# MASTERARBEIT | MASTER'S THESIS

Titel | Title

The Role of Institutional Frameworks and Operational Practices in Shaping the Effectiveness of Microcredit Systems
A Comparative Study of Austria and Luxembourg

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# Abstrakt

Diese Masterarbeit untersucht, wie institutionelle Rahmenbedingungen und operative Praktiken die Wirksamkeit von Mikrokreditsystemen bei der Förderung sozioökonomischer Inklusion beeinflussen. Im Mittelpunkt steht ein Vergleich zwischen Österreich und Luxemburg seit 2017. Ziel der Analyse ist es zu verstehen, wie nationale institutionelle Strukturen sowie die Organisation von Mikrokreditprogrammen den Zugang zu Finanzierungsmöglichkeiten für benachteiligte Bevölkerungsgruppen, insbesondere Frauen, Personen mit niedrigem Einkommen und Arbeitslose, prägen. Die Untersuchung basiert auf institutionellen Ansätzen der Wirtschafts- und Sozialwissenschaften und kombiniert Dokumentenanalysen mit halbstrukturierten Experteninterviews mit Vertretern von Finanzinstitutionen, öffentlichen Organisationen und intermediären Akteuren. Die Ergebnisse zeigen, dass die Wirksamkeit von Mikrokreditsystemen maßgeblich von ihrer institutionellen Einbettung sowie von der Ausgestaltung operativer Unterstützungsstrukturen abhängt. Während koordinierte institutionelle Arrangements die Zusammenarbeit zwischen öffentlichen und privaten Akteuren erleichtern, tragen begleitende nicht-finanzielle Unterstützungsmaßnahmen wie Beratung und Mentoring wesentlich dazu bei, die unternehmerischen Fähigkeiten der Kreditnehmer zu stärken. Die Studie verdeutlicht somit, dass Mikrokreditprogramme ihr inklusives Potenzial vor allem dann entfalten, wenn finanzielle und nicht-finanzielle Unterstützungsinstrumente miteinander kombiniert werden.

# Abstract

This master's thesis examines how institutional frameworks and operational practices shape the effectiveness of microcredit systems in promoting socioeconomic inclusion. The analysis focuses on a comparison between Austria and Luxembourg since 2017 and explores how national institutional arrangements and program structures influence access to financial resources for disadvantaged groups, particularly women, low-income individuals and the unemployed. The study is grounded in institutional approaches within economics and social sciences and combines document analysis with semi structured expert interviews conducted with representatives of financial institutions, public organizations and intermediary actors involved in the implementation of microcredit programs. The findings indicate that the effectiveness of microcredit systems depends strongly on their institutional embeddedness as well as on the design of operational support structures. While coordinated institutional arrangements facilitate cooperation between public and private actors, complementary non-financial support measures such as advisory services and mentoring play a crucial role in strengthening borrowers' entrepreneurial capabilities. The study therefore highlights that microcredit programs are most effective when financial instruments are combined with broader support mechanisms that enable disadvantaged individuals to develop sustainable entrepreneurial activities.

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## List of Abbreviations

| | |
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| **ADA** | Appui au développement autonome *(Support for Autonomous Development)* |
| **ASA** | Association for Social Advancement |
| **ASEP** | Austria Senior Experts Pool |
| **AWS** | Austria Wirtschaftsservice GmbH |
| **CEB** | Council of Europe Development Bank |
| **CME** | Coordinated Market Economy |
| **CSSF** | Commission de Surveillance du Secteur Financier |
| **EaSI** | Employment and Social Innovation Program |
| **EIB** | European Investment Bank |
| **EIF** | European Investment Fund |
| **EMN** | European Microfinance Network |
| **ESF** | European Social Fund |
| **ESF+** | European Social Fund Plus |
| **ESG** | Environmental, Social and Governance |
| **EU** | European Union |
| **LME** | Liberal Market Economy |
| **MFC** | Microfinance Centre |
| **MFIs** | Microfinance Institutions |
| **NBFI** | Non-Bank Financial Institution |
| **NFS** | Non-Financial Services |
| **NGO** | Non-Governmental Organization |
| **NPO** | Non-Profit Organization |
| **OECD** | Organization for Economic Co-operation and Development |
| **PAR 90** | Portfolio at Risk over 90 days |
| **PSF** | Professionnel du Secteur Financier |
| **REVIS** | Revenus d'inclusion sociale |
| **SIFTA** | Social Inclusive Finance Technical Assistance |
| **SIS** | Société à Impact Sociétal |
| **VoC** | Varieties of Capitalism |

# 1. Introduction

*“Poverty is not created by poor people. It is created by the institutions and policies that surround them.”* (Muhammad Yunus). This statement highlights that poverty and financial exclusion are not solely the result of individual circumstances but are closely connected to the institutional structures that shape access to economic opportunities.

Access to financial resources represents a fundamental prerequisite for entrepreneurial activity and economic participation. Despite the development of highly sophisticated financial systems, significant parts of the population continue to face barriers when attempting to obtain credit through conventional banking institutions. Individuals with limited financial resources, insufficient collateral, unstable employment histories, or migrant backgrounds are often excluded from traditional lending mechanisms. Consequently, potentially viable entrepreneurial initiatives may remain unrealized due to the absence of accessible financing opportunities. Financial exclusion therefore continues to represent an important socioeconomic challenge even within advanced economies.

In response to these challenges, microcredit has emerged as a financial instrument designed to expand access to credit for individuals who are unable to obtain loans through conventional banking channels. Microcredit programs typically provide relatively small loans to individuals seeking to establish or expand entrepreneurial activities and are therefore frequently associated with efforts to promote financial inclusion and self-employment. Within public policy debates, microcredit is commonly defined by the European Commission as loans of up to €25,000 granted to micro-entrepreneurs who are excluded from traditional banking systems, although recent European investment initiatives have increased this threshold to €50,000 to better reflect the financing needs of small businesses.

While microcredit originally developed as a poverty alleviation instrument in developing economies, it has increasingly gained relevance within advanced economies as well. In particular, the member states of the European Union have progressively integrated microcredit initiatives into broader financial inclusion strategies and labor market policies aimed at supporting disadvantaged groups such as unemployed individuals, migrants, and individuals lacking access to conventional bank financing. Even in highly developed economies within the European Union, these groups often continue to face structural barriers in accessing traditional bank loans, making microcredit an important instrument for promoting economic participation and entrepreneurial activity.

However, microcredit in the European Union is rarely provided as a stand-alone financial product. In many EU member states, lending activities are embedded within broader support structures that combine financial services with mentoring, training, and business advisory services intended to strengthen the entrepreneurial capacities of borrowers. These arrangements frequently involve cooperation between public authorities, financial institutions, and nonprofit organizations that participate in borrower selection, mentoring activities, and project evaluation. At the same time, the institutional arrangements through which microcredit is implemented differ considerably across the 27 member states of the European Union. Regulatory frameworks, public policies, and organizational practices vary significantly between national contexts and shape how microcredit programs are structured, coordinated, and delivered in practice.

These differences raise important questions regarding the conditions under which microcredit initiatives can effectively support disadvantaged entrepreneurs and contribute to broader processes of socioeconomic inclusion. While existing research has extensively examined the developmental effects of microfinance in low-income countries, comparatively less attention has been devoted to understanding how institutional environments and operational practices influence the effectiveness of microcredit systems in advanced European economies. In particular, the role of institutional coordination between public authorities, financial institutions, and nonprofit actors, as well as the integration of financial and non-financial support mechanisms, remains insufficiently explored within the context of microcredit systems operating in the European Union.

Against this background, the purpose of this thesis is to examine how institutional environments and operational practices shape the effectiveness of microcredit systems in fostering socioeconomic inclusion among disadvantaged entrepreneurs. The analysis is situated within the broader institutional context of the European Union and its 27 member states to account for the shared policy framework that governs financial inclusion initiatives across the EU while simultaneously recognizing the substantial institutional variation between national microcredit systems. Within this broader European Union context, the thesis focuses empirically on the cases of Luxembourg and Austria. Both countries represent high-income EU member states characterized by coordinated market economies and extensive welfare-state arrangements, yet they have developed distinct institutional frameworks and operational approaches for the provision of microcredit. Examining these two national contexts therefore allows for a comparative analysis of how different institutional environments and operational practices influence the functioning and effectiveness of microcredit systems in promoting socioeconomic inclusion. Attention is given to the period between 2017 and the present, during which important institutional developments affecting microcredit provision have taken place in both countries.

The research question guiding this study is as follows:

**How do institutional and operational factors influence the effectiveness of microcredit systems in fostering socioeconomic inclusion among disadvantaged entrepreneurs in Luxembourg and Austria between 2017 and 2025?**

This research question is grounded in the assumption that variations in the effectiveness of microcredit systems cannot be explained solely by the characteristics of individual lending programs but are instead shaped by the interaction between institutional frameworks and operational practices. Accordingly, the analysis directs attention both to the broader institutional context in which microcredit is embedded and to the concrete organizational practices through which microcredit is delivered within national microcredit systems in the European Union.
To answer the research question, two hypotheses were formulated:

**H1:**
The effectiveness of national microcredit systems in fostering socioeconomic inclusion is primarily shaped by the institutional framework in which they operate. Coordinated institutional environments that enable cooperation between public authorities, financial institutions, and nonprofit actors create more favorable conditions for inclusion-oriented microcredit provision than less integrated institutional settings.

**H2:**
The effectiveness of microcredit programs in fostering socioeconomic inclusion is shaped not only by access to credit but also by the provision of non-financial support mechanisms. Microcredit providers that combine lending with tailored mentoring, training, and business

advisory services are more likely to facilitate sustainable entrepreneurial activities among disadvantaged borrowers.

The empirical analysis of this thesis is based on qualitative expert interviews with actors involved in the provision, coordination, and support of microcredit in Luxembourg and Austria. The collected material is analyzed using qualitative content analysis in order to identify patterns related to institutional arrangements, operational practices, and inclusion-oriented outcomes. By combining theoretical perspectives on institutional frameworks with empirical insights from practitioners involved in microcredit provision, this study seeks to contribute to a better understanding of how microcredit systems operate within the institutional environment of the European Union and under which conditions they can promote sustainable entrepreneurial opportunities for disadvantaged individuals.

The remainder of this thesis is structured as follows. Chapter 2 introduces the conceptual foundations of microcredit and outlines the development of microfinance within the European Union and its member states. In addition to defining key concepts, the chapter discusses the evolution of microcredit initiatives in Europe and the main policy frameworks and financial instruments that support financial inclusion at the EU level. Chapter 3 presents the theoretical framework guiding the analysis. The chapter introduces institutional perspectives that emphasize how institutional environments and organizational practices influence economic outcomes and shape the functioning of microcredit systems. On the basis of this theoretical framework, Chapter 4 examines the institutional environments of Luxembourg and Austria in greater detail. It analyses the national regulatory frameworks, policy arrangements, and organizational structures through which microcredit provision is implemented in both countries and thereby establishes the institutional context for the subsequent empirical analysis. Chapter 5 explains the methodological approach adopted in this study. The chapter outlines the research design, the rationale for case selection, the expert interview methodology, and the qualitative content analysis used to analyze the empirical material. Building on this methodological foundation, Chapter 6 presents the empirical findings derived from the expert interviews and analyses how institutional frameworks and operational practices shape the functioning and effectiveness of microcredit systems in Luxembourg and Austria. In particular, the chapter examines the interaction between institutional coordination mechanisms and the provision of financial and non-financial support services. Finally, Chapter 7 discusses the empirical findings in relation to the research question and hypotheses and reflects on their broader implications for understanding microcredit systems within the institutional context of the European Union The thesis concludes by summarizing the main findings, acknowledging the limitations of the study, and outlining potential directions for future research. The thesis concludes with a discussion of the findings in relation to the research question and hypotheses and outlines broader implications for the understanding of microcredit systems within the European Union as well as potential avenues for future research.

## 2. Conceptual Foundations and European Context of Microcredit

### 2.1. What is Microcredit?

Microcredit constitutes one of the core instruments of microfinance[1] while being the lending component within a broader ecosystem of financial and non-financial services aimed at supporting financially disadvantaged microenterprises and individuals (EMN, 2024, p. 3). In practice, microcredit is designed to support entrepreneurship, self-employment and poverty reduction. This understanding reflects the European context, where even in highly developed economies certain groups such as long-term unemployed individuals, migrants or single parents continue to face financial exclusion and remain unable to access conventional bank loans (Fila, 2015, pp. 182, 184). The primary purpose of microcredit is therefore to facilitate the creation and expansion of income generating activities among those marginalized by the formal financial system, thereby promoting economic inclusion and reducing reliance on welfare support (Fila, 2015, p. 184). Traditionally, the European Commission has defined microcredit as loans or leases of up to €25,000 intended to promote self-employment and microenterprise creation, generating both economic benefits through income-generating activities and social benefits through enhanced financial inclusion. Under the InvestEU Fund, an EU investment program designed to mobilize public and private capital to support strategic policy objectives including SME financing and microfinance, the maximum ceiling for microloans was increased to €50,000, reflecting the broader expansion of the European policy framework for inclusive finance (EIF, 2024, p. 52; EIF, 2026).

In the 21st century, microcredit is no longer understood as a stand-alone financial product but as part of a broader inclusive finance architecture delivered through microfinance institutions (MFIs). MFIs are specialized financial intermediaries that provide microcredit and related services to individuals and micro-enterprises excluded from the formal banking system, often due to limited collateral, irregular income or the absence of a credit history (Fila, 2018, p. 532). Within the European Union, microfinance institutions operate under a diverse range of institutional models, including nongovernmental organizations (NGOs), foundations, cooperatives, non-bank financial institutions and banking-sector affiliates (see section 3.1.1), reflecting differences in regulatory frameworks and welfare systems across member states

[1] Microfinance is commonly understood as the provision of essential financial services to microenterprises and individuals seeking to start or expand business or income generating activities. These services are frequently complemented by business development support, including mentoring, training and coaching (Botsari et al., 2024, p.50).

(EMN, 2024, p. 5; EIF, 2024, p. 52). A defining characteristic of the European microcredit landscape is the integration of non-financial support such as individual counselling, business development training and mentoring, which are increasingly regarded as essential elements rather than supplementary services (EMN, 2024, p. 3). This integrated model aims to reduce business risk, strengthen financial capability and improve the likelihood that disadvantaged entrepreneurs can develop sustainable economic activities, linking financial inclusion more closely to social inclusion outcomes (Fila, 2018, p. 531; EMN, 2024, p. 3).

## 2.2. Origins of Microcredit

Microcredit, commonly understood as small loans designed for individuals who are financially excluded from traditional banking services, traces its origins in the 1970s, in developing countries such as Bangladesh and Bolivia (Gutiérrez-Nieto et al., 2019, p. 183). Yet, the origins of microfinance can be traced back much further, the earliest use of the term microfinance has its roots in the mid- 19th century. Nearly two centuries ago, theorists such as Lysander Spooner[2] emphasized the development potential of small-scale lending for farmers and micro-entrepreneurs, arguing that access to credit could strengthen economic autonomy and reduce poverty (Dutt & Sharma, 2016 p. 6; Dülger, 2023, p.508-509). These pioneering microcredit initiatives were designed to alleviate poverty among their intended beneficiaries. **Figure 1** presents the key stages in the development of microcredit, demonstrating how early conceptual approaches gradually evolved into an institutionalized financial system.

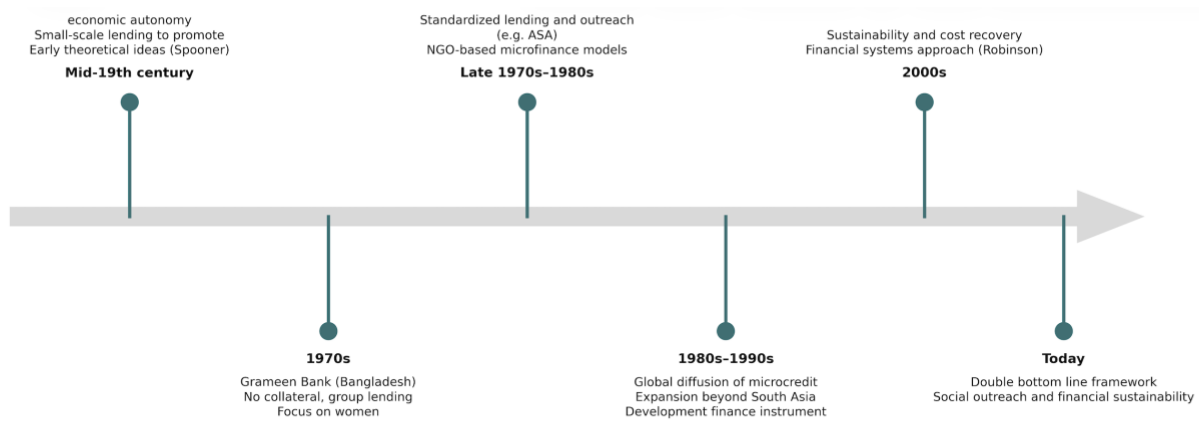


*Figure 1: Evolution of microcredit approaches over time (own illustration based on Gutiérrez-Nieto et al., 2019; Dutt & Sharma, 2016; Dülger, 2023; Yunus & Weber, 2009; Armendáriz & Morduch, 2010; Robinson, 2001; Cull et al., 2016; Kar, 2013; Sandberg, 2012)*

[2] Lysander Spooner (1808–1887) was a nineteenth century American lawyer and political thinker who grounded his strongly individualist and anti-statist views in natural law, understood as the idea that individual rights such as property, contractual freedom, and personal liberty derive from universal moral principles rather than from government authority.

