donations. To generate this supply, one of the best and most efficient models is the creation of revolving microcredit funds, which could be used to operate microcredit schemes achieving positive social goals through non-profit organizations.

3.2 Why is positive social impact important?

When we want to develop a tool to tackle a social problem, at first we have to analyse the problem, and then select the most suitable tools to solve that problem. In our case the main social problem is that there are a lot of people – even in industrialized countries – who cannot have access to small bank loans if they want to pursue an independent, income-generating activity. The main reason for this is that the risk re lated to these loans is usually so high that it cannot be undertaken by the banks operating under strict money market regulations.

So-called microfinance institutions were set up to satisfy these financing needs. An excellent tool to handle this problem is to provide access to microcredit through social microfinance institutions.

It might appear obvious that if we support and develop this microfinance sector, we will be able to solve this social problem.

This, however, is only partly true because the micro- finance sector is far from being uniform. It has two branches operating with substantially different criteria and objectives. On the one hand, it consists of the non-profit funders, such as foundations, and on the other hand, the profit-oriented financial enterprises falling under the scope of money market reg ulations.

Non-profit foundations – if it is permitted by the legislation of the specific country, like in Hungary – operate outside the scope of the regulations of the money market.

The operation of the two sectors differ from each other significantly. The primary goal of the profit-oriented sector is not to solve the above-mentioned so cial problem but to obtain as much profit as possible.

This sector basically follows the rules of the market, thus their operation should be regulated at nation- al decision-making level. For us non-profit microfinance is more important because the actors giving priority to social goals operate in this field.

Where public money is used to solve a social problem, it is inevitable that this social goal is given priority. Therefore, it is important to bear in mind that the development of mic- rofinance from public money is only a tool used for solving a social problem and not the goal itself.

The European Union plays an important role in financing the most successful microcredit schemes. At the same time, we believe that **the positive social impact can be further increased.** The success of the European Code of Good Conduct for Microcredit Provision (CoGC) published for microfinance institutions failed to come up to the expectations de- spite the positive objectives. When this curriculum is drafted, the CoGC basically contains standards that are typical of the operation of profit-oriented microfinance institutions having an investor's perspective. The majority of non-profit microfinance institutions will only meet these standards if they introduce a profit-oriented approach in their operation, after which it will be very difficult for them to achieve the original social goals.

When writing these notes, unfortunately the European Union only provides central funding for microfinance institutions that meet these standards. Therefore, the European Union acts as a profit-oriented investor when managing public money that was made available for microfinance, and funds microfinance institutions operating with a profit-oriented perspective. It does not focus on solving the social problem but on funding microfinance institutions operating in compliance with the standards. Unfortunately, this attitude can also be experienced at the level of the specific member states. We must see that this practice is not the best to tackle the problem since a considerable number of people cannot have access to sources at these profit-oriented financial enterprises also dealing with micro-lending either. Mainly because they do not have adequate legal collaterals, and the degree of risk assumed by these financial enterprises is legally limited by the financial regulations.

It is essential that the European Union and the national authorities should set up new programmes in the form of guarantees, debt and equity, completed with subsidies and grants. In addition to the European Investment Bank group, new complementary chan- nels should also be considered so that social microfinance institutions may also access the central funds. It is important that the investment of public money provided by the authorities should promote social return, and the authorities should not set unrealistic financial expectations for the sector.

The most important lesson learnt is that we must focus on the solution of the social problem, and the two microfinance sectors must be treated separately.

The funding practice of the EU having an investor's perspective should be transformed and we must re- turn to and operate non-profit local revolving microcredit funds that were successfully operated by the EU earlier. It is extremely important that when ma- king decisions related to microfinance, the authorities should consider the professional recommendations of the professional organizations regarding the most important professional expectations in order to maximize social impact.

The professional recommendations described in this course material provide the best reference for making professional decisions. If decision-makers act accordingly, they will not have to wait long for social success.

4. The effect of borrowing conditions and operating characteristic on social impact

As concluded in the previous chapter, we view microfinance as a tool that tackles a social problem, there- fore its positive social impact cannot be overlooked. It is especially important if schemes are funded from public money.

Next, we will examine how the borrowing conditions and operating characteristics applied in practice influence the positive social impact we wish to achieve. In order to better understand the following information, let us go through the key factors which have an effect on the social impact of micro-lending again. We may only make the conclusions once we under- stand the logical relationships described below.

The main reason for **market failure** mentioned above (there is not enough supply to satisfy the demands that would create price equilibrium) is that the high **cred- it risk is not assumed** by the main actors of the money market (e.g. commercial banks). Also, the solvency of the affected customers does not allow for the compensation of the expected high **credit losses**, and the expected rev enues do not fully cover the **operating costs**. Thus, as I mentioned, this lending - under normal operating conditions - cannot satisfy the **profit expectations** of the shareholders of the banks either. (Also, in most countries the banking act does not allow such risky funding in order to protect the interests of the depositors

Accordingly, it must be accepted that to achieve the desired positive social impact the **high risk associ ated with lending must be assumed** by the state, in other words, clients not having an entrepreneurial past that can be evaluated, or not having adequate legal collaterals should also be able to access the sources. Consequently, it must also be accepted that the revenues coming from the lending activity will probably not cover the credit losses and the operat ing costs fully.

DETERMINING THE MOST IMPORTANT FACTORS THAT SHOULD BE TAKEN INTO CONSIDERATION WHEN CREATING PUBLICLY FUNDED MICROCREDIT PROGRAMMES

1. Social need

A segment of society needs a small loan amount in order to be able to pursue an independent income-generating activity.

2. Social interest:

To satisfy the social need

! **Why is it important to satisfy this social need?**

In terms of the concerned people:

- the person will be able to sustain himself,
- will have a decent standard of living and satisfaction
- it reduces the chances of psychological and mental deterioration

In terms of the society as a whole:

- the people concerned will no longer be dependent on social assistance and they will not put a burden on society
- they require other social benefits to a lesser extent (e.g. to treat various illnesses resulting from mental deterioration)
- they pay taxes, by which they contribute to financing the common needs of society
- they have disposable income, by which they make the economy work
- they create jobs and create tax payers
- they create value and contribute to the GDP

3. Market failure

Although it would be in the interest of the society, the concerned people do not have access to loans at the main profit-oriented actors of the money market (commercial banks), in other words, *the demand generated by them is not satisfied by the money market actors.*

4. Main reasons of the market failure

! **The profit-oriented players of the money market (basically commercial banks) do not finance the concerned segment of the society because:**

It is TOO RISKY to finance them because

- they do not have entrepreneurial experience that could be evaluated
- they have no credit history
- and they cannot offer legal collaterals.

It is NOT PROFITABLE to finance them because

- it is expensive to finance relatively small loan amounts the solvency of the clients limits the payment of high interest rates that would compensate for the high risk and ensure the expected profit.

5. The government intervenes in the operation of the market

For the government intervention to be successful, i.e. the social need under point 1 is satisfied and the desired positive social impact is achieved, i.e. the social interest under point 2 is enforced, the intervention must focus on 2 key factors. These are

- Risk-taking and profit expectations.

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HUMAN TRANSFORMATION: BEYOND DIGITAL ADOPTION [1]

ABSTRACT

Digital transformation has been a buzzword in the last 5 years. Along with the development of increasingly advanced technology —artificial intelligence, big data, 3D printing, blockchain, augmented reality, and so on— the trend of digitalization is slowly but surely impacting almost all lines of life.

Sdopting digital technology we win reduced costs, increased accuracy, inscreased speed and efficiency. The paper highlights in which major groups factors occurred due to adoption of digital technology.

Key words: digital transformation, anatomy of digital transformation

JEL Classification: O31, O33, L26

Even though many business organizations—including small business players—just follow the euphoria, the benefits of digital transformation certainly cannot be doubted. Kaur & Bath (2019) mentions at least 4 benefits of adopting digital technology: reduced costs, increased accuracy, increased speed, and efficiency.

However, the substantial benefits do not guarantee that all organizations are willing to carry out digital transformation seriously. Before the COVID-19 pandemic, complacency inhibited digital transformation more than any other organizational barriers.

A survey conducted by Fitzgerald et al. (2013) in higher education discovers that lack of urgency is the biggest single obstacle to digital transformation. And then, all of a sudden, the world is shocked by the COVID-19 outbreak. It has disturbed many things and has forced humans to adopt new kinds of behavior. But behind the anxieties that have arisen from this pandemic, there are also blessings in disguise. One of the biggest opportunities created by the pandemic is a burning platform for digital transformation.

A survey conducted in 2020 by McKinsey & Company reported that during COVID-19 digital adoption has taken a quantum leap at both the organizational and industry levels (LaBerge et al., 2020). Beforehand, I need to clarify that the term "digital transformation" itself tends to oversimplify this phenomenon. The transformation process that occurs actually is not only in the technological aspect. It is much broader and deeper than that. Technology is only one small part.

In small businesses, transformations that have occurred due to the adoption of digital technology can be categorized into 4 major groups:

– Product transformation Traditional products are polished or revamped to make them more digital. Digital technology is "injected" into the product to provide greater value (benefits) to customers.

[1] Article from the 2021 ICSB MSMEs Report

– Customer management transformation Digital technology has also changed the way small businesses connect with customers. Digital technology makes customers get new ways of getting product information, placing orders, making purchases, making payments, and even submitting complaints.

– Business model transformation Simply put, it's a change in how companies get their money and make spending. Digital technology does allow small business players to generate additional revenue. They can even capitalize digital technology to do business pivot (leaving the old business for a new, more profitable one).

– Structural transformation Sometimes, digital adoption must also be followed by changes in work patterns within the company, formation of new functions, or creation of new roles. This is the transformation of the organizational structure.

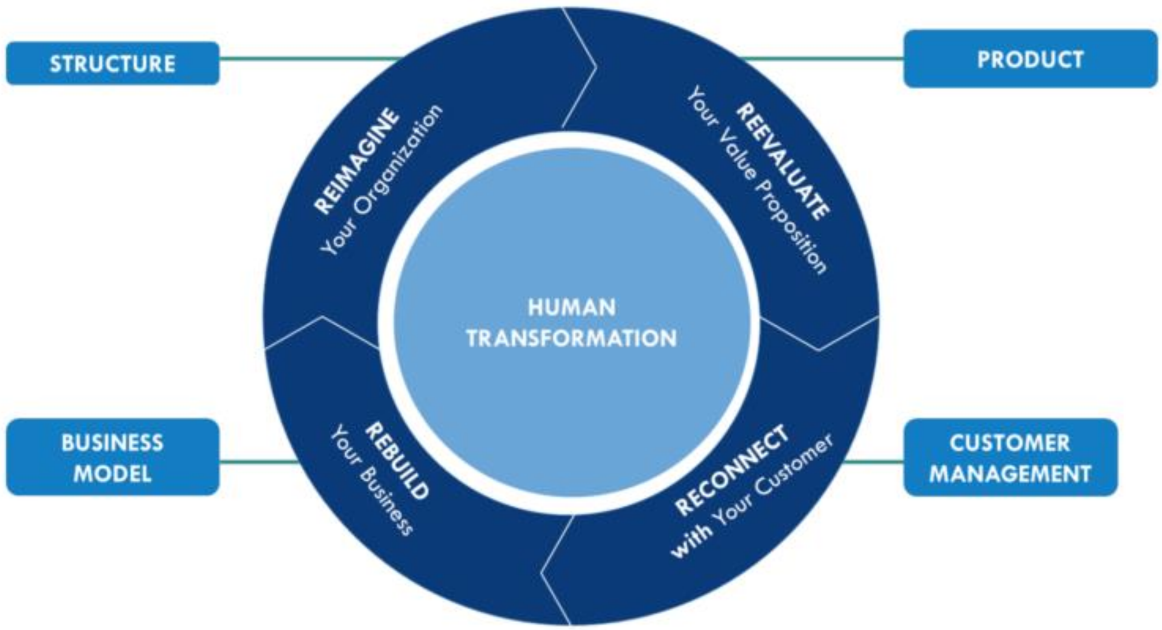

Figure 1. The Anatomy of Digital Transformation

Are all the above transformations enough? I don't think so. I believe that they only touch the "hardware" of the organization. At the core of this change process, there is the human transformation that touches the "software" of an organization.

Tabrizi et al. (2019) argue that digital transformation works for organizations because their leaders go back to the basics: they focus on changing the mindset of their people as well as the organizational culture before they decide what digital technology to use and how to use them. Another researcher also states that the main challenges to a company's digital transformation are not technologies, but human factors, cultural dimensions, employees' resistance to change, lack of relevant knowledge, and lack of motivation (Schwertner, 2017).

There are several important questions that small businesses need to answer to carry out the human transformation process: who, where, and what. – Who are the digital talents you need to support the transformation?

– Where you can get them? Can you grow them internally or you need to recruit them from external sources? – Beyond the technical skills, what mindset or attitude that you need to equip your people during the digital transformation?

By answering the questions above, hopefully, you will be better prepared to lead your business during the digital transformation. Finally, please remember what George Westerma—Principal Research Scientist in MIT Sloan—once said: "You need to lead the technology — don't let it lead you"

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DIGITAL TRANFORMATION TOOLKIT

Ex-**McKinsey**, **Deloitte** and **BCG** Management Consultants created as Digital Transformation Toolkit. It is considered the world's best & most comprehensive Digital Transformation Toolkit. It includes all the Frameworks, Tools & Templates required to successfully undertake the Digital Transformation of your organization. See:
https://www.slidebooks.com/collections/digital-transformation/products/digital-transformation-toolkit?variant=32127821316178&gclid=CjwKCAiAtouOBhA6EiwA2nLKHxsYOwtXVgTx8ClbG7d1kUpM-EB66UygSVNTrAZHG0ctsQmH2-3ZVhoCPpEQAvD_BwE

This Toolkit includes frameworks, tools, templates, tutorials, real-life examples and best practices to help you:

- **Undertake a successful digital transformation with a simple and comprehensive 3-phase approach:** (I) Assess the Environment, Performance and Digital Maturity of the Organization, (II) Define & Communicate the Digital Transformation Strategy & Plan, (III) Implement, Track & Manage Progress
- **Assess the Environment, Performance and Digital Maturity of the Organization:** (1) Market analysis, (2) Competitor analysis, (3) Company performance, (4) SWOT summary of the key business insights, (5) Digital maturity model - Current state

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CHALLENGES AND SOLUTIONS IN ISLAMIC MICROFINANCE [3]

Abstract

Purpose – This paper aims to highlight the challenges faced by the Islamic microfinance institutions (MFIs) and map out suggestions in overcoming the issues.

Design/methodology/approach – This is a conceptual paper.

Findings – Among the challenges are low market penetration, sustainability of MFIs due to lack of fund mobilisation and high administrative costs, and the effectiveness of Islamic MFIs in alleviating poverty. Suggested solutions include a collective resolution in increasing bank participation in microfinance and diversifying their portfolios, provision of education and training, better coordination and networking, technical assistance through *waqf* and *zakah* funds, and the development of an enabling regulatory and policy environment.

Practical implications – Regulators and MFIs can practice the suggestions made in the paper for the benefit of the *ummah*.
Originality/value – Governments can use the suggestions made in the study to develop a sustainable Islamic microfinance framework which can bring about benefits to the country such as taxes and consumption from those who have graduated to a non-poor status.