While these early concepts remained largely theoretical, the modern form of microcredit known today emerged one century later with the creation of Grameen Bank in Bangladesh in the 1970s by Muhammad Yunus, widely recognized as a pioneer of the contemporary microcredit system and internationally known as the “banker of the poor” (Yunus & Weber, 2009, p. 44; Del Sarto et al., 2023, pp. 117-118). Grameen Bank distinguished itself from other traditional banking institutions by rejecting collateral requirements and establishing a lending system built on mutual trust, accountability and participation, empowering financially marginalized groups, especially women to participate in credit markets (Del Sarto et al., 2023, pp. 118-119). Yunus’ statement that *“millions of small people with their millions of small pursuits can add up to create the biggest development wonder”* (Del Sarto et al., 2023, p. 118), reflects that collective empowerment to access formal financial systems can catalyze large-scale social transformation. Parallel institutions such as the Association for Social Advancement (ASA) emerged and followed similar approaches, applying insights from economics and management to broaden financial opportunities for low-income individuals (Armendáriz & Morduch, 2010, pp. 1–2). ASA (Association for Social Advancement) is a non-governmental, nonprofit microfinance organization founded in Bangladesh in 1978 that provides microcredit and basic financial services to low-income populations. It is frequently cited as a leading example of an NGO-based microfinance model characterized by standardized lending procedures and a strong emphasis on financial self-sufficiency (Pressman, 2014, pp. 2–3).

From the 1980s onward, the model that took its first steps in rural Bangladesh, evolved into a global movement, characterized as *“nothing short of a revolution in paradigm shift”* (Armendáriz & Morduch, 2010, p. 2). Microcredit gradually moved beyond its South Asian roots and spread to both developing and industrialized economies, receiving planetary attention with the 2006 Nobel Peace Prize granted to Yunus and the Grameen Bank. Originating in low-income countries, microfinance progressively expanded across regions, extending its reach to communities in both developing and industrialized economies focusing now on international development (Armendáriz & Morduch, 2010, pp. 3–4). The evolution of the Grameen model demonstrates the capacity of small-scale lending to advance access to financial services and support poverty reduction (Yunus, 2008, p. 81). Despite its widespread recognition as a tool for socioeconomic inclusion, microcredit has increasingly been the subject of ethical debate within the academic literature. A central concern relates to the comparatively high interest rates charged by many microfinance institutions, which often range between 20% and 70% annually and in some cases exceed 100%. Such lending conditions have raised concerns regarding the potential exploitation of financially vulnerable borrowers, particularly in contexts where individuals have limited access to alternative sources of credit. In this regard, Sandberg (2012, pp. 170–173) notes that certain microcredit practices have been described as exploitative or even extortionate, as the combination of high interest rates and borrowers' restricted alternatives may place economically disadvantaged individuals in structurally pressured borrowing relationships.

In parallel with its geographical expansion, microcredit increasingly came to be conceptualized as a mechanism for addressing structural imperfections in financial markets. Conventional banking systems in developing economies often excluded small-scale borrowers because lenders lacked reliable information about their repayment capacity and demanded collateral that low-income clients could not provide. Reflecting on this exclusion, Yunus observes that financial institutions traditionally asked whether the poor were creditworthy and therefore left them "out of the financial system, as if they didn't exist" (Yunus & Weber, 2009, p. 49).These information asymmetries, merging with high transaction costs and limited legal support, caused a general reduction in the availability of loans and stimulate tailored interventions to expand financial access (Armendáriz & Morduch, 2010, pp. 29-31).  During the 1970s, many governments in developing countries, particularly in South Asia and Latin America, together with international development agencies such as the World Bank and USAID, implemented subsidized rural credit programs aimed at supporting low-income borrowers. As Robinson (2001, pp. 23-24) later argued, these programs frequently lacked repayment discipline, fiscal sustainability and disproportionately benefited wealthier groups rather than the poorest. In response to these shortcomings, Robinson (2001, p. 28) formulated the financial systems approach, which treats microfinance as an integral part of the financial sector rather than a temporary development intervention. This approach emphasizes cost recovery through interest income, savings mobilization, institutional self-sufficiency, and long -term outreach as prerequisites for achieving broad and durable financial inclusion (Robinson, 2001, pp. 28-29). By reframing microfinance as a financially viable system rather than a donor-dependent subsidy model, Robinson laid key conceptual foundations for the modern evolution of the sector.

By promoting financial sustainability alongside social inclusion, the financial systems approach reframed microfinance as a viable, long-term mechanism for development rather than short-term relief. The foundation of this model reshaped the core idea of microfinance as a sustainable mechanism for financial inclusion rather than a short-term poverty reduction operation.

However, as noted by Cull, Demigrüç-Kunt, and Morduch (2016, pp. 223), many microfinance institutions still stick to subsidized finance and only gain limited profitability, which highlights the ongoing tension between social outreach and financial sustainability. This tension arose the double-bottom-line framework, while adding social objectives to financial independence as complementary pillars of institutional performance (Kar, 2013, pp. 88-89). Within this framework, microcredit is increasingly recognized as both an economic instrument that strengthens financial systems and a social innovation that promotes inclusive development. Nevertheless, the comparatively high interest rates charged by many microfinance institutions continue to raise ethical concerns about whether lending practices may take advantage of the structural vulnerability of poor borrowers (Sandberg, 2012, pp. 172–174).

**2.3. Dimensions of Disadvantage and Financial Exclusion**

Microcredit primarily targets individuals who face structural barriers to economic and social participation. Disadvantage in this context is multidimensional, involving economic deprivation, institutional exclusion and social marginalization. These overlapping forms of exclusion often restrict access to formal employment, financial services and social welfare systems. Even within highly developed European economies, certain groups such as long-term unemployed individuals, migrants and single parents continue to face financial exclusion and remain unable to obtain conventional bank loans (Fila, 2015, pp. 182, 184). Microcredit is therefore directed at individuals whose exclusion extends beyond purely economic constraints, including women, migrants and minorities, who encounter structural and social barriers that limit their engagement in both financial and labor markets (Lahnech and Chami, 2025, pp. 1–2, 10–11; European Commission, 2024, p. 12).

While the forms of disadvantage described above are observable across Europe, they do not manifest uniformly across all 27 European Union Member States. Although the target groups of microcredit policies are broadly similar across countries, including unemployed individuals, people at risk of poverty and micro entrepreneurs, the structural conditions generating financial exclusion vary considerably across European regions (Unterberg et al., 2014, p. 36). Differences in welfare regimes, financial market maturity and institutional frameworks shape both the nature of market imperfections and the role assigned to microcredit (Unterberg et al., 2014, p. 14; Drexler et al., 2020, p. 49). This thesis therefore focuses on Western Europe, where microcredit operates within highly developed financial systems yet continues to target groups that remain excluded, as financial exclusion persists largely due to standard banking procedures and risk assessment practices that disadvantage low-income households, individuals with unstable employment trajectories and those lacking conventional forms of collateral (Gloukoviezoff, 2016, pp. 13-16).

The concept of inequality of opportunity complements the understanding of social exclusion by explaining how unequal starting conditions shape individual life outcomes. Ibragimova and Frants (2022, pp. 328–329) distinguish between circumstances, which refer to factors beyond a person’s control such as gender, birthplace, family background, and effort, which encompasses the actions individuals can take within their available means. Inequalities that arise from circumstances are considered unjust because they reflect inherited or environmental disadvantages rather than personal merit. It can be underlined that elements of family background, including parental education, professional status, family integrity, and the psychological atmosphere within the household, strongly influence income levels and social mobility (Ibragimova & Frants, 2022, pp. 330–333). These findings reveal that opportunity is in most circumstances shaped by social and familial context, fostering advantage or disadvantage across generations (Ibragimova & Frants, 2022, pp. 330–333). Thus, income and educational inequalities remain influenced by gender and parental education, while individual effort only encompasses a small portion of observed discrepancies. (Vasilescu & Stănilă, 2025, pp. 3–5). Building on this understanding, opportunities remain unequally distributed according to social origin and that gender continues to play a decisive role in determining access to education and employment (Vasilescu & Stănilă, 2025, pp. 25–27). To understand the mechanisms through which such disadvantages arise and persist, it is essential to consider how unequal life chances are formed in the first place.

Within this framework, disadvantage appears as a multidimensional and interdependent process shaped by the interaction of economic, institutional and social mechanisms. Crawford et al. (2023, p. 3) note that these dimensions are deeply connected, as exclusion in one area often reinforces exclusion in another. Economic hardship, for instance, rarely exists on its own. It is linked to institutional barriers that limit access to education, finance and employment, and is often intensified by social conditions such as discrimination or the absence of supportive networks. The interaction of these factors generates self-reinforcing dynamics that contribute to the persistence of disadvantage across generations. The findings suggest that disadvantage cannot be attributed to isolated sectors but results from the combined effects of social and structural mechanisms (Crawford et al. pp. 3-4)

Economic disadvantage forms the most visible and measurable aspect of this process. Low income, unstable employment and limited access to financial capital restrict participation in both economic and social life. In Central and Eastern Europe, such economic disadvantage is often closely linked to structural capital shortages, lower banking penetration and weaker institutional capacity, making access to finance itself a primary constraint. In these contexts, by contrast, economic disadvantage persists despite well-developed financial markets and is more strongly associated with institutional risk aversion and collateral requirements that exclude high risk borrowers (Unterberg et al., 2014, pp. 15-16; Drexler et al., 2020, p. 49) Unlike the Nordic countries, where strong social security systems reduce necessity driven entrepreneurship, Western European contexts combine developed financial markets with persistent institutional barriers that continue to exclude specific high risk and socially marginalized groups from conventional credit access. Vasilescu and Stănilă (2025, p. 3) show that inequalities in income and education are largely determined by structural conditions rather than individual effort. Their findings suggest that gender and parental education continue to shape long-term financial outcomes, while Ibragimova and Frants (2022, p. 331) highlight how family stability and early educational environments further reinforce these disparities. Inherited conditions therefore play a key role in constraining social mobility and access to opportunity. As these disadvantages accumulate, they narrow the possibilities for entrepreneurship or self-employment and deepen economic dependence. Fila (2015, p. 184) observes that even in the Western European context, access to finance remains one of the most persistent structural barriers, particularly for individuals excluded from mainstream banking. Within this framework, microcredit attempts to address such barriers by offering financial opportunities to those without collateral or a formal credit history, creating an entry point into economic participation (Fila, 2015, p. 187).

Financial exclusion is also rooted in the institutional frameworks that sustain inequality. Crawford et al. (2023, p. 4) argue that institutional structures often reproduce exclusion through rules and norms that appear fair in principle but restrict participation in practice. Educational systems tend to favor those already advantaged by family background, while financial institutions assess creditworthiness using criteria that systematically disadvantage low-income applicants. Ibragimova and Frants (2022, p. 331) similarly note that such institutional arrangements frequently amplify the effects of unequal starting conditions rather than offsetting them. The European Commission (2024, p. 10) also highlights that despite inclusive initiatives such as the European Social Fund Plus and the EaSI program, significant access barriers persist for unemployed and socially excluded groups. Institutional disadvantage therefore not only mirrors economic inequality but actively sustains it through bureaucratic rigidity and limited outreach. The relevance of institutional barriers also varies across European regions. In the Nordic countries, comprehensive welfare systems and high levels of social protection reduce necessity driven entrepreneurship and limit the role of microcredit as a primary inclusion tool. Despite advanced technological infrastructure and innovation capacity, entrepreneurial activity remains comparatively moderate due to structural and cultural factors such as risk averse entrepreneurial norms and small domestic markets, a phenomenon often described as the Nordic paradox (Larabi & Seddaoui, 2024, pp. 3-4). In this context, microcredit addresses a different form of disadvantage, not primarily financial exclusion but barriers related to entrepreneurial incentives, risk perception and scaling constraints within highly protected labor markets. As a result, microcredit in the Nordic countries functions less as a social inclusion instrument and more as a complementary policy tool aimed at encouraging entrepreneurial engagement in an otherwise secure welfare environment (Larabi & Seddaoui, 2024, pp. 4-5).

Social disadvantage further intensifies this interdependent system. Crawford et al. (2023, p. 2) describe social exclusion as an intersectional process in which economic position, gender, ethnicity and migration background combine to deepen marginalization. Discrimination and social stigma reinforce existing barriers by reducing trust, social participation and access to networks that could provide support or opportunity. This relational dimension helps explain why financial or institutional reforms alone rarely achieve long-term inclusion. Economic deprivation often leads to social isolation, which in turn limits access to employment, credit and information. The constant interaction between these domains shows that disadvantage cannot be understood as the result of one single factor but emerges through the combined effects of economic, institutional and social inequality. In Western European contexts, this is reflected in the persistent social distance between financially excluded groups and formal institutions, where experiences of repeated rejection by banks and administrative complexity contribute to mistrust, withdrawal and reduced engagement with formal financial systems (Drexler et al., 2020, p.49; Gloukoviezoff, 2016, pp. 13-16). Drexler et al. (2020, p. 62) also note that microfinance providers in Western Europe therefore frequently combine financial products with non-financial support to address not only economic barriers but also social isolation and limited access to networks among marginalized groups. These patterns of disadvantage form the background against which the Western European microcredit framework is applied within mature financial and welfare systems.

### 2.4. The Microcredit Landscape in the European Union

Microcredit in Europe refers to small loans designed to support micro-entrepreneurs and self-employment, particularly among marginalized individuals who face barriers accessing traditional banking. Within the European Union, microfinance has been recognized as an important policy instrument for promoting social and financial inclusion as well as job creation to implement social and financial inclusion as well as job creation (Botsari et al., 2023, p. 50). In line with the European Pillar of Social Rights, claiming that "everyone has the right to access essential services including (…) financial services" (EMN, 2024, p. 3), the European Microfinance regulatory framework defines microcredit as a key component of the microfinance ecosystem including not only loans but also other instruments such as guarantees, equity coupled with accompaniment business services like training or mentoring for entrepreneurs being excluded from traditional banking (EMN, 2024, p. 3). To contextualize the empirical analysis of microcredit in Luxembourg and Austria, this section presents the European microcredit framework within which microcredit operates in Western European economies characterized by highly developed and institutionally embedded financial systems

For policy purposes, the European Commission historically defined microcredit as a loan of up to 25 000€ granted to micro-entrepreneurs at risk of social or financial exclusion. Under the guidelines of the EU program supporting the sector (InvestEU), this limit has been doubled to 50 000€ to better accommodate the financing needs of potential borrowers (EMN, 2024, p.3; Botsari et al., 2023, p.50). Another important aspect is that that the maximum loan ceiling for microcredit only represents a benchmark for EU-supported programs, but there does not exist a legal definition across member states as this is left to the national legislator initiative (EMN, 2024, p.3).

EU-level support for microcredit has expanded considerably since the early 2000s through a series of financial instruments and policy programs designed to promote financial inclusion primarily within the European Union and associated program countries. Early initiatives such as JASMINE and the Progress Microfinance Facility laid the groundwork for what became a more structured funding architecture in the 2014–2020 programming period. During this time, the Employment and Social Innovation (EaSI) program delivered financial instruments such as guarantees, equity, and capacity-building funding, while the European Social Fund (ESF) provided grants for national and regional inclusion-focused projects (EMN, 2024, p. 3; European Commission, 2025). EaSI's support was channeled through three core instruments: the Funded Instrument, which offered loans to microfinance institutions to expand outreach; the Guarantee Instrument, which covered part of the credit risk for high-risk borrowers; and the Capacity Building Instrument, which supported small or early-stage providers through equity investments. These financial tools were complemented by Technical Assistance measures, including tailored training, peer learning, institutional diagnostics, and support for compliance with the European Code of Good Conduct (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2022, p.8).

Since 2021, EU financial support has been consolidated under two primary mechanisms: InvestEU and the European Social Fund Plus (ESF+). InvestEU is the EU's flagship investment instrument for the 2021–2027 period, supported by a €26.2 billion EU budget guarantee aimed at mobilizing over €372 billion in public and private investments. Of this, approximately €2.8 billion is earmarked for the Social Investment and Skills window, which includes direct support for microfinance and social enterprise finance (European Commission, 2025). InvestEU operates through key implementing partners such as the European Investment Fund (EIF), European Investment Bank (EIB) and Council of Europe Development Bank (CEB), which channel guarantees, loans, and advisory services to microcredit providers across the EU.

Complementing this, the European Social Fund Plus (ESF+) serves as the EU's principal instrument for promoting employment, social inclusion, education, and poverty reduction in the 2021 to 2027 programming period (Regulation (EU) 2021/1057, Art. 3). As part of this framework, the former EaSI program was integrated as a specific strand within ESF+ to continue supporting social innovation, labor market access, and access to finance for vulnerable groups (Regulation (EU) 2021/1057, Art. 4(1)(b)). Through this EaSI strand, ESF+ continues to promote inclusive entrepreneurship and microfinance development by funding capacity building, policy experimentation, and support for social enterprise ecosystems (Regulation (EU) 2021/1057, Annex II, Point 3). Together, InvestEU and ESF+ represent a coordinated EU effort to expand both the financial and non-financial infrastructure of the European microcredit ecosystem.

A central quality standard within this system is the European Code of Good Conduct for Microcredit Provision, which was updated in 2021. This voluntary Code defines best practices in governance, customer protection, risk management, reporting, and internal systems. Signing or endorsing the Code is a mandatory requirement for microcredit providers to access EU funding under both InvestEU and the now-concluded EaSI instruments. Certification and technical assistance are delivered through the Social Inclusive Finance Technical Assistance (SIFTA) platform under the InvestEU Advisory Hub (European Commission, 2025).

## 2.5. Target Groups of Microcredit Provision

Within the institutional and policy framework outlined above, it is possible to assess which socio-economically disadvantaged groups are reached by microcredit provision in the European Union. The following overview focuses on outreach patterns observed among European microfinance institutions operating within the EU context.While microcredit is conceptually designed to address multidimensional forms of disadvantage, its actual outreach reflects how institutional arrangements, regulatory frameworks and operational practices translate inclusion objectives into practice (Ledgerwood & Gibson, 2013, p. 26). The composition of microcredit portfolios across European microfinance institutions therefore illustrates how patterns of disadvantage materialize in practice and which groups remain comparatively underserved. **Figure 2** provides an overview of the main socio-economic groups reached by microcredit provision in Europe.

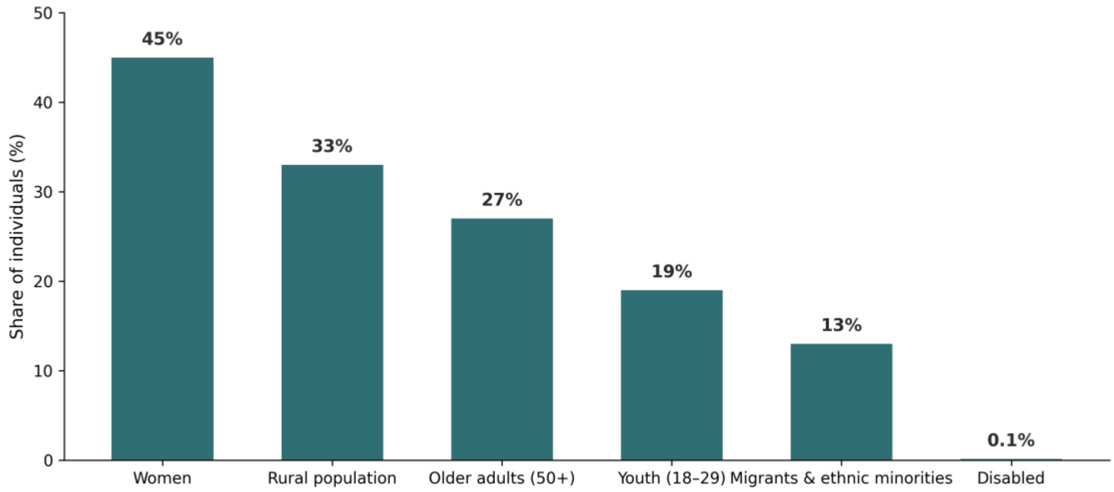


*Figure 2: Share of individuals engaged in business activity by socio-demographic group, average per microfinance institution, N=32 (own illustration based on Pytkowska & Benaglio, 2024, p.27)*

The empirical patterns illustrated in the figure indicate that European microcredit provision reaches several groups traditionally affected by structural exclusion, including women, rural populations, younger entrepreneurs, migrants and ethnic minorities. Women constitute a distinct target group of microcredit policy as gender-related barriers persist independently of age, while at the same time being represented within all age categories, including younger and older entrepreneurs. The distribution of beneficiaries further demonstrates how institutional arrangements, regulatory frameworks and operational practices shape inclusion outcomes in practice. Despite targeted outreach, certain groups, particularly older individuals, migrants and people with disabilities, remain underrepresented relative to the scale of unmet entrepreneurial potential identified at the European level (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 4–5).

Gender represents one of the most prominent dimensions of microcredit outreach. Women account for 45% of individual business clients served by European microfinance institutions (Pytkowska & Benaglio, 2024, p. 29). This share varies significantly across regions, with providers in Eastern Europe and the Balkans reaching proportionally more women than those operating in Southern or Northwestern Europe (Pytkowska & Benaglio, 2024, p. 29). These patterns correspond to broader structural inequalities of opportunity, as women continue to face unequal access to entrepreneurship and finance across Europe. Evidence from the Council of Europe Development Bank indicates that women represent approximately 75% of Europe’s missing entrepreneurs, highlighting persistent gender-based barriers that extend beyond individual effort and are rooted in institutional and social structures (CEB Technical Assessment and Monitoring Directorate, 2024, p. 4). The relatively high share of women in microcredit portfolios thus reflects both targeted outreach and the concentration of gender related exclusion within entrepreneurial ecosystems. These patterns are also observable at provider level. In France, women account for a substantial share (45%) of microcredit beneficiaries supported by *Adie*, a non-profit microfinance institution providing microcredit and business support to individuals excluded from conventional banking (Adie, 2024, p. 6). Similarly, Dutch provider Qredits, a non-bank microfinance institution offering loans and advisory services to micro entrepreneurs and small businesses, reports a comparatively high participation of women among financed entrepreneurs, reflecting targeted outreach towards female entrepreneurs facing barriers in commercial credit markets (Qredits, 2024, p. 12).

Spatial disadvantage constitutes a further key dimension of microcredit outreach. Approximately 33% of individual entrepreneurs served by microfinance institutions are in rural areas (Pytkowska & Benaglio, 2024, pp. 28–29). Rural outreach is particularly pronounced in Eastern Europe and the Balkans, where access to conventional banking services and advisory infrastructure remains structurally weaker (Pytkowska & Benaglio, 2024, p. 29). This pattern aligns with broader assessments of territorial inequality, which identify rural regions as exhibiting higher levels of vulnerability due to limited financial access, reduced service provision and lower institutional density (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 13–14). In this context, microcredit functions as a compensatory mechanism that partially offsets spatially embedded barriers within mature but uneven financial systems.

Age related disparities further illustrate how cumulative disadvantage shapes access to entrepreneurship. Individuals aged 18–29 account for 27% of individual business clients, whereas those aged 50 or older represent 13% of microcredit beneficiaries (Pytkowska & Benaglio, 2024, p. 29). Qredits reports a substantial share of financed entrepreneurs under the age of 30, while alongside this around one tenth of its clients are aged 55 or older, indicating that microcredit provision also reaches individuals facing age related exclusion at later stages of working life (Qredits, 2024, p. 10). While younger entrepreneurs constitute a substantial share of microfinance portfolios, evidence suggests that they frequently encounter constraints related to limited financial literacy, insufficient collateral and unstable employment trajectories (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 10–12). These age-related barriers are also reflected in institutional outreach. This illustrates how microcredit provision targets young individuals whose exclusion from entrepreneurship is driven less by lack of business ideas than by life course related constraints embedded in standard banking practices. This pattern also extends to older individuals, who remain markedly underrepresented relative to their estimated share among missing entrepreneurs. The Council of Europe Development Bank reports that approximately 75% of missing entrepreneurs are aged 50 or above, indicating that age related exclusion persists despite accumulated experience and skills (CEB Technical Assessment and Monitoring Directorate, 2024, p. 4). These patterns reflect life course related inequalities, where institutional risk assessment practices and labor market dynamics jointly restrict entrepreneurial entry at both early and later stages of working life.

Migration background and ethnic minority status represent additional axes of structural exclusion. Individuals with a migrant background account for 19% of individual entrepreneurs in European microcredit portfolios, while 9% belong to ethnic minorities (Pytkowska & Benaglio, 2024, p. 29). Although migrants therefore constitute a significant share of microcredit clients, this remains modest relative to overall unmet entrepreneurial potential. Estimates indicate that more than one million missing entrepreneurs in Europe have a migrant background (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 4-5). Migrant entrepreneurs often face intersecting barriers, including language constraints, lack of recognized qualifications, limited familiarity with administrative systems and restricted access to formal financial histories (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 10-11). Regional variation is substantial, with providers in Northwestern Europe serving approximately three times the European average share of migrant clients (Pytkowska & Benaglio, 2024, p. 29). This reflects differences in migration patterns, institutional support structures and the embeddedness of microfinance within broader integration and labor market policies. This is mirrored in the outreach profiles of individual microfinance providers. *Qredits* (2024, pp. 12-13) reports that approximately one fifth of its financed entrepreneurs were born outside the Netherlands, while *Adie* (2024, pp. 38-40) highlights migrants and refugees as a priority group within its microcredit and accompaniment activities. These providers therefore combine access to finance with targeted support aimed at overcoming language constraints, administrative barriers and limited access to formal financial histories.

People with disabilities remain the least represented group within European microcredit portfolios, accounting for only 0.1% of individual entrepreneurs served by microfinance institutions (Pytkowska & Benaglio, 2024, p. 29). While disaggregated quantitative data remain limited, existing evidence emphasizes that disability related exclusion is often reinforced by overlapping disadvantages, including discrimination, reduced financial capability, and institutional barriers within both labor and financial markets (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 7–10). Their marginal presence within microcredit portfolios underscores the limits of current outreach mechanisms in addressing highly intersectional forms of disadvantage. The evidence presented above further suggests that microcredit provision in Europe is strongly shaped by structural forms of disadvantage affecting access to entrepreneurship and finance. Moreover, the uneven representation of certain groups within microcredit portfolios indicates that outreach remains selective and mediated by institutional arrangements, regulatory environments, and operational practices of microfinance providers.

These broader European outreach patterns are therefore examined in relation to the institutional design and operational practices of microcredit provision in Luxembourg and Austria, as analyzed in Chapter 3.

### 2.6. Conceptualizing Socioeconomic Inclusion

The capability approach developed by Amartya Sen in 1979 provides a comprehensive framework for understanding socioeconomic inclusion through the expansion of individual freedoms and opportunities. In Sen's formulation, development should be understood as the expansion of people's capabilities, defined as the real opportunities individuals must achieve valued ways of living (Sen, 1999, pp. 18–19). The concept was developed around human capability until evolving into an analytical and value-based framework, that integrates five key concepts: capabilities, function, agency and conversion factors (Hirani & Richter, 2017, p. 46). These five core elements collectively illustrate how individuals' available opportunities, personal choices, and resources interact with contextual conditions to determine their ability to act freely and achieve desired forms of achievements rather than focusing solely on income or material resources (Hirani & Richter, 2017, p.46).

The human achievements referred to as *functionings* represent the various states and activities that individuals have reason to value for their well-being or quality of life. These functionings are realized through *capabilities*, understood as the set of resources and opportunities available to individuals to achieve such valued outcomes. The capability approach therefore shifts the analytical focus away from purely economic success toward the conditions that enable individuals to live lives they consider meaningful. As Hirani and Richter (2017, pp. 46–47) argue, both capabilities and functionings are shaped by individuals' internal and external environments, with particular emphasis on the role of human values, freedom, resources and situational diversity. In this context, *conversion factors* determine how effectively individuals can transform available resources into valued achievements. The process through which resources are translated into outcomes can be illustrated schematically: **Figure 3** summarizes the central elements of Sen's capability framework, showing how endowments are converted into entitlements, which are then mediated by conversion factors to form a set of capabilities from which individuals select valued functionings.

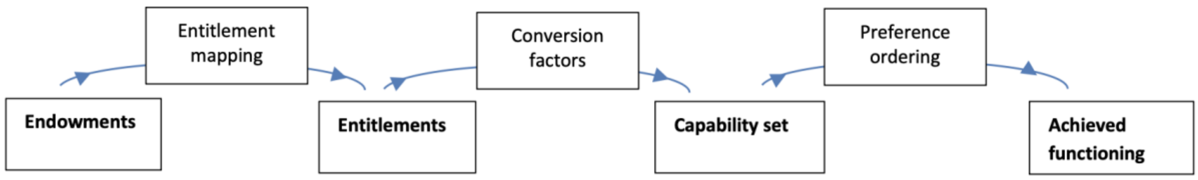


*Figure 3: A schematic representation of how an individual acquires capability and functioning (Osmani, 2016, p.4)*

The figure illustrates that the realization of well-being does not depend solely on the possession of resources but on a sequential and mediated process through which these resources are transformed into meaningful achievements. It shows how initial endowments are translated into entitlements, which are then shaped by conversion factors to form a set of capabilities from which individuals select valued functionings. This highlights that access to resources alone is insufficient; what matters is the ability to effectively convert them into outcomes that individuals have reason to value. The relationship between capabilities and functionings can thus be understood as dynamic and mutually reinforcing, as achieved functionings may in turn expand or constrain future capability sets, depending on the surrounding conditions. These processes are shaped by human values, freedoms, resources and contextual diversity (Hirani & Richter, 2017, p. 47).

Central to the Capability Approach is the concept of freedom. Sen conceptualizes social development as a process of expanding individuals' substantive freedoms to lead lives they value, thereby reframing poverty as a deprivation of basic capabilities rather than merely low income (Sen, 1999, pp. 15, 87). These freedoms extend beyond economic opportunities to include political inclusion, understood as participation and voice in collective decision-making, and social inclusion, referring to meaningful participation in social life and social relations, as outlined in Section 2.3 (Osmani, 2016, p. 8). Sen further distinguishes between well-being freedom, which concerns the ability to achieve personal goals, and agency freedom, which reflects the capacity to pursue objectives that one has reason to value (Osmani, 2016, p. 9). Both forms of freedom are closely linked to inclusion, as they depend on the extent to which individuals are enabled to participate fully in social and economic life. At the same time, these freedoms are socially embedded: institutions, social norms and policies can either foster or constrain them. When certain groups face structural barriers that limit their choices, inequalities are reproduced and patterns of exclusion persist (Osmani, 2016, pp. 10, 14).

As Sen emphasizes, the possession of resources does not automatically translate into well-being, as individuals differ in their ability to convert resources into valuable functionings (Sen, 1999, pp. 70–71). Kuriakose and Iyer (2015, p. 2) argue that financial inclusion should be seen as an expansion of individuals' real freedoms to participate in economic and social life rather than simply as access to financial services. The presence of credit or savings mechanisms therefore gains meaning only when individuals can translate them into tangible improvements in their living conditions (Kuriakose & Iyer, 2015, pp. 4–5). The capacity to make such depends on various external factors, including education, gender norms and institutional support, which shape how people can use available opportunities (Kuriakose & Iyer, 2015, pp. 7–8). In this sense, Sen's Capability Approach highlights that inclusion is achieved when access to resources is matched by the ability to transform them into real opportunities for participation and well-being, reflecting the continuous interaction between individual agency and the surrounding social and institutional contexts (Osmani, 2016, p. 17; Sen, 1999, p. 88).

Economic and social inclusion describe two complementary dimensions of participation that address different aspects of inequality. The capability approach also emphasizes the importance of participation in the life of the community as a key dimension of well-being (Sen, 1999, pp. 89–90). Economic inclusion focuses on providing individuals with access to financial resources, employment and entrepreneurial opportunities that enable them to sustain an independent livelihood. Fila (2018, p. 532) notes that microfinance initiatives aim not only to support income generation but also to achieve social objectives by integrating excluded groups into economic activity. Social inclusion, by contrast, extends beyond financial participation to encompass equality, access to education, healthcare and decent work, as well as involvement in civic and community life (Krasota & Melnyk, 2020, pp. 1–2). In this context, unemployment can lead to capability deprivation beyond the loss of income, including psychological harm, loss of motivation and social exclusion (Sen, 1999, p. 94), illustrating how socioeconomic inclusion depends not only on material access but also on the ability to participate meaningfully in social and economic life.

Economic inclusion therefore represents the material foundation of participation and consists of the ability of individuals to access and effectively use financial services, stable employment or business opportunities without depending on social welfare. (Fila, 2018, p. 534). Long-term unemployment represents a crucial threat resulting from economic as well as social exclusion, in this case microcredit can promote self-employment and sufficiency to affect the economic situation (Fila, 2018, p. 534). By supporting self-employment and microenterprise creation, microcredit aims to reduce barriers to economic participation and stimulate local development (Fila, 2015, p. 184). Yet, as Lahnech and Chami (2025, p. 5) observe, inclusion cannot be achieved solely through access to finance. Its effectiveness depends on structural and institutional conditions such as affordable credit terms, regulatory stability and complementary measures like training or business support that enable borrowers to use financial opportunities productively.

# 3. European Microcredit Systems: Providers, Embeddedness and Operational Practices

## 3.1. Microcredit Providers in Europe

### 3.1.1. Organizational Forms of Microcredit Providers

In developed economies such as in Western Europe, the delivery of microloans has largely fallen to specialized Non-Profit organizations (NPOs) and socially oriented financial intermediaries. Non-Profit and nongovernmental organizations (NGOs) are central actors in the European microfinance sector. Based on aggregated data from European microfinance institutions, they account for 25 % of all reported providers and thus constitute the second-largest provider group (Pytkowska & Benaglio, 2024, p. 7). Their presence is particularly strong in the Balkans and in Southern Europe, where they constitute up to 31 % of all active institutions (Pytkowska & Benaglio, 2024, p. 48). These organizations frequently operate with small teams and rely more heavily than other provider types on volunteers, who make up 15 % of the entire microfinance workforce (Pytkowska and Benaglio, 2024, p. 10). Additional evidence for their structural importance is provided by the European Commission's Microfinance in Europe report, which shows that the European microfinance landscape historically developed primarily through non-bank actors such as associations, foundations, and other mission driven organizations, while banks have traditionally played a more limited role (European Commission, 2020, pp. 7 & 9). Unlike in developing regions where dedicated microfinance banks have emerged, European microcredit is often provided by NPOs, foundations, credit unions, or public sector programs rather than conventional commercial banks (Fila, 2015, p.184). To understand the structure of the non-bank microcredit sector, it is necessary to define the main organizational types involved. These categories differ in their legal status, regulatory requirements and mission orientation and form the core of the European microfinance landscape. The main organizational forms of non-bank microcredit providers can therefore be distinguished as follows:

**Non-Profit Organization (NPOs).**

Meyer et al. argue that non-profit organizations cannot be defined through a single universally valid criterion, as definitions are neither true nor false but must be suitable for the analytical purpose at hand (Meyer et al., 2022, pp. 60–61). They therefore propose a functional definition based on a coherent set of organizational characteristics that allows for the classification of real organizations while acknowledging the existence of borderline cases (Meyer et al., 2022, pp.