Keywords Sustainability, Islamic microfinance

JEL Classification: G21, G23, G29

INTRODUCTION

Recent history has borne witness to a revolution in providing finance for alleviating poverty across the globe. The appearance of inclusive microfinance and the delivery of small loans to the poor, who usually fall outside the mainstream banking institution, have been the focus of growing attention from various parties including governments, bankers, practitioners, academics and researchers (Dusuki, 2006).

Conventional microfinance products have been very successful in Muslim majority countries, notably the experiences of the Grameen bank in Bangladesh. Although approximately 44 per cent of conventional microfinance clients reside in Muslim countries, conventional microfinance does not fulfil the needs of many Muslim clients (Karim *et al.*, 2008) as they view the option of conventional financial products as incompatible with the principles set forth in *shariah* (El-Komi and Croson, 2005). Furthermore, Karim *et al.* (2008) state that although there is a market for poor clients who only engage in Islamic transactions, there are also clients who engage in conventional practices but would prefer Islamic ones if they became available. Microfinance practitioners in Muslim-majority countries indicate that in Afghanistan, Indonesia, Syria, and Yemen, some conventional micro-borrowers tend to switch over to Islamic products once they become available. Dusuki

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[3] This paper was published on 28 October 2013 by Emerals Publishing Limited in Humanomics, Vol. 29 No. 4, pp. 293-306. https://doi.org/10.1108/H-06-2012-0013

(2008) argues that Islamic microfinance should take the initiative to meet the increasing needs of the Muslim clients with the aim of alleviating poverty and to help the poor people in their distress. Augustinus *et al.* (2005) finds that while conventional microfinance institutions (MFIs) have expanded their operations in the last two decades, poverty-focused MFIs based on Islamic principles are lagging behind.

There is an extremely large gap between the supply and demand of Islamic microfinance services. Brandsma and Hart (2002) advise that this gap cannot be filled by government and donor funds alone. Donor and government funds should be used to subsidize new and growing Islamic MFIs for purposes such as start-up costs, training and development of staff and exposure to best practices. The gap can only be filled through a substantial increase in self-sustaining profitable MFIs.

Thus, this paper critically examines the challenges faced by Islamic MFIs and maps out suggestions to overcome the barriers to being self-sustaining.

ISSUES IN ISLAMIC MICROFINANCE INSTITUTIONS

There are many issues that relate to the sustainability of the current practice of Islamic MFIs. Segrado (2005) relates that exclusion from financial services can be caused by high costs and prices, poor marketing, financial literacy of products or self-exclusion in response to negative experiences or perceptions. Furthermore, Akhtar (2007) cites geographical constraints, such as poor access to rural areas, weak law and order enforcement and records of the area as major factors. In addition, banking behaviour and practices, lack of suitable products and exclusion because of regulation, such as proof of identification are identified to exclude the poor.

The challenges are many, which can be summed up into four main categories: market penetration, sustainability of Islamic MFIs, high transaction costs, and the effectiveness of Islamic MFIs in alleviating poverty.

Market penetration

Islamic microfinance has poor market penetration. Brandsma and Hart (2002) state that, in Egypt, the most expensive and time-consuming part in reaching hundreds or thousands of microfinance clients is the lack of a branch network. Other obstacles include the lack of internal procedures regarding performance, protocol and the capacity of managers and staff. The Islamic MFIs objective of empowering women is rarely achieved (Ahmed, 2002). The ease for women to get loans causes tension and increases domestic violence. The male members put pressure on females to obtain a loan. The females are responsible for repayment while they do not use the funds, which, in turn, put pressure on their male counterparts to repay the loan.

Sustainability of Islamic MFI

Due to the lack of fund mobilization and high admin costs, most MFIs and Islamic MFIs are not economically viable. Some critics point out that the Grameen bank would operate at a loss without grants. The issue of sustainability cannot be solved with voluntary contributions.

Other than the initial start-up capital, usually provided by volunteers, non-governmental organisations (NGOs) or governments, most funds for Islamic MFIs come from external sources. The need for funding is greatest during the initial stages of operation. Over time, as the Islamic MFI grows, savings and profits accumulate, which can be recycled into new loans. The time needed for a scheme to operate only on generated capital and savings may be very long. There are extra problems in obtaining funds for IMFIs. The educational content of Islamic MFIs sometimes deters external sources form funding them. Also, some funds available may be contrary to *shariah*, which nullifies their use, e.g. a loan given on interest. Islamic MFIs have not yet tapped the sources of funds from Islamic institutions of *zakah*, charity and *Waqf*.

Apart from the lack of funds, the lack of product diversification is also a problem to the long-term sustainability of Islamic MFIs. Despite the many financing methods available, Islamic microfinance has remained highly *murabaha*-centric. Although profit or loss sharing financing is thought of as "ideal", it is hardly used. The number of *zakah*, *awqaf* and *qard al-hasan* based institutes is nowhere near the potential number, and other services, such as savings deposits and insurance are not offered. A wider range of *shariah*-compliant products and services would provide greater access to a broader range of customers.

High transaction costs

According to Chowdhury (2006), there is too much uncertainty in profit/loss sharing models for Islamic MFIs, which leads to higher costs; therefore, Islamic debt and leasing instruments dominate.

Similar to conventional MFIs, Islamic MFIs inescapably experience high transaction costs due to asymmetric information problems. These costs relate to monitoring and searching costs and the cost of enforcement, which are all directly associated with the information problems in the rural financial markets. Small loans are expensive because of high overhead costs, which usually have a large fixed cost attached. Karim *et al.* (2008) suggests that Islamic MFIs must innovate to reduce transaction costs as added costs are often passed onto clients.

Physical barriers of poor infrastructure like lack of markets, roads, power and communications can make it difficult for Islamic MFIs to gather information on their perspective clients. The absence of proper market information can be costly. Akhtar and Pearce (2010) report a crisis in Morocco whereby MFIs were competing for the same clients, which led to clients having multiple borrowings and over indebtedness. High monitoring costs are a result of loans being used by other people or purposes than the original promise. Ahmed (2002) proposes that staff at Islamic MFIs sometimes cut corners with respect to *shariah*-compliance due to the rapid expansion of operations. Monitoring each and every loan by a sub-committee is very expensive and not sustainable. This potentially leads to the moral hazard problem.

The moral hazard problem occurs when one party who is shielded from risk acts differently to it if it were fully exposed to risk. A microentrepreneur's lack of collateral due to poverty can increase the moral hazard problem. El-Komi and Croson (2005) advocate that this problem is more severe for the microfinance industry because of the lack of collateral and the high cost of monitoring with respect to the loan size provided, with the loss being borne only by the Islamic MFIs. These barriers make assessment of projects and monitoring the use of loans very costly. Other research shows that when the cost of monitoring is the same for the peer as it is for the lender, repayment of individual lending is higher than group lending. However, when monitoring costs are lower, typical in MF settings, group lending is more efficient. In Islamic MFIs, subsidies can reduce the sense of obligation to pay the loan as they are perceived as grants. Likewise, under different Islamic contracts, notably the profit/loss sharing contract, the borrower may tend to under report profits, which further augments the problem of moral hazard. Goud (2006) suggests that this problem could be eased under a *musharakah* partnership contract as the client also has a financial investment in the company, however Goud cites the group peer-mentoring methodology as the most important factor.