61–62). Within this framework, non-profit organizations (NPOs) are understood as formally organized, private entities that pursue a mission-oriented purpose and do not distribute profits or surpluses to owners or members. While NPOs may generate revenues and financial surpluses, these must remain within the organization and be reinvested in the pursuit of its mission rather than private financial gain. This principle, commonly referred to as the non-distribution constraint, constitutes a central criterion distinguishing NPOs from profit-oriented enterprises, even though it represents an ideal type and may be subject to practical limitations or hidden forms of profit distribution (Meyer et al., 2022, pp. 62–63). Despite the non-distribution constraint, NPOs may engage in a wide range of economic activities and generate revenues to sustain their operations. Rather than relying on a single source of funding, nonprofit organizations typically combine different forms of income, including donations, public subsidies, grants from foundations, membership fees and revenues generated through the provision of services or other market-based activities. As a result, many NPOs operate with diversified revenue structures that reflect their hybrid position between the state, the market and civil society (Carroll & Stater, 2009, pp. 947–948).

Positioned within the three-sector framework, NPOs occupy a distinct space alongside the market and the state. They are neither profit-maximizing firms nor public authorities, even though they may engage in market activities or contribute to the delivery of publicly funded services (Meyer et al., 2022, pp. 64–65). Meyer et al. (2022, pp.65–66) emphasize that, particularly in the European context, the boundaries between private and public organizations are often fluid, as many NPOs operate in close cooperation with public authorities or rely substantially on public funding, resulting in a variety of hybrid organizational forms. In many European Union welfare systems, nonprofit organizations therefore act as important service providers that complement public institutions by delivering social services, supporting vulnerable groups and implementing publicly funded programs. Despite this proximity, NPOs retain a minimum degree of self-governance and decision-making autonomy, meaning that key organizational decisions can, at least formally, be taken internally (Meyer et al., 2022, p. 63). In addition, NPOs are characterized by a minimum degree of voluntarism, which may take the form of voluntary labor, donations or other non-remunerated contributions. Importantly, these defining characteristics do not need to be fulfilled to the same extent in every case; rather, organizations may meet individual criteria in varying degrees, allowing the NPO concept to capture the diversity of organizational forms within the nonprofit sector while maintaining a clear analytical distinction from both state institutions and market-based enterprises (Meyer et al., 2022, pp. 61–66). Examples of nonprofit microcredit providers include *Adie* in France, *Microlux* in Luxembourg and *PerMicro* in Italy. These organizations operate under nonprofit legal forms and combine financial services with social support mechanisms, reinvesting any financial surpluses into their mission of promoting financial inclusion and supporting disadvantaged entrepreneurs.

**Non-Governmental Organization (NGO).**

Non-Governmental Organizations (NGOs) constitute a specific organizational form within the broader category of non-profit organizations. NGOs are organizations registered under a non-profit legal charter for tax purposes. Their financial activities are generally more restricted than those of commercial financial institutions and typically do not include deposit-taking. This category encompasses a wide range of organizational forms, including foundations, charities, social-purpose and financial cooperatives, associations, and religious institutions (Pytkowska & Benaglio, 2023, p. 55). Meyer et al. (2022, p. 54) conceptualize NGOs as a specific organizational manifestation within the broader category of non-profit organizations and locate them within the third sector, positioned between state and market. NGOs are neither public authorities nor profit-oriented firms, even though they may engage in market-related activities or operate in close cooperation with public institutions. In the European context in particular, nonprofit organizations frequently operate in hybrid arrangements that combine public funding, regulatory oversight and organizational autonomy, reflecting the historically close relationship between the nonprofit sector and welfare-state institutions (Meyer et al., 2022, p. 56-57).

Beyond service delivery, NGOs are also discussed as governance actors embedded in multi-level institutional structures. Murphy (2013, p. 140) shows that NGOs participate in multi-level governance by interacting with public authorities, private actors and international institutions, and by strategically engaging across different institutional forums to influence policy outcomes. This governance-oriented role complements their service-provision function and helps explain the prominence of NGOs in socially oriented policy fields, where regulatory coordination and advocacy are closely intertwined. NGO-based microcredit provision can be observed in organizations such as *Fundacja Rozwoju Przedsiębiorczości* and *Patria Credit IFN* in Poland, which provide microloans within non-profit governance structures and often cooperate closely with public and international actors.

**Non-bank financial institutions (NBFIs).**

NBFIs provide similar services to those of a Bank but is licensed under a separate category, often characterized by lower capital requirements, restrictions on available financial products or supervision by a different authority. In some countries this license corresponds to a special category created for microfinance institutions (Pytkowska & Benaglio, 2023, p. 55). Non-bank financial institutions engaged in microcredit include specialized providers such as *MicroBank* and *Ibilek* in Spain, which operate under specific regulatory licenses distinct from those of commercial banks.

**Credit unions.**

Credit unions are member-based, democratic non-profit financial intermediaries that provide savings and lending services primarily to their members, who also constitute their ownership base. They operate under dedicated regulatory frameworks designed to protect member interests and ensure cooperative governance (Pytkowska & Benaglio, 2023, p. 54). While NBFIs and credit unions constitute important provider categories in some national contexts, their role in European microfinance is more limited and institutionally heterogeneous, which explains the stronger analytical focus on nonprofit and nongovernmental organizations in this chapter Credit-union-based micro-lending is found in cooperative financial institutions such as Banca Etica in Italy and Crédit Coopératif, which provide member-oriented financial services within democratic governance and cooperative regulatory frameworks.

### 3.1.2. Operating Environment of Microcredit Providers

Clarifying these organizational structures helps identify the actors shaping microcredit provision and shows how non-bank providers operate within institutional arrangements defined by regulation, financial support mechanisms, and coordination structures. Building on this understanding of the organizational landscape, it becomes essential to consider under which these actors' function. In developed economies, defined in this chapter as high-income countries with advanced financial markets and institutionalized social protection systems, particularly in the Western European context, microcredit provision is embedded in governance frameworks where public institutions, regulatory arrangements and socially oriented intermediaries jointly shape the conditions under which lending occurs (Fila, 2015, p. 184).

A key element of this environment is the regulatory differentiation between socially oriented lending and commercial banking. Non-bank MFIs are often authorized to provide credit only through specific permissions, exemptions or licensing categories that recognize their social objectives (Pytkowska & Benaglio, 2023, p. 55; EMN, 2024, pp. 10–11, 21). These frameworks provide legal legitimacy and determine the operational scope of microcredit programs by defining eligible clients, loan limits and supervisory requirements. Financial coordination constitutes a further dimension. Because serving financially excluded clients involves high transaction costs and greater lending risk, socially oriented organizations rarely achieve financial self-sufficiency through lending revenues alone. Public authorities therefore contribute to stability by offering risk-sharing mechanisms, co-funding arrangements or institutional partnerships, which compensate for structural underfunding in inclusion-oriented lending (EMN, 2024, p. 3). This aligns with Ledgerwood and Gibson's (2013, p. 27) market-systems framework, which conceptualizes microfinance as an ecosystem in which providers depend on supporting functions and enabling institutions.

Operational coordination also plays a central role. Non-bank actors frequently collaborate with employment services, welfare agencies and civil-society organizations, integrating lending with training, coaching and other non-financial services designed to strengthen borrowers' capabilities (Pytkowska & Bengalio, 2023, p. 18). Such arrangements reflect the broader institutional logic that microcredit functions most effectively when situated within social-policy and labor-market structures rather than as a stand-alone financial product (European Commission, 2014, pp. 32–34). These cooperative networks illustrate how socially oriented MFIs operate as both financial intermediaries and capability-enhancing organizations. Their effectiveness is shaped by regulatory frameworks, public support structures and coordination mechanisms that structure the conditions under which microcredit is delivered (Meyer et al., 2022, pp. 76–77). This provides a conceptual basis for analyzing how institutional arrangements influence the development and performance of microcredit systems in high-income contexts. These dynamics indicate that the activities of non-bank microcredit providers are shaped by wider institutional configurations rather than by organizational features alone.

Despite their structural importance, non-bank providers do not operate in isolation, as conventional banks also participate in European microfinance, albeit to a much more limited extent. They account for only 15% of all reported microfinance institutions (Pytkowska & Benaglio, 2024, p. 7) and tend to operate primarily in regions with more developed financial systems. At the same time, their lending practices differ markedly from those of nonprofit providers. The average microloan issued by banks is approximately €22,000, which is significantly higher than that of nonprofit institutions (Pytkowska & Benaglio, 2024, p. 18), and they display lower credit risk levels, as reflected in a Portfolio at Risk over 90 days (PAR90) of 4%, compared to 5% for nonprofit organizations and 9% for non-bank financial institutions (Pytkowska & Benaglio, 2024, p. 23). **Figure 4** complements this picture by illustrating the distribution of active microfinance borrowers in Europe by institutional type, highlighting the comparatively limited but distinct role of banks within the sector.

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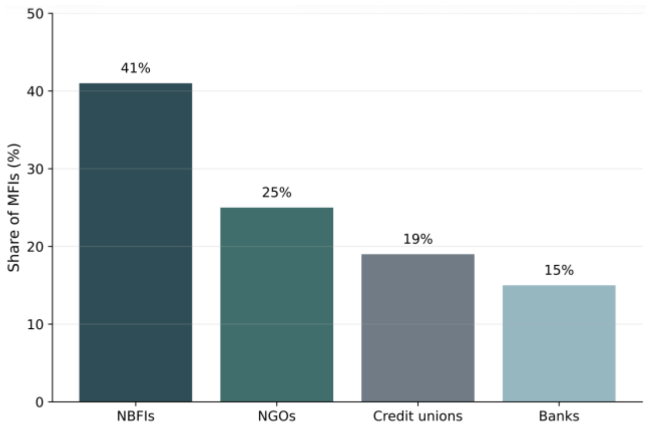


*Figure 4: Distribution of microfinance institution by institutional type in Europe (own illustration based on Pytkowska & Bengalio, 2024, p.7)*

**Figure 4** illustrates that non-bank financial institutions and nonprofit organizations account for the largest shares of borrower outreach, while conventional banks play a more limited role in the provision of microcredit. This distribution reflects the structural importance of non-bank providers within the European microfinance ecosystem and their central position in delivering inclusion-oriented lending. At the same time, the presence of banks, albeit more selective, indicates that microcredit provision in Europe operates within a mixed institutional environment shaped by both social and commercial actors (Pytkowska & Benaglio, 2024, p. 7). The more favorable risk position of banks is explained by stricter credit screening, the frequent use of collateral, and a more selective approach to lending. However, these practices also limit their outreach.

This limitation is further reinforced by differences in relational embeddedness. Chmelíková et al. (2019, pp. 4–5) demonstrate that banks benefit far less from social capital effects that reduce repayment risk, as their interactions with clients are more formalized and less embedded in local social networks, such as family ties, community associations or peer support structures. As a result, they are less effective in serving micro-borrowers with limited documentation or irregular income structures. Although banks are legally permitted to issue microloans in many European countries, they make limited use of this option because their business models and organizational structures are not primarily designed for small-scale lending (EMN, 2024, pp. 5–6). In practice, banks appear mainly in selected market segments or in the context of public support schemes, while nonprofit and nongovernmental organizations assume the broader operational role within the European microfinance landscape (EMN, 2024, p. 18). The Council of Europe Development Bank further highlights these institutional differences, showing that conventional banking assessment models constrain lending to very small or newly founded enterprises with limited financial documentation, thereby reinforcing the need for non-bank providers in this segment (CEB Technical Assessment and Monitoring Directorate, 2024, pp. 10–12). These patterns point to the importance of institutional configurations, which can be more systematically understood through theoretical approaches that examine how different institutional domains interact and shape the functioning of microcredit systems.

## 3.2. Patterns of Embeddedness and Complementarity

### 3.2.1. Institutional Complementarity

Institutional complementarity refers to the idea that different institutional domains, including welfare systems, regulatory frameworks and financial governance structures, operate most effectively when they reinforce one another (Deeg, 2007 p. 3). The concept assumes that institutions do not function in isolation but form unions in which the performance of one institutional element enhances the effectiveness of the others or compensates for its deficiencies (Amable, 2015, p. 82). This perspective also implies that multiple viable configurations of complementary institutions can exist, challenging the notion of a single optimal institutional model based on a uniform set of best practices. Yet, complementarities limit the range of feasible combinations, as not every institutional arrangement is possible or sustainable within a given economy (Amable, 2015, p. 79).

This theoretical understanding is central to the analysis of microfinance in developed Western economies, where microcredit operates within structured welfare states rather than as an autonomous market activity. Microfinance can be understood as part of an interconnected institutional arrangement in which regulatory frameworks, financial instruments and welfare systems jointly shape the sustainability and mission fulfilment of microfinance institutions. Within such settings, supervision mechanisms, public subsidies and social policy form interdependent institutional linkages that stabilize resources, reduce uncertainty and support inclusion-oriented objectives in advanced welfare systems (Dalla Pellegrina et al., 2023, pp. 3–5).

This perspective is reinforced by research emphasizing that the social aims of microfinance institutions, such as employment creation, gender inclusion and community development, are intrinsically linked to their financial activities and cannot be analytically separated from lending operations. Social and economic objectives are shown to reinforce one another most effectively when microfinance is embedded within complementary institutional environments in which welfare, labor market and financial structures are aligned and mutually supportive (Cervelló Royo et al., 2017, pp. 82–84). Sector level analyses of microfinance in developed welfare states further support this institutional perspective. Evidence indicates that microfinance institutions depend structurally on public frameworks that integrate financial provision with social policy objectives and non-financial support mechanisms, rather than functioning as stand-alone market intermediaries. Within these coordinated institutional settings, welfare arrangements and regulatory oversight shape both lending practices and social outreach strategies (EMN, 2024, pp. 2–3).

### 3.2.2. Embeddedness

Embeddedness refers to the idea that economic activities are situated within social and institutional environments rather than functioning as isolated market processes. In the tradition of the New Economic Sociology, Granovetter (1985) argues that economic behavior is "embedded in concrete, ongoing systems of social relations," highlighting the role of trust, expectations and interpersonal ties in shaping economic outcomes. From this perspective, markets are not neutral arenas of exchange, but organizational fields structured by norms, relationships and shared understandings (Münnich, 2017, p. 111).

Applied to microfinance, embeddedness implies that the strategies and missions of microfinance institutions are shaped by the institutional configurations in which they operate. Aracil et al. (2022, p. 183) show that institutional quality which includes governance coherence, regulatory capacity and the strength of social-policy frameworks, affects the reach and effectiveness of financial inclusion initiatives. Dalla Pellegrina et al. (2024, p. 1255) similarly argue that microfinance organizations must align their practices with the institutional arrangements that define the feasible balance between social objectives and financial sustainability. Embeddedness also highlights the importance of relational and organizational networks. Microfinance institutions rely on cooperation with public bodies, social-policy actors and civil-society organizations, which provide referrals, complementary services and capability-enhancing support. These multi-actor networks reflect a broader pattern in high-income welfare contexts, where financial instruments are situated within social-investment approaches that link financial inclusion to labor-market participation and social support structures (European Parliamentary Research Service, 2022, pp. 30–33).

Relational embeddedness further operates through social capital. Trust, interpersonal ties and community networks reduce information asymmetry, enhance repayment behavior and support long-term engagement. Chmelíková, Krauss and Dvouletý (2019, pp. 2–4, 19) demonstrate that cohesion, trust and social connectedness strengthen microfinance outcomes, while Cervelló Royo et al. (2017, p. 740) show that social-performance indicators reflect the socioeconomic structures in which microfinance institutions are embedded. These mechanisms illustrate that microfinance must be understood not as an autonomous financial activity but as an institution situated within broader social, relational and policy environments.

## 3.3.Institutional Foundations

### 3.3.1. Institutional Theory (regulative, normative, cognitive pillars)

Institutional theory seeks to explain why organizations across different contexts often exhibit similar structures and practices and how rules, norms, and shared belief systems shape organizational behavior (Scott, 1995, pp. xiii–xiv; Scott, 2014, p. 56). Institutions consist of regulative, normative, and cultural-cognitive elements that together provide stability and meaning to social life (Scott, 1995, p. 33). These elements are analytically distinguished into three pillars that represent different bases of institutional order and legitimacy (Scott, 1995, pp. 34–35). Institutional structures shape organizational conduct by providing taken-for-granted frameworks that define what is considered appropriate, acceptable, and meaningful within a given context (Scott, 2014, p. 57). Institutions are embedded within broader social structures, such as role systems and networks of social positions, which structure interactions and constrain organizational action (Scott, 1995, pp. 53–54). Moreover, institutional elements are carried and reproduced through different mechanisms, including cultural systems, social structures, and routinized patterns of behavior that reinforce institutional arrangements over time (Scott, 1995, pp. 52–54). As a result, organizational action is subject to continuous social evaluation, making legitimacy crucial for securing resources, stakeholder support, and societal acceptance (Deephouse et al., 2017, p. 12). **Table 1** summarizes the key characteristics of the three institutional pillars and illustrates how different mechanisms of compliance, logics of action, and sources of legitimacy are associated with the regulative, normative, and cultural-cognitive dimensions of institutions (Scott, 1995, p. 35).

| | **Regulative** | **Normative** | **Cognitive** |
|---|---|---|---|
| Basis of compliance | Expedience | Social obligation | Taken for granted |
| Mechanisms | Coercive | Normative | Mimetic |
| Logic | Instrumentally | Appropriateness | Orthodoxy |
| Indicators | Rules, laws, sanctions | Certification, accreditation | Prevalence, isomorphism |
| Basis of legitimacy | Legally sanctioned | Morally governed | Culturally supported, conceptually correct |

*Table 1: Varying Emphases: Three Pillars of Institutions (Adapted from Institutions and organizations (p.35), by W.R. Scott, 1995).*

The regulative pillar centers on formal rules, monitoring procedures and sanctioning mechanisms that specify permissible and prohibited behavior (Scott, 1995, pp. 35–36). Regulative systems introduce explicit obligations and boundaries, backed by authorities capable of enforcing compliance (Scott, 2014, p. 60). Sanctions and incentives make adherence to rules a matter of calculated response, as actors anticipate the material consequences of noncompliance (Scott, 2014, p. 61). Within this pillar, conformity is therefore largely instrumental and rests on the expectation that behavior will be monitored and that violations will be punished. These regulative structures are clearly reflected in the institutional environment of nonprofit microcredit providers in Western Europe. The institutional environment plays a decisive role in shaping the strategic orientation of nonprofit and nongovernmental microcredit providers. Because these organizations are generally not permitted to take deposits, they rely on a combination of own resources, external credit lines and public support instruments to finance their activities (EMN, 2024, pp. 5–6). This dependence is reflected in their reported financing needs, as 31 % indicate a need for additional debt financing exceeding 50 million euro, while 77 % report a need for equity injections to sustain or expand their operations (Pytkowska and Benaglio, 2024, pp. 41–42). In addition, national regulatory frameworks differ substantially about which organizations are authorized to provide microcredit. In several member states, nonprofit providers are granted a preferred or quasi-exclusive role within national microcredit frameworks. This is particularly evident in countries such as France, Germany and Luxembourg, where microcredit for financially excluded entrepreneurs is primarily channeled through nonprofit intermediaries, while commercial banks participate mainly through funding, guarantees or partnership arrangements (EMN, 2024, pp. 10–12).