Effectiveness in alleviating poverty

Studies show that one time, one-year credit has been less effective in poverty alleviation than multiple loans over a longer period of time. In the Grameen bank villages, for instance, 76 per cent of participants who have taken no loans or only one loan are below the poverty line, compared with only 57 per cent of those who have taken five or more loans (Farooq, 2009). Ahmed (2002) discovers that the Grameen bank borrowers often take additional loans from other sources to pay the instalments due and are trapped in a spiralling debt cycle. Chowdhury (2009) gives explanation to the fact that if borrowers are more entrepreneurial than those who do not borrow, such comparisons are likely to grossly overstate the effect of microcredit. Furthermore, it is found that the rate of return from women borrowers is often less than their male counterparts, as they tend to engage in activities that involve lower productivity. Microcredit may not even be the most useful financial service for the majority of poor people (*The Economist*, 2009). IMFIs inform that while training on conventional topics, such as accounting and administration are offered, training on Islamic aspects are lacking. The Association of Muslim Welfare Associations in Bangladesh (AMWAB) organises a few Islamic training sessions, but the high cost of attending these events usually results in low turnouts.

Microfinance is often approached idealistically, as it is designed to help the poor. In reality, there are often social factors rather than financial ones alone that determine poverty. Socioeconomic factors of clients like low numerical skills due to illiteracy, caste, ethnicity, gender aspects preventing interaction, differences in language, location of the borrowers and the client's unfamiliarity with necessary documentation and accounting conventions all lead to ineffective operations. Dhumale and Sapcanin (1998) further state that lending instruments are not adapted to the conditions of small borrowers, and short-, medium-, and long-term institutional financing is usually not available to the poor. There are also socioeconomic factors that have nothing to do with the clients. Lack of trained personnel is a major challenge for the growth, expansion and consolidation of the Islamic microfinance sector. There is an urgent need to develop resource centres and training material in native languages. However, this is very expensive.

Solutions for Islamic microfinance institutions

The next section provides solutions for Islamic MFIs based on the five main categories discussed in the previous section.

Market penetration

The lack of a branch network for IMFIs can be answered by utilizing postal systems within the area of operation. They can provide networks for expanding Islamic MFIs and permit access to financial services the self-employed, people with irregular incomes and the rural population in general. In Morocco, post offices currently provide savings passbooks and checking accounts to over 4 million people via 17,000 branches countrywide. In Pakistan, the post office manages over 4 million savings accounts with 70 per cent holding savings below Rs 10,000. Post offices can sub-let space to microfinance providers or partner with them to provide a wider range of financial services.

Hadisumarto and Ismail (2010) indicate that the development of microenterprises is not realised with the providing of financial services alone, rather a wider range of other non-financial services are required. The improving effectiveness of financing not only benefits the microenterprise, but also the Islamic MFIs by reducing risk and ensuring sustainability of the programme. Augustinus *et al.* (2005) further mention that the success of an Islamic MFI project is dependant "on the building of permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services".

Other options include Islamic banks taking on the role of Islamic MFIs and diversifying their portfolios. With an established network of branches, banks can take advantage of economies of scale and deliver services to poorer clients whilst realising their social role. Islamic banks providing microfinance with no extra cost reinforces the argument for the involvement of Islamic banks in microfinancing.

To increase outreach of the programme, the number of staff can be increased by combining Islamic MFIs with post offices or Islamic banks. Parveen (2009) suggests that measures should be taken to reward honest and active branch and field level officers and supervisors, resulting in more productive staff and the more efficient allocation of resources. Other measures include the government of Pakistan introducing new procedures to realise the goals of an inclusive system. They are bringing all MFIs under one legislative and regulatory framework to develop a level playing field. They are also developing special funding and financing arrangements for MFIs that have the potential to exploit scale. For more successful operations, they encourage MFIs to upgrade themselves to full-fledged banks by offering a five-year tax break.

Regional networks can be further networked to a global network. This network can create infrastructure, such as credit rating systems for Islamic MFIs, develop an information base, design and conduct training and issue good practices as well as develop legal frameworks and resolve differing views on *shariah*-compliance. Government regulation can play a significant role in the sustainability and expansion of Islamic MFIs. In 2002, bank Indonesia developed a nine-year plan for the development of the Islamic finance sector, including the support of 105 *shariah* rural banks. The bank now provides a supportive regulatory framework and has licensed 35 new *shariah* rural banks in the last five years. With one of the largest microfinance markets in Pakistan, a legal and regulatory framework already exists for conventional microfinance enterprises. In 2007, guidelines were developed to facilitate the rapid expansion of Islamic microfinance. The central bank restructured and established a full-fledged development finance group. The group implements the financial inclusion strategy, launches development programmes and analyses and monitors issues with relation access to finance for the poor. Other organisations provide feedback on problems at the field level, such as development, access, awareness, understanding of financial solutions and problems the public face, e.g. understanding of *shariah*-compliance.

The problem with instituting an individual Shariah Supervisory Board (SSB) for each Islamic MFI is that it is too costly. An alternative to this is the pooling together of resources from a network of Islamic MFIs and forming an association, which could then set up a joint SSB, similar to the Halal monitoring agencies that the UK has for food, where they authenticate a large number of restaurants. In addition, the setting up of the SSB at the Central bank of Malaysia would enable it to monitor all Islamic financial institutions in Malaysia. The divergence of *fiqh* can also be addressed through these associations with dialogue on a common forum for the different views. These associations with collected issues can then go forward to higher authorities with specific matters relating to Islamic microfinance. In rural settings, local religious populations usually seek the help of local leaders when looking for Islamic rulings. Educating the local leaders about the different shariah-compliant products, who, in turn, convey the message to the community, is a more cost-effective and efficient way of educating the masses.

Sustainability of MFI

The main issue keeping Islamic banks and microfinancing apart is the issue of risk. The banking sector requires efficient and effective mechanisms and instruments to manage a bank's assets and liabilities to ensure their viability and sustainability. Special purpose vehicles (SPV) provide banks an alternative route to get involved with microfinance. An SPV is a legal entity created by the bank to undertake a specific purpose or restricted activity. The SPV can also be a subsidiary or an independent SPV that is not consolidated with the firms tax, accounting and legal documentation, which enables it to act as a bankruptcy-remote entity. The government is important in enabling policy for the Islamic MFIs to develop. Their role should not be to lend to Islamic MFIs but to work through the institutions. The lack of funds, as cited by many authors, is a primary reason for the inability of Islamic MFIs to be self-reliant. Therefore, it is important to capitalise on the nature of *zakah* and *awqaf* by institutionalising them. While the main purpose of *zakah* and *awqaf* is poverty alleviation, in the context of Islamic MFIs, a more reliable provider of funds needs to be realised. Similarly, donor funds should complement rather than compete with private capital.

Although conventional and Islamic MFIs both require funds, the sources of funds can often differ. unds can generally be separated into internal and external sources. Internally, Islamic MFIs can use various deposits, such as safekeeping (*Wadiah*) deposits, *qard al-hasan* and *mudarabah*. Deposits are held for safekeeping and can be used as a source of funding. Returns on the deposits are only entitled to the bank as the depositor has no share in the risk of loss, as the deposit is guaranteed by the bank. *Qard al-hasan* loans treat deposits as interest-free loans and *mudarabah* deposits utilise a profit sharing agreement whereby losses are shared by both the Islamic MFI and the depositor.

With various modes of financing, such as *musharakah* and *mudarabah*, there is a great potential to attract depositors who intend to do charity via a *shariah*-compliant participating profit/loss sharing contract.

Any profits and losses realised annually can be distributed proportionally to the shareholders. The concept of charity makes the idea of losses more bearable for shareholders to face.

The integration of Islamic banks and MFIs, apart from the benefit of scale, can also provide sources of funding. As Islamic banks do not depend on external sources, an integrated microfinance scheme with the bank can adapt to supply and service the needs of the beneficiaries. Late-payment penalties and other proceeds cannot be included in the banks income. These funds can be used to create a *waqf* for Islamic MFIs.