The normative pillar rests on socially shared values and norms that define what ought to be done and how organizational purposes should be pursued (Scott, 2014, p. 64). Normative systems define both values (what is desirable) and norms (how things should be done) and thereby establish expectations regarding appropriate roles and responsibilities within a social system (Scott, 1995, pp. 37-38). Normative structures shape behavior by articulating obligations that are experienced as morally binding rather than externally imposed (Scott, 2014, p. 65). Professional standards and role expectations further stabilize these obligations, indicating how members of a field are expected to act (Scott, 2014, p. 66). Such norms function as socially binding rules that organize interaction and stabilize conceptions of proper conduct (Maurer, 2017, p. 129) and draw on shared interpretive patterns that orient actors' understandings of their roles and responsibilities (Maurer, 2017, pp. 136–137).

The cultural cognitive pillar encompasses shared interpretive schemes, symbolic systems and classification structures through which actors make sense of their environment (Scott, 2014, p. 67). It refers to shared conceptions of reality and typified frameworks through which meaning is constructed, and social action becomes taken for granted (Scott, 1995, pp. 40-42). These elements include typification and deeply embedded scripts that define how situations are perceived and what responses appear meaningful (Scott, 2014, pp. 68-69). Because these assumptions operate largely at a taken for granted level, compliance arises when certain actions are seen as the obvious or natural way of doing things, while alternatives appear unintelligible or inappropriate (Scott, 2014, p. 70). This pillar highlights how institutions influence behavior not only by constraining choices, but by shaping the very categories and interpretations through which actors understand reality.

Institutional processes often operate within organizational fields, defined as communities of organizations that share common meanings and interact regularly within a particular domain (Scott, 1995, p. 56). Institutional influences become especially powerful within organizational fields that generate shared meaning systems and define legitimate patterns of behavior (Wooten & Hoffman, 2017, pp. 3–4). Within these fields, organizations may experience coercive pressures from regulatory bodies, governments, or dominant actors that enforce compliance with established rules and expectations. Within such fields, coercive, normative and mimetic pressures narrow the range of acceptable action and promote convergence around institutionalized models (Wooten & Hoffman, 2017, pp. 4–6). As practices spread and are increasingly taken for granted, they acquire institutional status and are perceived as natural or expected within the field (Wooten & Hoffman, 2018, p. 7).

The three pillars are closely connected to organizational legitimacy, as each pillar provides a distinct basis for evaluation of the appropriateness of organizational structures and practices within a wider system of norms and beliefs (Scott, 1995, pp. 45-47; Deephouse et al., 2017, p. 11). Regulatory compliance supports regulative legitimacy (Scott, 2014, p. 71), value congruence supports normative legitimacy (Scott, 2014, p. 72) and alignment with taken for granted cultural understandings supports cognitive legitimacy (Scott, 2014, p. 73). These evaluations combine institutional constraints with organizational efforts to influence stakeholder perceptions (Deephouse et al., 2017, p. 14) and include pragmatic, moral and cognitive assessments that mirror the regulative, normative and cultural cognitive dimensions of institutional environments (Deephouse et al., 2017, pp. 19–20).

#### 3.3.2. Variety of Capitalism (CMEs vs. LMEs)

The Varieties of Capitalism (VoC) framework conceptualizes national political economies according to how firms and other actors coordinate their economic activities. In their foundational contribution, Hall and Soskice argue that firms face coordination problems across key spheres of the political economy and that these problems are resolved through institutionally structured modes of interaction rather than purely through market exchange (Hall & Soskice, 2001, as cited in Matějů & Vitásková, 2004, p. 4).

In coordinated market economies (CMEs), coordination is primarily achieved through strategic interaction supported by institutionalized cooperation, stable networks, and shared rules (Hall & Gingerich, 2009, pp. 452–453). In the European context, a large share of EU economies is commonly classified as coordinated market economies, particularly countries such as Germany, Austria and the Netherlands, as well as several Nordic economies including Sweden, Denmark and Finland, which are widely regarded as core examples of the CME model due to their strong systems of coordinated wage bargaining, vocational training and long-term bank–firm relations (Schneider & Paunescu, 2012, p. 732). Coordination in such systems typically extends across multiple spheres of the political economy, giving rise to institutional complementarities that reinforce collective problem-solving and long-term relationships (Hall & Gingerich, 2009, pp. 450, 454). These characteristics create favorable conditions for microcredit models that integrate financial provision with non-financial support. From a financial systems perspective, microcredit provision in such contexts is embedded within an ecosystem composed of core financial functions, formal and informal rules, and supporting functions that jointly shape access to and use of financial services (Ledgerwood & Gibson, 2013, p. 26). Supporting functions such as training, mentoring, and advisory services are therefore more likely to be institutionalized and systematically linked to credit provision in coordinated settings (Ledgerwood & Gibson, 2013, p. 36).

In liberal market economies (LMEs), by contrast, economic coordination relies more heavily on competitive markets, arm's-length contracting, and decentralized decision-making (Hall & Gingerich, 2009, p. 452). Relationships between firms and other actors are governed primarily by price signals and formal contracts rather than sustained strategic interaction, resulting in weaker institutional complementarities across economic spheres (Hall & Gingerich, 2009, p. 452). Within such environments, microcredit provision is more often driven by private financial actors or independent intermediaries and shaped by market incentives. The scope and consistency of accompanying non-financial services therefore depend strongly on the configuration of formal and informal rules within the financial system, which influence participation and behavior in financial markets (Ledgerwood & Gibson, 2013, p. 35). Typical examples of LMEs include the United States and the United Kingdom, which are widely regarded as prototypical liberal market economies characterized by market-based finance and comparatively flexible labor market institutions. Within the European Union, however, fully liberal market structures are comparatively rare, as many European economies exhibit stronger elements of coordinated institutional arrangements (Schneider & Paunescu, 2012, p. 732-733).

Recent research confirms the continued relevance of the Varieties of Capitalism framework for analyzing institutional diversity. Despite globalization and technological change, differences between coordinated and market-oriented economies remain significant because coordination logics still shape patterns of interaction and economic organization (Hall & Goerzen, 2025, pp. 1–3). Rather than converging toward a single institutional model, capitalist systems display persistent diversity rooted in historically embedded modes of coordination. Thelen (2012, pp. 7-8) argues that coordinated economies frequently adapt through selective liberalization while maintaining core institutional features. These adaptive processes modify institutional arrangements without dismantling underlying coordination logics, resulting in hybrid configurations rather than full convergence toward market-oriented models (Thelen, 2012, pp. 14-15). Friel (2024, pp. 6-8) similarly emphasizes that national economies rarely converge toward a single institutional model, as reforms tend to operate through existing coordination structures rather than replacing them. Institutional arrangements therefore persist over time, shaping how actors adapt to new economic and policy challenges. Even where liberalizing reforms are introduced, core coordination logics remain influential, producing hybrid configurations that combine market mechanisms with enduring institutional complementarities (Friel, 2024, pp. 31-32)

## 3.4. Operational Practices

### 3.4.1. Lending Models

Lending models describe the operational structures through which microfinance institutions deliver credit to financially excluded clients. In microfinance theory, these models determine how loan products are designed, how repayment capacity is assessed and how credit risk is managed. Ledgerwood & Earne (2013, p. 213) explain that the core elements of a loan, including the amount, the term, the repayment schedule, the pricing and the security arrangements, must be adapted to the constraints of borrowers who often have irregular income and limited financial documentation. Repayment schedules form an essential component of the lending model because the timing of instalments must correspond to the borrower's cash flow and directly affects the predictability of repayment (Ledgerwood & Earne, 2013, p. 214).

A central element of microfinance lending is the use of alternative security mechanisms. Since many borrowers do not possess conventional collateral, providers rely on compulsory savings, personal guarantees or assessments of character and reliability to secure repayment (Ledgerwood & Earne, 2013, p. 217). Schreiner and Colombet (2001, p. 341) argue that these mechanisms are necessary to address information asymmetry, which requires creditworthiness to be evaluated through simplified screening, direct contact and personal assessment rather than formal financial records. These lending characteristics are particularly visible in the practices of nonprofit and nongovernmental microcredit providers in Europe. Most of their portfolios consist of business microloans, which represent 72 % of total lending volume. Moreover, they issue some of the smallest average loan amounts in Europe, approximately 6.622 euro per loan (Pytkowska and Benaglio, 2024, pp. 16 &18). Another defining feature is their comparatively high share of unsecured loans, which enables them to serve clients who would not qualify for credit in traditional banking structures due to a lack of collateral or short business histories (Pytkowska and Benaglio, 2024, p. 24). This approach is reflected in the practices of individual European microfinance providers. *Adie* (2024, pp. 20-21) primarily provides unsecured individual microloans combined with mandatory business support and close follow-up, explicitly targeting entrepreneurs excluded from bank lending due to insufficient collateral or unstable income situations. Similarly, *Qredits* (2024, pp. 70-76; 11-13) applies individual lending with relatively small loan amounts and emphasizes business feasibility, character assessment and coaching rather than formal collateral, particularly for start-ups and first-time entrepreneurs. In both cases, credit risk is managed through proximity, advisory support and ongoing monitoring rather than through asset-based security. Their ability to work effectively with these clients is reinforced by strong relational networks and proximity to borrowers. Research by Chmelikova et al. (2019, pp. 4-5, p. 19) finds that social capital significantly improves repayment outcomes in Western European microfinance, with nonprofit organizations achieving lower repayment risk than banks and other institutional types. These findings support the view that the organizational form of nonprofit providers enhances their capacity to manage high risk clients through trust based and community embedded practices rather than through formal collateral mechanisms.

Sinha (2020, p. 74) generally distinguishes between individual lending and group-based lending, which represent the main theoretical categories of credit delivery. Although the degree of relevance differs across institutional contexts, this distinction is important because it illustrates that lending structures develop in response to institutional, regulatory and socioeconomic environments. Group based approaches rely on joint liability and peer monitoring, while individual lending provides greater flexibility but requires more intensive screening and follow up by the institution (Ledgerwood & Earne, 2013, pp. 214 to 215). Sinha (2020, p. 76) argues that the effectiveness of credit provision depends not only on borrower characteristics such as income stability, education, entrepreneurial experience and repayment capacity, but also on the method by which funds are delivered, as lending models reflect the cultural and institutional conditions in which they emerge. He also observes that many microfinance institutions employ mixed configurations that combine features of different models to balance outreach, operational demands and risk management (Sinha, 2020, p. 75). Lending models are also shaped by institutional arrangements that influence the feasibility of providing credit to excluded clients. Dalla Pellegrina et al. (2024, pp. 1251 to 1253) demonstrate that many microfinance institutions depend on external guaranteed mechanisms that partially absorb credit risk and make it possible for providers to serve borrowers with limited financial capacity. These institutional supports interact with product design, security substitutes and screening procedures, showing that lending practices operate within wider governance structures rather than independently from them. However, the assumption that improved lending models automatically generate entrepreneurial expansion has been questioned in the literature. Microcredit often finances small adjustments to existing activities rather than enabling substantial business growth, and many borrowers do not significantly increase income or employment after receiving loans. This suggests that access to credit alone does not overcome the structural constraints that limit the development of small-scale enterprises (Banerjee et al., 2015, pp. 3–4). These observations highlight that while lending models are central to the delivery of microcredit, their effectiveness depends on broader institutional and support mechanisms that enable borrowers to translate financial access into sustainable economic activities.

### 3.4.2. Non-financial services

In contemporary microfinance practice, financial products are rarely offered in isolation. Instead, microfinance institutions (MFIs) increasingly combine credit, savings or insurance with non-financial services (NFS), reflecting the widespread view among practitioners that financial and non-financial support operate in a relationship of interdependence (Flores & Serres, 2009, p. 3). Access to credit does not necessarily translate into substantial entrepreneurial expansion, microcredit often finances small adjustments to existing household businesses rather than generating significant increases in income, employment or new enterprise creation (Banerjee, Karlan & Zinman, 2015, pp. 3–4). Moreover, microfinance initiatives are frequently designed and promoted by external development actors, which can frame borrowers primarily as recipients of externally structured financial interventions rather than active participants shaping financial institutions themselves. At the same time, the public narrative surrounding microfinance often relies heavily on individual success stories, which may obscure the diversity and complexity of borrower outcomes and contribute to an overly optimistic perception of program effectiveness (Sholar, 2012, pp. 144–145).

In developed economic contexts such as the European Union, this integrated approach typically includes entrepreneurship training, mentoring, financial coaching, administrative assistance and, in some cases, health- or education-related support. These services are designed not only to protect borrowers but also to strengthen their capacity to develop sustainable income-generating activities. The European Microfinance Network survey highlights that non-financial support constitutes a central element of microcredit provision in Europe, as most microfinance institutions provide complementary services such as business development training, operational assistance and financial capability building (Pytkowska & Benaglio, 2024, pp. 9, 21). **Figure 5** illustrates the range of such services offered in Northwestern Europe.

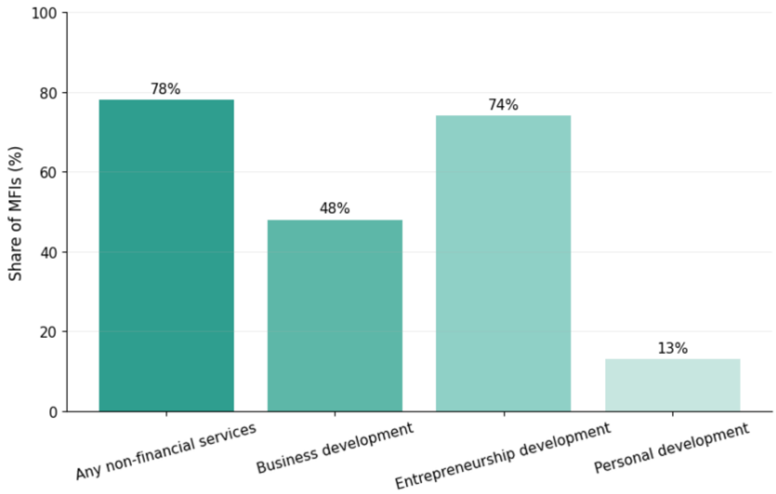


*Figure 5: Engagement of microfinance institutions in non-financial services in Northwestern Europe (N=23) (own illustration based on Pykowska & Bengalio, p.55)*

The figure shows that most institutions offer complementary support alongside credit, indicating that microcredit is typically embedded within broader support structures. This reflects a broader recognition that access to credit alone is often insufficient for individuals who lack prior entrepreneurial experience, business skills or familiarity with administrative procedures. Non-financial services therefore function as a tailored complement to financial aid by building the capabilities required to use credit effectively (Nijwa & Ganja, 2019, p. 82). In line with this, entrepreneurship development represents the most widespread form of support, followed by business development services, highlighting a strong emphasis on facilitating business creation and early-stage enterprise development. This capability-enhancing role is particularly visible in the European context, where many MFIs implement structured accompaniment programs that support clients throughout their trajectory, from project conception to enterprise consolidation (Pytkowska & Benaglio, 2024, p. 21). In contrast, personal development services are provided by only a small share of institutions.

From both a theoretical and practical perspective, non-financial services play a crucial role in risk mitigation within microcredit programs. By offering guidance, training and continuous support, MFIs can prevent poorly designed or excessively risky projects, especially among individuals with limited confidence, resources or entrepreneurial exposure. This function is reinforced by evidence indicating that advisory support contributes to improved enterprise performance and more resilient repayment dynamics, thereby strengthening portfolio quality (CEB Technical Assessment and Monitoring Directorate, 2024, p. 18). In this sense, non-financial services enhance borrowers' creditworthiness while simultaneously supporting institutional sustainability.

Beyond risk reduction, accompaniment contributes to a better alignment between the individual and the entrepreneurial project. Through mentoring, coaching and skills development, clients strengthen self-knowledge, acquire relevant competencies and assess whether their business ideas are coherent with their abilities and socioeconomic environment (Kamaha Nijwa & Valant Ganja, 2019, pp. 82–83). Empirical observations from European MFIs show that such personalized support is particularly relevant for vulnerable groups facing multiple social and economic constraints, for whom the combination of financial and non-financial services promotes autonomy, improves decision-making and reinforces repayment capacity. Non-financial services also reduce the isolation often experienced by new entrepreneurs by facilitating access to professional networks, administrative assistance and ongoing guidance, with volunteer-based mentoring playing a notable role in this regard (CEB Technical Assessment and Monitoring Directorate, 2024, p. 15; Pytkowska & Benaglio, 2024, p. 10).