A *waqf* is a form of eternal charity. The use of assets, such as cash, land or real estate, is setup under a trust. The asset cannot be disposed of and its ownership and purpose cannot be changed. Thus, a *waqf* asset creates and preserves long-term generation of income, which indirectly helps the process of production and creation of wealth. A *waqf* can be created through internal or external funds. The institution of *waqf*, *sadaqah*, *qard al-hasan*, *zakah* other charities can be integrated into the programme to finance the poorest. One way to achieve this is to arrange the collection of *zakah* and other charities locally.

Under the *wakalah-waqf* model, a microfinance institution will act as an agent, whereby the microfinance *waqf* fund can be provided by a *zakah* fund or a NGO donor agency. The MFI is paid a management fee for their work in managing the fund and the microentrepreneur is dispersed the fund. The fund is repaid by instalments with the element of donation (*tabarru*). First there are the donations (*tabarru*) from the participants. Donations do not need to be repaid, however, they give members privileges, notably the right to apply for finance. Second, when they apply for financial support, there is a modest fee. If clients are successful in obtaining funding there is a management fee for the duration of the financing. These fees represent arrangement costs and the administrative costs and do not constitute *riba*. Repayments by clients of loans that are recycled back into the pot are a third source of funds. Fourth, NGOs and donor agencies make donations, sometimes one-off contributions, and, on other occasions, recurrent payments. As there is a delay between the receipt and disbursement of funds, it is sensible to maintain reserves. Idle cash balances can be used to yield returns and provide a fifth source of funding.

An integrated *zakah*-MFI can prevent funds being consumed for purposes other than productivity. *Zakah* is given to the poor, used for consumption and asset building to complement funds from Islamic MFIs. Therefore, funds from IMFIs will not be required for the consumption of basic needs, thereby resulting in more efficient and productive microenterprises delivering a higher return and a lower default rate.

With higher repayment ratios, Islamic MFIs can lower their charge on loans, which leads to a decrease in the cost of credit, enabling more borrowers to access credit in the long-term. Higher repayment rates also allow IMFIs to become more self-sufficient in terms of funds and enable them to call on more funds due to their reliability. El-Komi and Croson (2005) recommend a list of loan characteristics that reduces the likelihood of borrower default, incentives/punishments for defaulting, social ties among group members, group/institution monitoring and peer pressure. The CHIP report (2005) suggests more innovative and suitable micro-credit products tailored to borrowers, with better guarantees in the event of default, appropriate staff incentives and training, and the development of customer and accounting systems.

In other Islamic financing modes, such as *mudarabah* and *musharakah*, the selection of partner can help to reduce the risk of default. The capital owners have the right to select the best business partner who is desirable, profitable and believable. However, the type of screening is different for each type of financing, as the level of competence is different. Providing microenterprises with an incentive system for good repayment can also reduce the dropout rate, such as higher returns or payment discounts. Building rapport with the entrepreneur via visitation, advice, assistance, meeting at community or religious events and the building of character can help the IMFI to solve the dropout and moral hazard problem. The ease and accuracy of accessing business information is a result of a good relationship, which, in turn, also improves the effectiveness of the financing.

The group-based lending methodology promoted by the Grameen bank model, which replaces physical collateral with social collateral, minimises the credit risk. The peer pressure from group members is a low cost and effective way of ensuring repayments. Income fluctuations, erratic natural disasters, human and crop diseases, and weather dependent availability of food all encourage Islamic MFIs to include *takaful* reserves within their operation. As *takaful* reserves can be used to cover some of the losses arising from borrower default, higher reserves allow the Islamic MFI to holder a lower proportion of funding. Therefore, as *takaful* reserves increase, the IMFI can utilise a higher proportion of its funds for microfinancing.

High transaction costs

The Middle East and North Africa have been slow to catch up to the demand for ATMs, providing just half the number per population relative to Europe. The market penetration for mobile phones is much higher and provides a solution to the high transaction costs faced by many micro-credit providers. The ease of reaching microentrepreneurs through their mobiles, sending and receiving bills and payments as well as reminders at a very low cost have the potential to reduce the costs of transaction dramatically.

Regulations in the region have allowed consumers to utilise e-wallet cards to withdraw cash, recharge airtime, pay bills and make deposits and fund transfers. Egypt's central bank has issued regulations that provide regulation for payments via mobile phones, use of electronic money and the use of financial intermediaries, while offering consumer protection, dispute resolution, anti-money laundering and IT security. Examples include:

Egypt's *Vodafone Cash*, offered with HSBC, *Mobicash* in Morocco by Maroc Telecom with Attijariwafa bank and Banque Central Populaire, and *Mobile Money* in Yemen, offered by MTN with the cooperative Agricultural Credit Bank (Akhtar and Pearce, 2010).

In Pakistan, the Payment and Electronic Fund Transfer Act, 2007 has provided legal coverage for the use of electronic banking to promote countrywide connectivity of financial institutions. In Egypt, up to 12 million individuals are expected to start receiving monthly electronic payments, resulting in a dramatic increase in financial inclusion. Islamic MFIs can get access to such electronic fund transfer systems by forging alliances with larger Islamic financial institutions.

Organisations can also reap the benefits from social capital to reduce transaction costs internally: Searching for loanable funds, designing credit contracts, engaging in community outreach, screening borrowers, assessing project feasibility, evaluating loan applications, providing credit training to staff and borrowers and monitoring and enforcing loan contracts can all be achieved by shifting the transaction burden to group members (Hadisumarto and Ismail, 2010).

The self-selected groups share common directions and goals. The acquirement of access to financial services and the possession of enough low-cost information enable Islamic MFIs to transfer the monitoring charges to the members, who adequately screen each other. Hence, lowering transaction costs reducing financial risk, and, in turn, generating better income.

From an economic point of view, social capital economises the transaction costs in credit delivery. From the borrower's perspective, negotiating with the lender, filling out paperwork, transport to and from the organisations branch, time spent on appraisals and meetings, monitoring group activities and enforcing rules can be minimised by the social capital elements in their group, where joint liability and responsibility are key. Contrary to the practice of conventional MFIs, the Islamic MFI approach to targeting families, instead of women, combined with using Islamic modes of financing mitigates some of the adverse selection and moral hazard problems. As the Islamic financing mechanisms involve real transactions, it is difficult for microentrepreneurs to use funds for other than their purpose. Given that Islamic MFI projects deal with local products and markets, it is possible to generate reliable business forecasts and determine realistic profit sharing arrangements and expected returns. This can reduce the uncertainty around under-reporting profits in a profit/loss sharing contract.

As emphasised, the group-based methodology mitigates the problem of asymmetric information, which arise when gaining information on the characteristics or the behaviour of the borrower are too costly for the MFI.

Monitoring in microfinance is necessary due to the following two reasons. First, if there is risk regarding repayment from any project including fraud or default from the borrower. The second reason is that the MFIs are primarily found in the least developed areas of the world, leading to either little or no information on new borrowers. Hence, it becomes necessary for an Islamic MFI to carefully monitor its contracts. Different strategies are used by MFIs to make sure contracts are enforced.

For first time borrowers, contracts are flexible to reveal the capacity and willingness of borrowers to repay. The development of a long-term relationship between the Islamic MFI and the borrower allows the microenterprise to gain trust, which, in turn, grants them further access to funds. Islamic MFIs should allocate loans of different size to borrowers to reflect the lack of information on them. If it is observed that the repayment probability is within a desirable threshold coupled with a good repayment history, further loans of larger size can be given.

Peer pressure, the essence of the group-based lending, has illustrated its ability to be an effective and low cost monitoring system in the presence of costly information. In particular, social capital could lead to an enhancement of information between borrowers and lenders, hence resulting in less adverse selection and moral hazard problems in the credit market. Under joint liability contracts of loans, if one member defaults, all members are denied further funding, increasing the incentive for other group members to repay on their behalf and take other measures to prevent the event of default taking place. Another option used by MFIs in order to mitigate information problems is the option to terminate the contract. If serious repayment problems occur, the MFI can seize the assets and cancel the contract. The asset can be sold in case of default to recover all or part of the losses. If, at the end of the contract period, the customer has successfully repaid the loan requirement, the asset is transferred to the customer.