The integration of financial and non-financial services can be structured through different organizational models, which further shape the scope and intensity of support. Flores and Serres (2009, pp. 2–4) distinguish between linked, parallel and unified models, ranging from coordination between separate entities to full institutional integration of financial and non-financial services. In practice, European MFIs adopt these models in varying ways depending on institutional mandates, resources and target groups. Non-governmental organizations emerge as the most active providers of non-financial services, with a large majority offering entrepreneurship development support, reflecting their strong social inclusion orientation (Pytkowska & Benaglio, 2024, p. 21). Regional differences further illustrate this institutional diversity, as MFIs in Southern Europe report significantly higher levels of non-financial service provision than institutions in other regions.

At a conceptual level, the emphasis on combining financial and non-financial services aligns with the Capability Approach, which highlights that individuals require both resources and the ability to convert them into meaningful and sustainable outcomes (Hirani & Richter, 2017, p. 47). Within microfinance, this perspective is reflected in the widespread use of accompaniment as a long-term, structured process that combines access to finance with training, advice, mentoring, networking opportunities and administrative support. The substantial outreach of such services underscores their importance: European MFIs report reaching tens of thousands of active borrowers and prospective clients through non-financial support activities, indicating that these services' function both as a preventive mechanism and as a pathway into entrepreneurship (Pytkowska & Benaglio, 2024, p. 21).

The provision of comprehensive and individualized non-financial services is resource intensive, with evidence showing that the costs associated with extensive training and mentoring programs can exceed €2,000 per client, reflecting high labor, coordination, and infrastructure requirements (CEB Technical Assessment and Monitoring Directorate, 2024, p. 15). To address these challenges and support institutional capacity, European-level initiatives provide targeted assistance to MFIs. The Social Inclusive Finance Technical Assistance program, coordinated by the European Investment Bank, supports providers through training, operational assessments and guidance related to the implementation of the European Code of Good Conduct for Microcredit Provision. In cooperation with specialized partners, the program offers support in areas such as digitalization, investment readiness and environmental, social and governance assessments, thereby reinforcing the quality and sustainability of non-financial service provision across the European microfinance sector (European Investment Bank, 2025).

# 4. Microcredit in Europe with a Focus on Luxembourg and Austria

## 4.1. Microcredit in Austria

### 4.1.1. Governance Structure

Austria has a highly regulated financial system in which lending authority is strictly limited to licensed banks. The European Microfinance Network describes Austria as a country with no legislation dedicated to microcredit and emphasizes that only banks are permitted to issue loans, which effectively prevents any form of nonbank microfinance activity (EMN, 2024, p. 19). The earlier legislative mapping confirms that Austria has no legal definition of microcredit, no licensing regime for microfinance institutions and no public funding or tax incentives that support microcredit provision (EMN, 2019, p. 1). Because of this regulatory structure, microcredit can only operate through formal banks in cooperation with advisory and evaluation partners. Until 2016, program delivery was embedded in a wider institutional constellation in which *ÖSB* Consulting worked alongside *Austria Wirtschaftsservice GmbH (AWS)*, Erste Bank, the *Sparkasse* and *CARE,* reflecting a more dispersed support structure than exists today (OECD & European Union, 2015, pp. 130–131)

Within this environment, the program "Der Mikrokredit" functions as Austria's institutional mechanism for supporting individuals who cannot secure conventional bank financing. The scheme itself was launched in May 2010 as a pilot initiative by the Federal Ministry of Labor, Social Affairs and Consumer Protection before later expanding nationwide (OECD & European Union, 2015, p. 130) The program explicitly states that microcredit is intended for business creation "even when equity and securities are missing" and targets unemployed persons, individuals facing job loss and people with limited financial resources who wish to establish small enterprises (BMASGPK, 2025, p. 1). Its eligibility conditions prioritize applicants who would not qualify for commercial lending due to insufficient collateral or own funds (BMASGPK, 2025, pp. 1–3). Since its introduction in 2010, the program has enabled around one thousand business foundations, illustrating its role as a labor market measure that supports transitions into self-employment (Erste Group Bank AG, 2022, p. 1).

The advisory and coordination functions of the program are carried out by *ÖSB* Consulting, a leading organization within the *ÖSB* Group, the largest independent provider of labor market services in Austria. According to the program documentation, *ÖSB* Consulting conducts the initial assessment, assists applicants in developing the digital business plan, coordinates the digital application process and manages communication with the program partners (BMASGPK, 2025, pp. 3–5). The organization states that it develops innovative consulting programs and pilot projects for the labor market while working internationally and addressing regional needs. *ÖSB* Consulting also provides advisory support for up to six months after credit approval (BMASGPK, 2025, p. 1). Applicants often reach the program through referrals from the public employment service or the chamber of commerce, both of which introduce microcredit as a financing option for people seeking to start a business (Erste Group Bank AG, 2022, p. 1).

A central component of the institutional arrangement is the mandatory hearing commission. Applicants present their business plan to a commission composed of an agency mandated by the Federal Ministry and the lending bank (Erste Group Bank AG, 2022, p.1). The commission assesses both the feasibility of the project and the applicant's readiness for self-employment before forwarding the application to the bank (BMASGPK, 2025, p. 5). This evaluative process substitutes for the due diligence normally performed by microfinance institutions in countries where nonbank lending is permitted. The loans themselves are issued exclusively by Erste Bank and the Sparkassen, which have been partners of the program from its inception and continue to serve as the sole authorized lenders. After the commission's evaluation, Erste Bank conducts its own credit assessment and makes the final lending decision, as specified in the program guidelines (BMASGPK, 2025, p. 5). Additional advisory support is provided by the Austria Senior Expert Pool (ASEP), whose volunteer mentors assist applicants during the preparation and early stages of their business activity (BMASGPK, 2025, p. 1). Austria's bank monopoly on lending and the absence of a distinct microfinance regulatory framework have led to a program-based model in which microcredit is delivered through the coordinated work of designated institutional partners and backed by guarantees from the European Investment Fund within the InvestEU framework (Erste Group Bank AG, 2022, p. 2). However, existing research notes that the highly centralized structure of the Austrian microcredit system limits the development of independent microfinance institutions and restricts the diversification of microcredit providers. Because lending activities are legally reserved for licensed banks, non-bank organizations primarily fulfil advisory and screening roles rather than acting as autonomous lenders, which narrows the scope of microfinance activity in the country (European Microfinance Network, 2024, pp. 19–20). In this context, microcredit provision remains closely tied to public programs and banking partnerships rather than evolving into a broader and more independent microfinance sector.

#### 4.1.2. Operational Delivery and Support Mechanisms

Since 2016, the operational delivery of microcredit in Austria has followed a standardized process centered on *ÖSB* Consulting as the coordinating body, a mandatory project presentation, and a defined group of cooperating banks. Applicants begin by completing an online "Quick-Check," which screens basic procedural requirements and ensures that the planned activity falls within the scope of eligible business purposes (BMASGPK, 2025, p. 3). Successful completion leads into the full application phase, during which applicants prepare a business plan, financial projections and all supporting documents with the guidance of *ÖSB* advisers. The program specifies strict time limits for this stage, which is up to eight weeks for the preliminary phase and up to twelve weeks for the full application and ensures that only fully documented cases progress further (BMASGPK, 2025, p. 4).

Eligibility for the program is defined by a broad set of labor-market and socioeconomic criteria. Applicants may qualify if they are unemployed, registered with the Public Employment Service, in short-term or atypical employment, recently emerged from insolvency, self-employed with unstable revenues, affected by disability-related work limitations, or threatened by poverty according to national income thresholds (BMASGPK, 2025, pp. 1–3). The scheme is also intended for individuals who possess a viable business idea but cannot access regular bank loans due to insufficient own funds or lack of collateral. Applicants must plan to establish a microenterprise as defined by EU criteria and meet the residency and legal status requirements of the program (BMASGPK, 2025, pp. 2–3) According to recent OECD data, Austria exhibits persistent gaps in entrepreneurial participation among women, older people (typically individuals aged 50 and above) and young people (typically individuals below 30), as well as immigrants and people with disabilities, which therefore constitute central target groups for inclusive financing and advisory support (OECD & European Commission, 2023, pp. 255–256).

Once the dossier is complete, the applicant presents the business project before a commission, which discusses feasibility, financial planning and projected revenues. This presentation precedes the bank's formal assessment and credit decision (BMASGPK, 2025, p. 5). The loan product offered under this scheme is uniform: up to 15 000 € with a maximum maturity of 60 months and an interest rate of 3-month Euribor + 3%**,** fixed for the entire term. All participating banks benefit from a guarantee provided by the European Investment Fund, which absorbs part of the credit risk and allows lending to applicants who may lack collateral or have irregular income histories (Erste Bank Group AG, 2025).

The broader Social Banking framework in which the program operates has reported significant outreach. According to the Erste Bank Social Banking Impact Report 2023, more than 47,000 clients have been supported across Social Banking activities, contributing to over 97,000 preserved and created jobs (Erste Group Bank AG, 2023, p. 7). Many microloan recipients had previously been excluded from traditional lending due to insufficient collateral, irregular income patterns or limited credit histories. Reported outcomes include an improved ability to cover unexpected expenses, manage regular household costs and handle economic difficulties, alongside greater confidence, perceived respect and a more optimistic personal and family outlook (Erste Group Bank AG, 2023, p. 15). Support for starting entrepreneurs combines the provision of start-up loans with business trainings, e-learning modules, networking opportunities and mentoring-based business-plan assessments, illustrating the multidimensional operational architecture through which Social Banking strengthens microenterprise development (Erste Group Bank AG, 2023, p. 10).

## 4.2. Microcredit in Luxembourg

### 4.2.1. Governance Structure

Luxembourg does not have legislation dedicated to microcredit and maintains neither a legal definition of microcredit nor a specific regulatory category for microfinance institutions. According to the European Microfinance Network, non-bank lenders may provide credit under the Consumer Credit Law, subject to case-by-case authorization by the *Commission de Surveillance du Secteur Financier* (*CSSF)* (EMN, 2024, p. 16; EMN, 2019, p. 1). This flexible regulatory approach means that the *CSSF* assesses each provider individually rather than applying a dedicated licensing regime. Within this framework *Microlux* is the only organization authorized to offer microcredit in Luxembourg, operating under an ad hoc authorization that exempts it from the status of *Professionnel du Secteur Financier* (PSF) and results in limited reporting requirements (EMN, 2019, p. 1). In the EMN's classification of European regulatory environments Luxembourg is grouped among the countries that have no microcredit-specific legislation but allow non-bank lenders to disburse loans directly, provided they do not take deposits (EMN, 2024, p. 7). This contrasts with Austria, which falls under the scenario where the lending business is reserved to banks and non-bank providers are restricted from operating independently (EMN, 2024, p. 19).

*Microlux* was established through a partnership between *ADA*, a public-interest organization specialized in inclusive finance, *BGL BNP Paribas*, a commercial banking institution, *Adie*, a nonprofit microfinance organization with operational expertise in developed economies, and the European Investment Fund, an EU-level public financial institution providing financial support mechanisms, reflecting a coordinated effort to adapt microfinance approaches to the Luxembourg context in order to expand access to credit for individuals excluded from traditional banking services (Microlux, 2017, p. 4). Since its creation, *Microlux* has defined itself as a social enterprise dedicated to fostering economic inclusion by supporting people who wish to start or develop a business but cannot access bank credit. This commitment was further reinforced in 2024 when *Microlux* adopted the status of *Société à Impact Sociétal* (SIS) and converted 100% of its capital into impact shares, a change that guarantees the full reinvestment of all profits into the organization's activities. By renouncing any financial return, the shareholders affirmed that all resources and efforts devoted to *Microlux* are exclusively directed toward the social inclusion of disadvantaged individuals (see chapter 2.3) and the development of entrepreneurship and employment in Luxembourg (Microlux, 2024, p. 2).

A defining feature of Luxembourg's institutional environment is that *Microlux* integrates advisory support directly into its microcredit mission. The 2023 and 2024 activity reports indicate that coaching accompanies the credit process and constitutes a core element of the organization's mandate to promote inclusive entrepreneurship (Microlux, 2023, pp. 6–9; Microlux, 2024, pp. 6–7). *Microlux* complements its lending activity with individual coaching provided before and after business creation. This personalized support assists entrepreneurs with business planning and financial projections prior to launch and continues post creation through guidance on administrative procedures, marketing and commercial strategy, as well as through regular exchanges to address emerging difficulties (Microlux, 2025b). Advisory support is delivered through a structured volunteer network with professional experience in areas relevant to business development and is further reinforced through partnerships with corporate sponsors that contribute additional mentoring capacity (Microlux, 2024, pp. 10–11). This embedded support structure reflects a microfinance model in which financial and non-financial services are institutionally linked rather than provided separately. Governance arrangements complement this model through a structured system designed to separate responsibilities and limit operational risk. Strategic oversight is ensured by a Board of Directors composed of representatives from the founding partners *BGL BNP Paribas*, *ADA*, *Adie* and the European Investment Fund, while a Risk Committee oversees operational and credit risk. Day to day activities are managed by an operational team supported by an internal control function responsible for compliance with procedures and KYC requirements, meaning identity and compliance checks (Microlux, 2024, p. 18).

*Microlux* is embedded in a national partnership network that anchors microcredit within Luxembourg's broader entrepreneurship and inclusion policies. Institutional partners such as the Ministry of the Economy, the Chamber of Commerce, *Société nationale de credit et investissement* (SNCI), Banque de Luxembourg, The Human Safety Net and the Œuvre Nationale de Secours Grande-Duchesse Charlotte provide financial backing and institutional legitimacy for *Microlux's* activities (Microlux, 2023, p. 12; Microlux, 2024, pp. 10–11). Collaboration with Banque de Luxembourg plays a practical role within this ecosystem, as the bank refers entrepreneurs who do not meet conventional lending criteria and contributes expertise through participation in the Credit Committee, strengthening *Microlux*'s capacity to assess projects from financially excluded applicants and reinforcing its position within Luxembourg's financial landscape (Microlux, 2024, p. 18). The involvement of established financial institutions further shapes the microcredit environment. As a founding shareholder, *BGL BNP Paribas* integrates *Microlux* into its corporate social responsibility approach, which is operationalized through the social pillar of its ESG strategy referring to environmental, social and governance criteria guiding non-financial corporate responsibility and focusing on social and financial inclusion (BGL BNP Paribas, 2024, pp. 4-5). Within this framework, *Microlux* functions as a concrete instrument combining microfinance provision with non-financial support through lending expertise, employee mentoring and participation in governance and credit committees (BGL BNP Paribas, 2024, pp. 18–19).Complementing these partnerships, the Ministry of the Economy introduced in 2023 an aid scheme for first time business creators in cooperation with the Chamber of Commerce and the Chamber of Skilled Trades, providing capital support of up to €12,000 alongside a short practical training integrated into the Bloom training program of the House of Entrepreneurship, which strengthens project readiness before entrepreneurs approach financing mechanisms such as *Microlux* (House of Entrepreneurship, 2023, pp. 14–15). Within this institutional setting, microcredit provision in Luxembourg is organized through a distinct operational model.

### 4.2.2. Operational Practices and Support Mechanisms

Access to microcredit in Luxembourg is designed for individuals who wish to start or develop a business but are excluded from conventional bank financing. Eligibility criteria include unemployed individuals and beneficiaries of the "*revenu d'inclusion sociale*" (REVIS), Luxembourg's statutory social inclusion income scheme that applies once entitlement to unemployment benefits has expired or is not available. *REVIS* constitutes one of the country's principal instruments to combat monetary poverty and social exclusion and guarantees a legally defined minimum standard of living to resident households whose resources fall below a protected threshold, irrespective of the causes of income insufficiency (Chambre des salariés du Luxembourg, 2019, p. 13). While access to *REVIS* is universal for residents, it is conditional upon meeting specific eligibility requirements and, for beneficiaries who are fit for work, participation in activation and reintegration measures. In addition, young entrepreneurs lacking financial guarantees, refugees[3], and micro- or social entrepreneurs unable to meet standard bank credit requirements are eligible for microcredit support (Microlux, 2025a). These categories illustrate a focus on populations structurally disadvantaged in accessing commercial credit markets. Operationally, loan delivery follows a six-step process. Applicants first make contact through the website or by phone, followed by a meeting with a loan officer to discuss the project (Microlux, 2017, p. 10). Where necessary, personalized coaching supports the finalization of the business plan and completion of the application. Once the file is complete, it is submitted to the Credit Committee, after which the loan agreement is signed, and funds are disbursed. This process reflects an operational model in which financial assessment and personalized guidance are deliberately integrated.

In terms of financial instruments, business microloans of up to €50,000 are offered in combination with individual coaching. Eligibility is assessed on the coherence of the project, repayment capacity, the applicant's personal and professional background and the quality of the business plan (Microlux, 2025a). Standard loan conditions include an annual interest rate of 8.25%, a 3% administration fee with minimum and maximum thresholds, a possible payment deferment at the beginning of the loan, repayment periods ranging from 12 to 60 months and the requirement that a guarantor covers one third of the loan amount (Microlux, 2025a). For loan amounts between €25,000 and €50,000, additional conditions apply: new business creators

[3] In this context, the term refugees refers to individuals who have received international or subsidiary protection status and who have recently settled in the host country. Due to limited credit history, lack of collateral, and often unstable employment situations, this group frequently faces difficulties accessing traditional bank financing.

must provide a personal contribution of at least 20% of the total financing plan, while existing entrepreneurs must demonstrate a minimum of 1 year of business history; in both cases repayment may extend up to 96 months (Microlux, 2025a). A reduced interest rate applies in 2025 to entrepreneurs whose activities demonstrate a social or ecological orientation. Complementary instruments include honorary loans for unemployed project holders and social inclusion income beneficiaries, as well as microcredit for employment of up to €10,000 to support labor market integration through financing items such as vehicles, driving licenses or professional training (Microlux, 2025a).

The client base served through these mechanisms is characterized by significant socioeconomic vulnerability. At the time of first contact, 57% of beneficiaries were unemployed or receiving social inclusion income, and average household income was less than half of the national average (Microlux, 2021, p. 6). Only 11% of clients held Luxembourgish nationality, and many originated from countries outside Europe, highlighting persistent barriers to traditional financial services (Microlux, 2021, p. 5). Women were more frequently single parents with substantial care responsibilities, reinforcing the role of microcredit as both a financial instrument and a pathway to social and economic integration for underrepresented groups (Microlux, 2021, p. 4). Demand for support has increased in recent years. In 2024, more than 300 individuals contacted the institution with entrepreneurial projects, representing a 17% increase compared with the previous year, and 176 people benefitted from tailored support (Linna, 2025).

Coaching occupies a central role in the operational model. Support is provided both before the loan is granted and after the business is launched, helping beneficiaries develop administrative, financial and marketing competences while strengthening confidence in their entrepreneurial capacity. According to the impact study, 83% of clients reported improvements in entrepreneurial skills, and more than half indicated meaningful changes in their practices because of this accompaniment (Microlux, 2021, p. 15). Precreation coaching focuses on defining the business model and preparing financial projections, while post creation support addresses the practical challenges encountered during the first months of activity. These features translate into measurable outcomes in terms of outreach and lending activity. Operational outcomes are further shaped by support from the wider inclusion ecosystem. In 2024, 50 microloans were granted for a total of €694,400, and women represented 34% of supported entrepreneurs (Linna, 2025; BGL BNP Paribas, 2024, p. 18). Since its creation, a total of 321 microloans amounting to €4.59 million have been disbursed, with an outstanding loan portfolio of €1.86 million (Linna, 2025). Additional support is provided through volunteer engagement and mentoring activities by founding partners, contributing to referral pathways, mentoring capacity and the broader operational environment in which microcredit provision takes place (BGL BNP Paribas, 2024, p. 18)

# 5. Methodology

## 5.1. Research Question and Hypotheses

Microcredit has become an established policy instrument aimed at promoting social and financial inclusion in Europe, particularly in high-income countries characterized by developed financial markets and institutionalized welfare systems (Fila, 2018, p. 532). Despite a shared European policy framework and broadly similar inclusion objectives, national microcredit systems differ considerably in their institutional design, governance arrangements, and operational practices. These differences are especially visible in Western European contexts, where microcredit operates alongside mature banking sectors and comprehensive social protection systems, yet continues to target groups that remain excluded from conventional credit markets (European Commission, 2020, p. 60).

While existing research provides extensive insights into microcredit as a tool for inclusion, much of the literature focuses on program-level outcomes such as repayment rates, business survival, income generation, and employment creation, target groups, or country-specific arrangements. Moreover, a substantial share of microcredit research has traditionally concentrated on developing and emerging economies, where microcredit was originally conceptualized as a poverty alleviation instrument and a response to underdeveloped financial markets (Chmelíková et al. 2019, pp. 2-3). In contrast, comparatively limited attention has been paid to microcredit systems operating in high-income Western European countries, where microcredit functions within mature financial sectors and institutionalized welfare states (Milotay & Noonan, 2022, p. 3). As a result, empirical and comparative analyses that examine how institutional frameworks and operational practices shape microcredit provision in developed economies remain fragmented and uneven, despite the growing policy relevance of microcredit in these contexts.

This gap in the literature points to a research problem that is not primarily concerned with the existence of microcredit or its general objectives, but with the ways in which national institutional configurations influence how microcredit systems function and deliver inclusion-oriented outcomes in practice. Comparative research that systematically links institutional environments with the operational practices through which microcredit is implemented in Western European countries remains limited. Against this background, the present study focuses on Luxembourg and Austria as two high-income Western European countries embedded in coordinated market economies yet characterized by distinct institutional and operational approaches to microcredit provision. Although both countries operate within the broader European microfinance framework, they differ about regulatory structures, the role of public authorities, the involvement of nonprofit and banking actors, and the organization of non-financial support services. These differences provide a suitable basis for examining how institutional environments and operational practices interact in shaping the effectiveness of national microcredit systems.

Although the selection of Luxembourg and Austria is driven by analytical considerations, the empirical analysis is situated in a period that coincides with important institutional developments in both countries. The analysis conducted in the thesis therefore concentrates on the period from 2017 onward, as this marks a phase of institutional consolidation in the respective national microcredit systems. In Luxembourg, the establishment of *Microlux* in 2016 led to the creation of a dedicated microfinance institution, resulting in a more stable and structured framework for microcredit provision from 2017 onward (Lalieu, 2019). In Austria, a reorganization of institutional responsibilities and partner structures within the national microcredit program occurred in 2016, leading to altered institutional and organizational conditions from 2017 (OECD/European Union, 2015, p. 130). Focusing on this period allows the analysis to examine microcredit systems after key institutional changes had been implemented, thereby enabling a more meaningful assessment of how institutional frameworks and operational practices shape inclusion-oriented outcomes.

The research question guiding this study is as follows:

**How do institutional and operational factors influence the effectiveness of microcredit systems in fostering socioeconomic inclusion among disadvantaged entrepreneurs in Luxembourg and Austria between 2017 - 2025?**

This research question is grounded in the view that variations in the effectiveness of microcredit systems cannot be explained by individual program characteristics alone but are shaped by the interaction between institutional frameworks and operational practices. Accordingly, the analysis directs attention both to the broader institutional context in which microcredit is embedded and to the concrete organizational practices through which microcredit is delivered. By focusing on Luxembourg and Austria, the study examines how different institutional environments and operational approaches influence inclusion-oriented outcomes within comparable high-income economies characterized by coordinated market structures and extensive welfare-state arrangements, with particular attention to the period from 2017 to 2025, which captures the most recent developments reflected in the existing literature and follows key institutional reforms in both countries.

To answer the research question, two hypotheses were formulated:

**Hypothesis 1:**
*The effectiveness of national microcredit systems in fostering socioeconomic inclusion is primarily shaped by the institutional framework in which they operate. Coordinated institutional environments that enable cooperation between public authorities, financial institutions, and nonprofit actors create more favorable conditions for inclusion-oriented microcredit provision than less integrated institutional settings.*

This hypothesis implies that differences in the effectiveness of microcredit systems are closely linked to the broader institutional context in which microcredit is provided rather than to isolated program features alone. It assumes that coordinated institutional frameworks facilitate cooperation between public authorities, financial institutions, and nonprofit actors, thereby creating more favorable conditions for inclusion-oriented microcredit provision. The analysis therefore focuses on the role of institutional arrangements and public–private coordination in shaping national microcredit systems.

**Hypothesis 2:**
*The effectiveness of microcredit programs in fostering socioeconomic inclusion is shaped not only by access to credit but also by the provision of non-financial support mechanisms. Microcredit providers that combine lending with tailored mentoring, training, and business advisory services are more likely to facilitate sustainable entrepreneurial activities among disadvantaged borrowers.*

This hypothesis focuses on operational practices at the organizational level and assumes that access to financial capital alone is often insufficient to overcome structural barriers faced by disadvantaged entrepreneurs. Non-financial support measures are assumed to complement credit provision by strengthening entrepreneurial capabilities and improving business sustainability. The analysis therefore examines how the integration of financial and non-financial services contributes to inclusion-oriented outcomes within microcredit systems.

### 5.2. Literature review and source selection

To establish the theoretical and empirical foundation of this thesis, a structured literature review was conducted combining peer-reviewed academic articles, selected academic books, and institutional publications. The literature search was carried out primarily using the academic databases of the University of Vienna (usearch.univie.ac.at) and the Vienna University of Economics and Business (katalog.wu.ac.at), complemented by targeted searches via Google Scholar. Peer-reviewed journal articles constitute the core of the literature review and were selected based on their scientific relevance, methodological rigor, and direct contribution to understanding microcredit, financial inclusion, and institutional arrangements in Europe.

In addition to journal articles, the literature review deliberately incorporates a limited number of established academic monographs and handbooks[4]. These works were included because they provide foundational theoretical frameworks and system-level perspectives that cannot be fully captured through article-based literature alone. They support the conceptual grounding of the thesis by offering structured approaches to microfinance systems, institutional analysis, and nonprofit and hybrid organizational forms, thereby complementing the more specialized empirical insights drawn from journal publications.

Building on this foundation, the literature reviewed in this chapter can be grouped into three interrelated bodies. First, core theoretical contributions from institutional economics, comparative political economy, and development economics provide the conceptual framing of the analysis. This strand of literature is used to frame microcredit as an institutionally embedded policy instrument rather than a purely financial tool, with particular emphasis on institutional complementarities, legitimacy, and the interaction between financial systems, welfare-state arrangements, and labor market institutions in high-income European economies.

Second, the thesis draws on empirical and policy-oriented studies published by European institutions, including the European Commission, the European Investment Bank, the European

[4] *The New Microfinance Handbook: A Financial Market System Perspective*, *Institutions and Organizations: Ideas, Interests, and Identities,* and the *Handbuch der Nonprofit-Organisation*

Investment Fund, the OECD, the Council of Europe Development Bank, and the European Microfinance Network (EMN). These sources are essential for capturing the specific characteristics of microcredit provision in Europe, where microfinance operates alongside mature banking systems and extensive welfare states. Selected EMN publications play a central role in structuring the comparative perspective of the thesis. *Microcredit Regulation in Europe: An Overview* (2025) is used to analyze how national legislative frameworks formalize the role of non-bank microfinance institutions and shape the development and functioning of microcredit systems, thereby allowing Luxembourg and Austria to be situated within broader European regulatory classifications. Complementary insights are drawn from the *Microfinance in Europe: Survey Report 2024*, which provides sector-wide quantitative and comparative evidence on portfolio structures, borrower profiles, and social performance across 30 European countries. These data are used illustratively to contextualize the two case countries within wider Western European patterns rather than to conduct independent statistical analysis.

Third, for the country-specific institutional analysis, additional information was drawn from official documentation published by national actors directly involved in microcredit provision, including publicly available reports and web-based material from microfinance institutions and partner organizations. In the case of Luxembourg, certain operational and institutional aspects of *Microlux* were not fully captured in peer-reviewed academic literature or European-level reports. Where such gaps existed, carefully selected online publications issued by *Microlux*, the European Commission, and the European Investment Bank were consulted to reflect recent developments and current practices that are not yet systematically covered in academic research. To ensure methodological rigor, all information obtained from institutional websites was systematically triangulated and subsequently validated through expert interviews conducted as part of the qualitative research design. The combined use of academic literature, institutional sources, microfinance-institution-level material, and interview-based evidence provides a robust foundation for analyzing microcredit systems within their national and European institutional contexts.

While the empirical analysis is limited to the period beginning in 2017, the literature review draws on academic and institutional sources published between 2010 and 2025. This broader literature timeframe was chosen to capture both longer-term developments in microfinance research and policy debates, as well as more recent regulatory and institutional changes within the European context. Earlier foundational contributions were deliberately included where they provide essential conceptual insights into the objectives, mechanisms, and social dimensions of microcredit and continue to inform contemporary academic and policy discussions.

### 5.3. Research Design

For the empirical part of this thesis, a qualitative research design was adopted, as the research objective is not to measure predefined variables or to test causal relationships statistically, but to gain an in-depth understanding of complex, context-dependent social and institutional phenomena. Qualitative research differs fundamentally from quantitative approaches regarding both the nature of the data and the logic of analysis (Kuckartz & Rädiker, 2022, p. 15). While quantitative research is primarily based on numerical data that can be aggregated and statistically evaluated, qualitative research relies on non-numerical, meaning-structured data such as interview transcripts, documents, or other textual materials (Kuckartz & Rädiker, 2022, p. 16). Accordingly, qualitative analysis does not aim at reducing data to numerical indicators, but at interpreting meanings, structures, and patterns within their contextual embeddedness. In the case of qualitative content analysis, the text remains analytically relevant even after categorization, as interpretation continues to refer back to the original wording and context of the statements (Kuckartz, 2018, p. 48; Mayring, 2022, pp. 22–23).

The choice of a qualitative research design is therefore closely linked to the research interest and the objectives of the study. Qualitative approaches are particularly suitable when the research field is characterized by institutional complexity, dynamic developments, and limited or fragmented prior knowledge, as they allow for the exploration of actors' perspectives, interpretative frameworks, and underlying institutional logics (Mayring, 2022, pp. 24–25). Moreover, qualitative research enables the in-depth analysis of individual cases within their specific social and organizational contexts, thereby facilitating a holistic understanding of complex phenomena (Mayring, 2022, p. 25). This case-oriented logic provides the methodological foundation for conducting comparative analyses, as it allows similarities and differences between cases to be examined while preserving contextual sensitivity. On this basis, the study proceeds with a comparative case study design, which is further specified in the following section.

Building on the qualitative research design, this study adopts a comparative case study approach. Case study research is particularly suitable for examining contemporary social and institutional phenomena that are closely embedded in real-life contexts and cannot be clearly separated from the conditions under which they occur (Yin, 2014, pp. 27–30). Rather than focusing on isolated variables, a holistic examination is applied, meaning that institutional frameworks, involved actors, and operational practices are analyzed together and in relation to one another within their specific national and organizational context. In this study, the comparative approach is implemented as a multiple-case study design based on replication logic rather than sampling logic, which means that each case is first analyzed as a distinct empirical unit and then systematically compared with the other case to identify similarities and differences (Yin, 2014, pp. 78–82). This design allows analytical conclusions to be drawn about how different institutional and operational settings shape outcomes, without aiming at statistical generalization.

### 5.4. Expert Interviews

To operationalize the comparative case study design outlined in the previous section, this study employs expert interviews as the primary method of empirical data collection. Given the focus on institutional frameworks, governance arrangements, and operational practices within national microcredit systems, expert interviews are particularly suitable, as they provide access to specialized, context-dependent knowledge that is not fully captured in formal documents or quantitative data. Expert interviews make it possible to examine how institutional rules are interpreted, applied, and translated into practice by actors directly involved in the respective systems. Following Helfferich (2011), expert interviews are defined by the functional role of the interviewees rather than by their personal biographies. Experts are selected because of their professional position and their specific knowledge of organizational processes, decision-making structures, and practical routines within a given field. The aim of expert interviews is therefore not to reconstruct individual life experiences, but to elicit structured, topic-related knowledge that is relevant for understanding institutional and organizational contexts (Helfferich, 2011, pp. 9–11). Expert interviews are particularly appropriate for research designs that address complex institutional settings and seek to explain how structures and practices interact. Helfferich (2011) emphasizes that expert interviews are well suited for exploratory and explanatory qualitative research, as they enable the systematic reconstruction of actors' interpretations, orientations, and problem definitions within their field of action (pp. 25–27). In the context of a comparative case study, this makes expert interviews a suitable method for identifying similarities and differences in how institutional arrangements and operational practices are shaped across cases. Building on this understanding of expert interviews as a qualitative research method, the following sections describe how this approach was implemented in the empirical part of the study.

### 5.4.1. Expert selection and anonymization

Experts are defined by their functional position and their specific, field-related knowledge rather than by their personal biographies (Bogner et al., 2014, pp. 9–12). They possess privileged access to relevant information, decision-making processes, and practical routines within a particular institutional or organizational field due to their professional role, and expert interviews aim at eliciting context-specific, practice-oriented knowledge relevant for understanding structures and processes in complex institutional settings (Bogner et al., 2014, pp. 13–16). The selection of interview partners followed a purposive and iterative sampling strategy (Bogner et al., 2014, pp. 33–36). In a first step, the institutional and organizational microcredit landscape in Luxembourg and Austria was systematically analyzed to identify key actors involved in the design, coordination, financing, and implementation of national microcredit systems. Based on this contextual analysis, relevant institutions and organizations were identified, and potential experts were contacted directly. During the research process, additional experts were identified through referrals from already interviewed participants, allowing access to further relevant expertise not immediately visible through publicly available sources.

In total, ten expert interviews were conducted. Nine experts were affiliated with national institutions or organizations in Luxembourg and Austria, while one interview was carried out with a representative of the European Investment Fund (*EIF*). The inclusion of the *EIF* is particularly relevant, as the institution plays a central role in the European microfinance framework by providing financial instruments and guarantees that shape and support national microcredit programs, thereby influencing the design and implementation of national systems. Given the involvement of experts in exposed or senior positions, the anonymization of interview data was of particular importance, as institutional or personal identification might otherwise be possible (Bogner et al., 2014, pp. 85–88). Although the use of the interview material for research purposes was permitted, identifying information was handled in a way that prevents the identification of individual interviewees. The degree of anonymization was applied in a differentiated manner. For interviews with experts from the banking sector, the names of the institutions were not disclosed to avoid indirect identification. In contrast, for interviews with representatives of public support institutions, the organizations could be named while personal identifiers were anonymized. This approach corresponds to factual anonymization, in which identifying details are removed or generalized while preserving the analytical value of the interview data (Medjedović & Witzel, 2010, pp. 77–79).

| ***Nr.*** | ***Name*** | ***Institution/Organization*** | ***Abbreviation*** |
|---|---|---|---|
| E01 | Gilles Scholtus, Laurent Solazzi | Ministry of the Economy (Luxembourg) | MECO |
| E02 | Expert (Banking Sector) | Commercial Bank (Luxembourg) | Bank (LUX) |
| E03 | Expert (aws) | Austria Wirtschaftsservice GmbH | AWS |
| E04 | Jérémy del Rosario | Microlux | |
| E05 | Karin Zoubek-Schleinzer | Riz up - Niederösterreichs Gründeragentur GmbH | Riz up |
| E06 | Amaury Martin | Appui au développement autonome | ADA |
| E07 | Ulrike Wald | Erste Group Bank AG | Erste Group |
| E08 | Lukas Sommer, Edwin Baroian-Haftvani | OESB Consulting | OESB |
| E09 | Johann Humenberger | Austrian Senior Experts Pool | ASEP |
| E10 | Cristina Dumitrescu, Simone Petrillo | European Investment Fund | EIF |

*Table 2: Overview of interview participants and their organizations (own illustration)*

As **Table 2** shows, the sample comprises experts from a range of institutions and organizations that are directly or indirectly involved in the design, financing, or implementation of microcredit and entrepreneurship support programs. The interviewees represent public authorities, financial institutions, advisory and support organizations, as well as European-level bodies from Luxembourg and Austria, ensuring a broad institutional perspective on microcredit systems and accompanying support mechanisms. All interview partners possess domain-specific expertise within their respective fields, confirming their suitability as experts for the conducted semi-structured interviews. Short profiles of the interviewees and their affiliated organizations, illustrating their roles and expert qualifications, are provided in **Appendix 2**.