Islamic financing mechanisms are useful in improving the effectiveness of financing. The Islamic MFI provides a product instead of cash, which reduces the deviation of the use of the asset. These contracts allow Islamic MFIs greater business control of the microenterprise via visitation, advice and business records.

Presently, conventional MFIs have rating agencies that undertake the rating of credit quality and overall risk assessment, such as JCR-VIS, Microfianza and planet rating in South Asia. It is important that such agencies develop rating methodologies for Islamic microfinance instruments. Institutes like the Islamic Development Bank can play a proactive role in establishing a rating fund. A ratings system would substantially reduce information costs, essentially paying for themselves in the long-term and can help Islamic MFIs obtain financing from the money market.

Effectiveness in alleviating poverty

Many critics have questioned the effectiveness of microfinance in alleviating poverty. A report written on MFIs in OIC member countries (2008) remarks that integrated microfinance programmes are more effective in improving the welfare of the poor when they combine microfinance services with social, health and educational programmes. In fact, some (MFIs) started as NGOs with social goals as their main objective but turned into formal institutions, such as BancoSol in Bolivia, which is a profitable entity by working towards double bottom lines, both social and financial, as mentioned by Brau and Woller (2004), to ensure sustainability of funds. A study by Hassan *et al.* (2012) provide positive feedback on how far a prominent MFI organization, such as Amanah Ikhtiar Malaysia (AIM) can be facilitated to achieve the social, financial and spiritual well-being.

Farooq (2009) cites that the effectiveness of microfinance depends on how sensitive MFIs are to client demand. The scope of financial services offered to the poor needs to be more than for income-generating activities, but must extend to consumption needs, such as health, education and social obligations.

Therefore, better financing products will generate greater economic benefits and eventually have a larger impact on poorer communities.

Financial exclusion can only be tackled effectively in the presence of a well conceptualized, well grounded and well integrated overall policy framework within the financial sector. These policies must be backed by the government to produce a healthy and conducive environment for financial intermediation at the lower end of the population. Islamic banks need to recognise their corporate social responsibility and work towards diversifying their portfolios to include the poor. If there is a focus on the provision of financial services, where savings are mobilised and clients have collateral-free access to financing, financial inclusion can be realised (Akhtar, 2007).

In the Islamic perspective of financial inclusion, the spiritual development, especially via internalizing Islamic moral values in the consciousness of entrepreneurs, is necessary. Since poverty, as well as the economic issue has a moral, social and political dimension, it is aimed to develop honesty, discipline, spirit, diligence, patience, piety, social responsibility and arouse awareness, changing the bad to good behaviour. Socio-economic factors like language barriers and education determine the effectiveness of financing the poor. Employees need to be trained in broader banking, finance, investment, product awareness, entrepreneurship development and community development. There is also a need to train clients in subjects like basic accounting, due to the unavoidable fact that they calculate profits in participatory financing methods such as, *mudarabah* and *musharakah*. Additionally, business strategy training can ensure maximum profits whilst ensuring the viability and sustainability of the financial services offered. This occurs because, on the one hand, there is an increase in productivity of employees (i.e. reducing costs), and, on the other, it reduces the default rate (i.e. increasing revenues).

CONCLUSION

Good Islamic MFI programmes are characterized by small, usually simple short-term loans with quick and accurate investment appraisals. The quick disbursement of repeat loans after timely repayment and convenient location, and timing of services improves the efficiency of the loan. Chowdhury's (2009) analysis of microfinance suggests "that the majority of borrowers who already have some assets (or business skills and education) are more likely to succeed".

There are internal and external practices that can determine the effectiveness and success of an Islamic MFI. Internally, covering costs is essential. If costs are not covered, the institute's capital will be depleted and continued access to financial services will be difficult. Avoiding subsidies goes hand in hand with covering costs. As previously discussed, an Islamic MFI can seek funding from a variety of sources. Furthermore, subsidies send a signal to borrowers that the government or donor funds are a form of charity, discouraging the incentive to repay loans. Moreover, MFIs have learned that they cannot depend on governments and donors as being reliable, long-term sources of subsidized funding. In addition, successful MFIs increase access to financial services for a growing number of low-income clients, offering them quick and simple savings and loan services. Smaller loans are easy to manage, and, thus, often, short-term, with larger loans dispatched based on timely repayments, the borrower's cash flow and character with alternative forms of collateral used to motivate repayment.

The keys to building a sustainable microfinance operation are time and commitment. Mixing financial services and social services within the same service sends conflicting messages and there needs to be a distinction between the two. Also, notably, successful operations have reached the required scale, as measured by the number of loans. Factors affecting this number include the country setting, lending methodology and the loan size and contractual terms offered.

To perform these functions, Islamic MFIs need dedicated and competent managers supported by well-trained and motivated staff. There is a need to constantly build capacity through internal and external training.

The current awareness of Islamic MFIs needs to evolve from basic bookkeeping, portfolio management and loan officer training and incentive schemes to internal and external auditing, financial and treasury management, diversification, fraud control and accessing commercial funds. Learning needs to change but never stop.

Social capital is essential for the successful implementation of group-based lending programmes to achieve access by the poor or low-income earners to micro-products. The social capital, as reflected in a strongly linked community, is an effective tool to lower transaction costs and exposure to frequent economic risks in relation to providing services to the rural poor. This makes the business more sustainable and increases its market penetration, aiming to transform the lives and improve the welfare of the poor, which enables them to perform their responsibilities and get their reward in the hereafter. Social capital enhances the civic cooperation of a community. The poor can obtain more reliable and efficient services from governments, acquire improved infrastructure and have access to wider markets and formal credit systems. In other words, social capital can develop economic outcomes indirectly, if it appeals to the political interest of the government.

Externally, governments must invest in supportive financial infrastructure, which would lower the costs and risks faced by the microfinance industry. In the long-term, microfinance success can bring about benefits to the country, such as taxes and consumption from those who have graduated to a non-poor status.

Governments also play a proactive role in the regulation, supervision, design and operation of an inclusive financial sector. Barring the differing views, it is generally agreed that the benefits of regulation outweigh its costs. Consumer protection attracts more deposits, giving depositors more comfort with oversight serving as a source for low cost financing. Regulations can promote best practice offering IMFIs buffers and guidelines for risks. Defined parameters still allow IMFIs flexibility to innovate and grow into a sustainable business.

The present structure of the banking system is not designed to finance the needs of the poorer segments of the Muslim society. A review of the Central Bank policies in Muslim countries needs to take place to encourage banks to engage in microfinance. The policies should licence new banks to deal exclusively with microfinance and provide regulations on capital requirements, capital adequacy norms and limits on unsecured lending. Furthermore, they should encourage more effective microfinance delivery, expand existing branch networks and include a possible restructuring of existing banks to serve as rural specialized microfinance banks. In addition, the wholesaling to non-bank MFIs and NGOs based on philanthropy should take place.

Conventional MFIs have been successful in solving the problem of credit risk by introducing social collateral by forming groups and weekly repayments, thereby lessening the asymmetric information problem. However, they have not successfully resolved the problems of moral hazard and economic viability. Besides the obvious strengths and weaknesses of conventional MFIs, the nature of Islamic based methodologies, in particular, that of a *waqf*-based microfinance that operates within *shariah's* principles and values, mitigate these problems. There is also a need to develop a model that promotes partnership based financial contracts that are applicable to the Islamic MFIs. This model must focus on equity financing, which promotes profit and loss sharing, unlike the conventional method which distributes risk and return unevenly in favour of the rich against the poor. Consequently, despite suggestions of a demand for Islamic microfinance products, further studies are required to determine the nature and extent of the demand and how to meet this demand in a cost-effective manner.

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Further reading

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INSTITUTIONAL PROFILE

THE SMALL AND MEDIUM BUSINESS DEVELOPMENT AGENCY (SMBDA) OF THE REPUBLIC OF AZERBAIJAN

Orkhan Mammadov
Chairman of the Management Board

Small and Medium Business Development Agency of the Republic of Azerbaijan

Who we are

The Small and Medium Business Development Agency of the Republic of Azerbaijan (SMBDA), was created as a legal entity under the Ministry of Economy of the Republic of Azerbaijan, in order to support and develop Small and Medium Enterprises, by implementing all possible government and non-government instruments to fuel the rate of development of entrepreneurship in the country, thereby to ensure sustainable economic progress of national economy.

SMBDA became the newest K-Hub of the International Council for Small Business with headquarters in Washington DC (see at news@icsb.org).

What we do

While ensuring proper regulation of SMEs activity, the Agency's goal is to use a flexible supervision system, broadly implemented in this area as meeting modern requirements in compliance with international experience, and effective coordination mechanisms so as to increase the contribution and share of micro, small and medium-sized businesses in the national economy, boost their competitiveness, present them with broader opportunities to access financial resources, improve mechanisms to provide them with institutional support, coordinate the activities implemented by public and private entities in this area, establish favorable business environment to ensure development of entrepreneurship in the country's regions and attract domestic and foreign investments to this area of activity.

SME Houses:
The Small and Medium Business Houses (SME Houses) is an organizational unit of the Small and Medium Business Development Agency responsible for coordination of services rendered by state bodies and private entities to entrepreneurs in the single space.

SME Friend:
Small and Medium Business Friends are representatives of The Small and Medium Business Development Agency (SMBDA) that are allocated to 29 regions in the Republic of Azerbaijan, to timely approach and support SMEs in those regions. The activity of SME Friends is both aimed at the establishment of new SMEs and expansion of existing ones to ensure potential development of the regions. For this purpose, potential investment projects are determined to ensure their implementation by SMEs.

SME Development Centers:
SME Development Centers are established to increase knowledge and skills of micro-, small and medium-sized entrepreneurs, expanding access to innovations, providing training and practical advisory services in line with modern day challenges are important for the establishment and development of business.
Training sessions and seminars are held by experienced and professional experts in the following areas in the SMB development centers, individual and group consulting services are provided, SMB networking etc. is supported: business planing, marketing, sales, business legislation, financial management, human resources management and etc.Public private partnership (PPP):
Public-Private Partnership Development Centre has been established under the SMBDA in order to ensure systemic approach in promoting and supporting PPP projects.

International Cooperation:
The Small and Medium Business Development Agency of the Republic of Azerbaijan cooperates with relevant agencies of other countries in order to study best practices experience in the field of small and medium business, establish and develop relations in this field. The agency likewise acts supports foreign organizations and investors and acts as an intermediary between international financial institutions, and foreign investors interested in investing in the economy of Azerbaijan and connects them to local entrepreneurs and SMBs.

Startup Certificate:
Micro and small businesses can apply for a Startup Certificate to the Small and Medium Business Development Agency of the Republic of Azerbaijan (SMBDA). According to the Tax Code of the Republic of Azerbaijan, after getting the Startup Certificate, entrepreneurs engaged in micro and small businesses are exempt from income tax and tax on income from innovation activity for 3 years.Funding for education, science, research and support projects:
The Small and Medium Business Development Agency of the Republic of Azerbaijan (SMBDA) finances educational, scientific, research, and support projects related to the development of micro, small, and medium businesses by arranging competitions, following the Law of the Republic of Azerbaijan “On Grants” and this Procedure.

Market research:
To stimulate competitive production, micro, small, and medium businesses in the country, the Small and Medium Business Development Agency (SMBDA) finance the domestic market research.
Market access: The agency supports the participation of micro, small, and medium businesses in various specialized exhibitions. To support the sales of entrepreneurs' products, an online sales platform with the support of the SMBDA was created

Source: https://icsb.org/khubpartner/smbda/?mc_cid=06ec404d0f&mc_eid=7ad4531369

..... INSTITUT . . ....

für sozialwissenschaftliche
Forschung und Beratung

IUK – Information und Kommunication - is a private institute combining both research and consulting activities especially designed for SMEs.

In May 1990 IUK was incorporated as a limited liability company in Dortmund. IUK is a spin-off from the Dortmund University's Faculty for Business and Social Sciences. The initial incorporators and shareholders were, amongst others, Prof. Dr. Thomas Malsch (today: Technical University of Hamburg-Harburg), Prof. Dr. Hans-J. Weißbach (today: University of Applied sciences Frankfurt am Main) as chief executive officer, Dr. Ullrich Mill, Dr. Reinhard Bachmann and Carsten Lampe. Since 1996 Dr. Barbara Weißbach is chief executive officer of IUK. Further shareholders currently are Dipl. Kfm. Stb. Boris Boldin, Dr. Andrea Poy, Dr. Florian Weißbach, and Dr. Rüdiger Weißbach.

Since 1990, IUK has done research into the core areas of the information society, its mechanisms, institutions and its knowledge foundation. The problems caused by the profound remodelling of the traditional industries and the emergence of new sectors and forms of industry and entrepreneurship in the post-fordist age have been investigated, too.

This research creates a basis not only for our competency in qualifying measures and consultancy - which is being used successfully by SMEs in the process of structural change, but also for our capacity to give political advice on questions referring to the labour markets, the structural changes within the local region and the regulation of industrial relations.

The Institute is independent and operates without institutional funding since 20 years. Activities include key questions concerning the information society, structural change in the industrial sector, especially following the German reunification, and the emergance of new business sectors and business models in the post-fordistic era. A novel focus of the Institute's activities constitute human resources development in Europe as well as the development of intercultural competencies in the corporate domain.

Based on these activities, the Institute developed a broad consulting and qualification portfolio which is requested especially by small- and medium-sized entreprises. Corporate human resources development offered by IUK is in demand since the mid 1990s, the focus being diversity-sensitive and intercultural HR development. Projects have been carried out in Germany, Lithuania, Romania, and Spain.

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Source: http://www.iuk.com/en/about/

NEWS

EVALUATION CONFIRMS SME DEFINITION WORKS WELL FOR THE VAST MAJORITY OF THE EU's 23 MILLION SMEs

Published on: 29/09/2021

The Commission published the findings of an evaluation concluding that the current definition of small and medium enterprises (SMEs) is still fit for purpose.

Having SME status can facilitate businesses' access to EU and other types of funding and support measures while often allowing for less burdensome administrative procedures. The report recommends maintaining the current SME definition, as it continues to provide a stable framework that does not discourage SMEs from scaling up. It also confirms that the definition still reflects current economic circumstances and is well-suited to support the Commission's SME and broader economic policy objectives.

The existing definition provides a solid basis for the bulk of EU companies and is the preferred option of the large majority of SMEs.

While the evaluation raised particular issues that a change of definition would not properly address, the Commission will continue to tackle these by fully exploiting recent initiatives.

RELEVANT INITIALITIES

The 2020 Communication on digitalisation of justice in the European Union stresses the importance of digital tools for businesses to access information, interact with authorities and enjoy access to justice. At the same time, it highlights authorities' and legal professionals' need for appropriate tools to communicate, exchange or submit documents securely cross-border.

The 2020 SME Strategy for a sustainable and digital Europe and 2021 Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe’s recovery include the commitment to consult and assess the need for additional company law measures to facilitate cross-border expansion and scale-up by SMEs.

The 2021 Communication 2030 Digital Compass: the European way for the Digital Decade sets out digitalisation objectives. They stress the importance of providing key public services online (with a target of 100% of such services available online by 2030) and creating connected public administrations, applying the once-only principle.

The upcoming report on the functioning of the Business Registers Interconnection System (BRIS), required by Directive 2012/17/EU, will pave the way for better linking of business registers.

The upcoming European single access point for financial and non-financial information publicly disclosed by companies (ESAP) will provide better access to relevant company information.

NEXT STEPS

Together, the initiatives provide alternative means to address the issues raised during the evaluation. These include companies and managing authorities utilising digitalisation's potential to assess SME status, better application of the ‘only once’ principle, more linking of business registers and better information on ownership.

The Commission will also work on more guidance on applying the definition rules adapted to the audience (companies and managing authorities) and perform thorough analyses of companies too large to fit the definition yet not considered a ‘large’ enterprise. An external study will assess the specific challenges these companies meet once they ‘outgrow’ the SME-phase. It will identify their needs and examine whether these are already addressed by general policy measures, taking into account the already existing support in areas such as state aid and equity finance (EIB support for small mid-caps and the Fund of Funds). The industrial strategy also provides tailored support measures.

Source:

https://ec.europa.eu/growth/content/evaluation-confirms-sme-definition-works-well-vast-majority-eu%E2%80%99s-23-million-smes_en

Joint Declaration of the Hungarian Churches in the Protection of Marriage, the Family and Human Dignity

Fourteen religious communities, including the Reformed, reaffirmed the biblical position: marriage is between a woman and a man. The resolution will be published in full.

God created man in his own image; He created him in the image of God, making them male and female. God has blessed them, and God has said to them, "Reprove, multiply, fill the earth" (Gen. 1:27-29).

The biblical position was also emphasized by Pope Francis during his visit to Budapest, confirming that the sacrament of marriage is realized between a man and a woman. Also in the Jewish tradition, the sanctification of the woman-man relationship by marriage is the foundation of human dignity. We, the representatives of the undersigned Catholic, Protestant and Orthodox churches, as well as the Jewish communities, in preparation for Christmas and in the light of the candles of Hanukkah, also reaffirm their commitment to marriage, family and human dignity. the importance of Christian values.

Budapest, 9 December 2021

Hungarian Catholic Episcopal Conference

Reformed Church of Hungary

Hungarian Lutheran Church

Baptist Church of Hungary

Hungarian Pentecostal Church

Methodist Church of Hungary

Serbian Orthodox Diocese of Buda

Universal Patriarchate of Constantinople – Hungarian Orthodox Exarchate

Bulgarian Orthodox Church of Hungary

Romanian Orthodox Diocese of Hungary

Hungarian Diocese of Russian Orthodox Church (Moscow Patriarchate)

Hungarian Unitarian Church District of Hungary

Association of Jewish Communities in Hungary

United Hungarian Jewish Community

Source: https://www.archyworldys.com/joint-declaration-of-the-hungarian-churches-in-the-protection-of-marriage-the-family-and-human-dignity/

BOOKS

PHILIP KOTTLER

Marketing 5.0: Technology for Humanity

Publish Date: February 3, 2021
ISBN-10: 1119668514

BOOK PREFACE

We wrote our first book in the series, Marketing 3.0: From Products to Customers to the Human Spirit, in 2009. The book has since been published in 27 language editions around the world. As the subtitle suggests, the book describes the major shifts from product-driven marketing (1.0) to customer-oriented marketing (2.0) to human-centric marketing (3.0).

In Marketing 3.0, customers look for not only functional and emotional satisfaction but also spiritual fulfillment from the brands they choose. Thus, companies build differentiation with their values. Their products and operations aim not only to bring profits but also to provide solutions to the world's toughest social and environmental problems.

It took nearly 70 years for marketing to evolve from its product orientation to the concept of human centricity. During the decades of evolution, several marketing concepts have stood the test of time. Despite being "traditional" in nature, the segmentation-targeting-positioning concept as well as the product-price-place-promotion (4Ps) model have become universal staples for modern marketers globally.

We have always considered Marketing 3.0 to be the ultimate stage of traditional marketing. The entire building blocks of serving customers intellectually (1.0), emotionally (2.0), and spiritually (3.0) were complete. Although published a decade ago, the book's relevance has become more evident in today's era dominated by Generation Y and Generation Z populations. Genuinely caring for the society, the youth essentially forced companies to adopt social impact in the business model.

Marketing 4.0: The Pivot to Digital

When we wrote the next book in the series, Marketing 4.0: Moving from Traditional to Digital, in 2016, we pivoted to "digital" as the subtitle implies. In the book, we differentiated "marketing in the digital world" from digital marketing. Marketing in the digital world does not rely solely on digital media and channels. The digital divide still exists; thus, marketing requires an omnichannel—online as well as offline—approach. The concept is partly inspired by Industry 4.0—a high-level strategy of the German government—in which physical-digital systems are used in manufacturing sectors. Although the use of technologies in Marketing 4.0 is fairly basic, the book introduced new marketing frameworks to serve customers in the hybrid—physical and digital—touchpoints across their customer journeys. It has thus far been published in 24 language editions worldwide and inspired companies to adopt fundamental forms of digitalization in their marketing activities.

The applications of marketing technology (martech), however, are so much more than just distributing content in social media or building an omnichannel presence. Artificial intelligence (AI), natural language processing (NLP), sensor technology, and the Internet of Things (IoT) have great potential to be game-changing for marketing practices.

We excluded these technologies in Marketing 4.0 as they were not yet mainstream at the time we wrote the book. And we believe marketers were still in the transitional and adaptation period to a digital world. But the COVID-19 pandemic has indeed accelerated the digitalization of businesses. With lockdowns and physical distancing policies in place, both the markets and It's Time for Marketing 5.0 5 marketers were forced to adapt to the new touchless and digital
realities.

That is why we think this is the right time for Marketing 5.0: Technology for Humanity. It is time for companies to unleash the full power of advanced technologies in their marketing strategies, tactics, and operations. This book is also partly inspired by Society 5.0—a high-level initiative of Japan—which contains a roadmap to create a sustainable society supported by smart technologies. We agree that technology should be leveraged for the good of humanity. Marketing 5.0, therefore, has the elements of both the human-centricity of Marketing 3.0 and the technologyempowerment of Marketing 4.0.

It's Time for Marketing 5.0

Marketing 5.0 materializes against the backdrop of three major challenges: generation gap, prosperity polarization, and the digital divide. It is the first time in history that five generations living together on Earth have contrasting attitudes, preferences, and behaviors. The Baby Boomers and Generation still hold most of the leadership positions in businesses and the highest relative buying power. But the digital-savvy Generations Y and Z now form the largest workforce as well as the biggest consumer markets. The disconnect between the older corporate executives who make most decisions and their younger managers and customers will prove to be a significant stumbling block.

Marketers will also face chronic inequality and imbalanced wealth distribution, which causes the markets to polarize. The upper class with high-paying jobs is growing and fueling the luxury markets. At the other end, the bottom of the pyramid is also expanding and becomes a large mass market for low-priced, value products. The middle market, however, is contracting and even vanishing, forcing industry players to move up or down to survive.6 CHAPTER 1 Welcome to Marketing 5.0 Moreover, marketers must solve the digital divide between people who believe in the potential that digitalization brings and those who do not. Digitalization brings fear of the unknown with the threats of job losses and concerns of privacy violations. On the other hand, it brings the promise of exponential growth and better living for humanity. Businesses must break the divide to ensure that technological advancement will move forward and not be welcomed with resentment. These challenges that marketers face in implementing Marketing 5.0 in the digital world will be the subject of Part 2 of the book (Chapters 2–4)

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