#### 5.4.2. Construction of the Interview Guide

For this study, semi-structured expert interviews were conducted. Semi-structured interviews, also referred to as guide-based interviews, are characterized using an interview guide as the central instrument structuring the conversation. In the context of expert interviews, the use of interview guides has proven particularly suitable, as they allow for a combination of thematic structure and flexibility during the interview process (Bogner et al., 2014, pp. 25–29).

An interview guide structures the interview both content-wise and procedurally**,** while leaving sufficient room for interviewees to elaborate on aspects they consider especially relevant. This balance between openness and structure is considered a key advantage of semi-structured expert interviews, particularly when analyzing complex institutional and organizational contexts (Bogner et al., 2014, p. 27).

Methodological literature recommends structuring expert interview guides into three to a maximum of eight thematic blocks for interviews of approximately one hour (Bogner et al., 2014, p. 26). Following this recommendation, the interview guide developed for this study consists of the following thematic blocks:

- **Thematic Block 1: Introduction and Institutional Background**

This block serves as the entry into the interview and focuses on the interviewee's role, responsibilities, and institutional involvement in microcredit or inclusion-related programs. The introductory questions are designed as open narrative prompts, allowing interviewees to present their expertise and organizational context in their own words.

- **Thematic Block 2: Institutional Environment of Microcredit**

This block addresses the broader institutional framework conditions shaping microcredit systems, including legal regulations, organizational responsibilities, cooperation between public and private actors, welfare-state interactions, and the role of national and European programs. It operationalizes **Hypothesis 1 (H1)** by examining how institutional arrangements influence the design and effectiveness of microcredit.

- **Thematic Block 3: Operational Practice**

The third block focuses on the organizational implementation of microcredit. It covers internal procedures, lending processes, non-financial support services, evaluation practices, operational challenges, and changes since 2017. This block directly relates to **Hypothesis 2 (H2)** and aims to analyze how operational practices affect microcredit effectiveness.

- **Thematic Block 4: Socioeconomic Inclusion and Impact**

This block links institutional and operational factors to inclusion outcomes. Interviewees are asked to reflect on the effectiveness of microcredit in promoting socioeconomic inclusion among disadvantaged groups, differences between target groups, and conditions for long-term economic and social stability.

- **Thematic Block 5: Prospects and Policy Implication**

The fifth block adopts a forward-looking perspective and addresses institutional, legal, and operational barriers, potential reform needs, and the future role of microcredit in comparison to alternative financial instruments.

- **Thematic Block 6: Conclusion**

The final block provides interviewees with the opportunity to mention additional aspects that may not have been covered during the interview and includes a procedural closing question regarding possible follow-up contact.

For each thematic block, one to several guiding questions were formulated, which served as central conversational prompts. Depending on the course of the interview, additional follow-up questions were used to further explore aspects that had not yet been sufficiently addressed. The complete interview guide is provided in **Appendix 1**.

### 5.4.3. Interview Implementation and Transcription

Initial contact with potential interview partners was established via email or, in some cases, through contact forms on the respective organizations' websites. In the subsequent communication process, email was used consistently. This allowed for the coordination of interview appointments as well as for clarifying issues related to voluntary participation, consent to audio recording, the general interview procedure, and the possibility of follow-up questions. The expert interviews were conducted between late November and early December 2025. In January 2026, an additional conversation took place with a deputy representative of Erste Bank. This exchange did not constitute a full expert interview based on the interview guide but served solely to obtain additional clarifications and complementary information that could not be provided by the main interview partner during the interview conducted in November 2025. The information obtained in this follow-up conversation was used selectively to supplement and contextualize existing findings. All interviews were conducted online via video conferencing. This approach enabled a high degree of geographical and temporal flexibility for both the interviewer and the interviewees, while also ensuring high audio quality, which was essential for the subsequent transcription process. The interviews lasted between approximately 45 minutes and 1 hour and 15 minutes. Throughout the interviews, the interview guide served as an orientation framework and practical support. However, in order not to disrupt the natural flow of conversation, strict adherence to the order and exact wording of the questions was deliberately avoided. In several cases, interviewees addressed certain topics proactively, making it unnecessary to ask all prepared questions explicitly. Conversely, additional probing questions were used where further clarification or depth was required.

The interviews were conducted in four different languages: German, English, French, and Luxembourgish. Interviewees were asked in advance which language they felt most comfortable using. In Austria, all interviews were conducted in German. In Luxembourg, interviews were conducted in Luxembourgish, English, or French, reflecting the multilingual working environment and the international composition of the professional environment. For example, interviews with representatives of European-level institutions were conducted in English. All interviews were transcribed using MAXQDA. Given that the qualitative content analysis focuses primarily on the substantive content of the statements, a simple transcription approach was applied. Accordingly, paralinguistic features such as intonation, volume, speaking speed, gestures, and facial expressions were not included. Transcription was carried out following the methodological guidelines proposed by Kuckartz and Rädiker (2022, pp. 200–201). The interviews were recorded in full text form, but phonetic details were not captured. To improve clarity and analytical usability, dialectal speech was rendered in standard language, with careful attention to maintaining the original meaning. Limited editorial adjustments were made to enhance readability, while deviations from standard grammar and original word order were retained unless they hindered understanding.

As the master's thesis is written in English, all interview transcripts were translated directly into English during the transcription process to ensure consistency across the dataset and facilitate comparative analysis. For interviews conducted in Luxembourgish, automatic transcription was not available within MAXQDA. These interviews were therefore transcribed and translated manually before being integrated into the dataset. In total, the interview transcripts comprise approximately 109 pages. A partial anonymization procedure was applied. While interview codes were used in the analysis to ensure clarity and consistency, not all interviews were fully anonymized, as anonymization practices differed depending on institutional context and the interviewees' explicit consent. Due to their extent and confidentiality considerations, the full transcripts are not included in this thesis. However, they can be made available for inspection upon request.

### 5.5. Qualitative Content Analysis

The empirical analysis of this study is based on ten semi-structured expert interviews, which were analyzed using qualitative content analysis following Mayring (2022). Qualitative content analysis represents a systematic and rule-based method for analyzing textual material and places particular emphasis on the development, definition, and consistent application of categories to structure and interpret qualitative data (Mayring, 2022, p. 43 ff.). According to Mayring (2022), qualitative content analysis distinguishes between inductive category development and deductive category application. In inductive category development, categories are derived directly from the empirical material through an open, data-driven process. Deductive category application, in contrast, relies on categories defined in advance based on theoretical considerations, previous research, the research question, or specific hypotheses (Mayring, 2022, p. 84). In the present study, a combined inductive–deductive approach was applied to ensure that the analysis remained both closely grounded in the empirical material and theoretically informed.

In a first analytical step, the main categories were developed inductively from the interview material. This involved a systematic review of the interview transcripts to identify recurring themes, central arguments, and dominant patterns emerging across the interviews. The inductive procedure ensured that the analytical structure reflected the perspectives of the interviewed experts and captured the institutional and operational realities of microcredit provision. In a second step, subcategories were developed deductively based on the research question and the two hypotheses guiding this study. This deductive step allowed the analysis to focus more precisely on the institutional and operational dimensions that shape the effectiveness of microcredit systems. The resulting category system consists of nine main categories that structure the empirical analysis: **Objectives, Target Groups, Access, Institutions, Regulation, Implementation, Support, Barriers, and Effects**. Each of these main categories contains several subcategories that capture more specific analytical dimensions. For instance, the category *Objectives* includes subcategories such as *Social Inclusion* and *Sustainability*, while the category *Target Groups* comprises subcategories such as *Women*, *Migrants*, and *Other Excluded Groups*. Other categories address institutional actors involved in microcredit provision (*Institutions*), operational procedures such as the application and decision-making process (*Implementation*), forms of non-financial support such as mentoring or financial literacy training (*Support*), structural barriers affecting microcredit provision (*Barriers*), as well as economic and personal outcomes associated with microcredit programs

(*Effects*). Through this structured coding system, the analysis captures the key institutional, operational, and outcome-related dimensions relevant to the research question.

The analytical procedure followed the general principles of qualitative content analysis as described by Mayring (2022). All interview transcripts were examined line by line, and relevant text passages were identified and assigned to the corresponding categories. Each relevant segment was labelled with a code, and it was continuously assessed whether the passage could be subsumed under an existing category or assigned to a specific subcategory within a main category. This procedure corresponds to the principle of subsumption described by Mayring (2022, p. 86), according to which empirical statements are gradually integrated into an existing category system. To ensure transparency and methodological consistency, category definitions, coding rules, and anchor examples were developed for each category. Anchor examples were selected directly from the interview material to illustrate the meaning of each category and to provide clear guidance for the coding process. The respective interview identification numbers (E01–E10) were used to indicate the origin of the quoted passages and to ensure the traceability of the analysis. The complete coding guide, including category definitions, coding rules, and anchor examples, is provided in **Appendix 3**.

The units of analysis were defined in accordance with Mayring (2022). The coding unit consists of individual words or short text segments when they can be clearly assigned to a specific category, while the context unit comprises several sentences or coherent text passages to adequately capture the meaning of statements within their broader context. The unit of analysis is the entire empirical material consisting of all ten expert interviews conducted for this study (Mayring, 2022, p. 60). To support the qualitative content analysis, the qualitative data analysis software **MAXQDA** was used. The use of specialized qualitative data analysis software facilitates systematic category management, clear assignment of coded text segments, and transparent documentation of the analytical process, thereby enhancing the traceability and methodological rigor of the analysis. In addition, generative artificial intelligence tools (ChatGPT) were used as a language support tool to assist in reformulating sentences and improving stylistic clarity during the writing process. The AI tool was not used for data analysis, coding decisions, or interpretation of the empirical material. All analytical procedures, coding decisions, and interpretations remain the author's own work.

## 6. Institutional Frameworks for Microcredit Provision

The empirical analysis presented in this chapter examines how microcredit systems are shaped by the institutional environments in which they operate and provides the empirical basis for evaluating Hypothesis 1 in Chapter 8.1. Rather than testing the hypothesis directly, the analysis identifies and compares the institutional configurations underlying microcredit provision in Austria and Luxembourg. Drawing on institutional theory, it focuses on the regulative, normative and cultural-cognitive dimensions that structure organizational behavior and influence how financial inclusion instruments are designed and implemented. These elements shape economic activity through formal rules, shared norms and taken-for-granted cognitive frameworks that define legitimate patterns of action (Scott, 1995, pp. 33–35, 40). Institutional processes are embedded within organizational fields composed of public authorities, financial institutions, advisory organizations and intermediary actors that collectively structure the provision of microcredit within a given domain (Scott, 1995, p. 56). **Figure 6** provides a comparative overview of the institutional dimensions shaping the microcredit systems in Austria and Luxembourg.

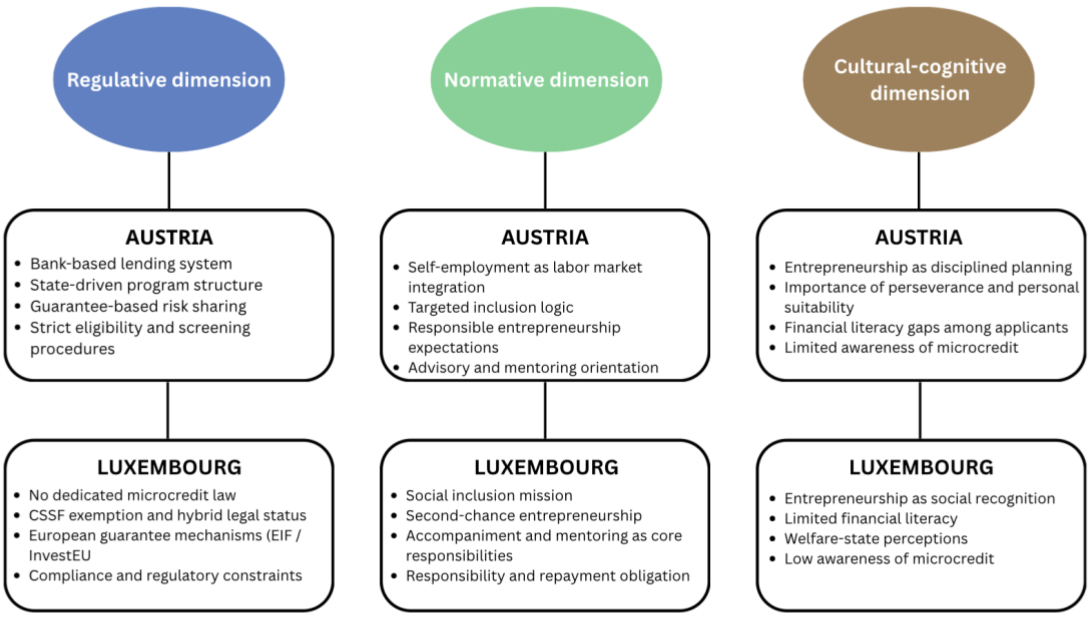


*Figure 6: Institutional Dimensions Shaping Microcredit Systems in Austria and Luxembourg based on interview material (own illustration)*

Based on Scott's framework, the figure synthesizes the main empirical findings from the interview material and shows how regulative, normative and cultural-cognitive elements structure the organization and functioning of microcredit provision in both contexts. By organizing the findings along these three dimensions, it highlights the key institutional characteristics that shape how microcredit programs are implemented and coordinated. The microcredit systems examined in this chapter can therefore be understood as institutionalized fields in which multiple actors interact to enable access to finance for disadvantaged entrepreneurs.

## 6.1. Austria

### 6.1.1. Regulative Dimension

As outlined in Section 4.1, Austria's financial system is characterized by a strictly regulated institutional framework in which lending authority is legally restricted to licensed banks and no dedicated microfinance legislation exists. Microcredit therefore does not operate as a separate regulatory domain but is embedded within general banking law, meaning that lending remains tied to established financial institutions. This institutional setting is also reflected in the empirical material, where respondents from *ÖSB* Consulting (E08) describe the system as "very strongly state driven," highlighting the central role of public actors in structuring both access to and the provision of microcredit. Scott (2014, pp. 59–60) defines the regulative pillar as being based on formal rules and enforceable authority, which provides a useful lens for understanding why microcredit in Austria is organized through regulatory compliance rather than through alternative institutional arrangements.

Building on this regulatory foundation, microcredit is implemented through the same operational logic that governs conventional banking. A representative from *Erste Group Bank* (E07) explains that microcredit loans are issued by Erste Bank and regional savings banks under the same regulatory framework as standard loans and are treated identically during the repayment phase. This indicates that microcredit is not positioned as a distinct financial instrument but is fully integrated into existing banking practices. Deephouse et al. (2017, pp. 6–7) argue that organizations gain legitimacy by aligning with established norms and expectations, which helps explain why microcredit provision follows conventional procedures. Yet, this raises questions about access, as Fila (2018, p. 548) points out that creditworthiness assessments in traditional banking can create barriers for financially vulnerable groups. The Austrian case suggests a more differentiated arrangement, in which these criteria remain in place but are complemented by additional mechanisms that enable access without fundamentally changing the underlying banking logic.

A closer look at the role of guarantees helps explain how this arrangement works in practice. Representatives from *Erste Group* Bank (E07) and *ASEP* (E09) emphasize that lending to individuals without collateral or stable income would not be feasible without publicly supported guarantees that reduce the financial risk for banks. Microcredit provision therefore depends on a redistribution of risk that allows banks to operate within existing regulatory constraints. Hall and Gingerich (2009, p. 450) describe institutional complementarities as situations in which one institutional element increases the effectiveness of another, which can be observed here, as guarantees make bank-based lending to higher-risk clients possible. This also adds nuance to the observation by the European Microfinance Network (2024, p. 6) that non-bank institutions are often better positioned to serve vulnerable groups, as the Austrian system shows that a bank-based model can reach similar target groups when such support mechanisms are in place.

This interplay between inclusion and constraint becomes even more visible when looking at how access to the program is regulated. Applicants must undergo a structured screening process and provide formal documentation, including a credit extract from the Austrian credit registry (KSV), and negative entries lead to exclusion according to predefined rules. As described by the representative from *AWS* (E03), these criteria are applied consistently, meaning that individuals with problematic credit histories are filtered out at an early stage. The European Microfinance Network (EMN, 2024, p. 4) defines microcredit as targeting individuals with limited access to mainstream financial services, while Fila (2018, p. 548) highlights that formal credit checks can act as barriers for these groups. The Austrian case brings these two aspects together, as exclusionary screening mechanisms remain in place, yet access is still possible through guarantees and advisory support. The program therefore does not replace conventional banking procedures but combines them with additional elements that reduce their restrictive effects.

The current institutional configuration of the Austrian microcredit system emerged through reforms aimed at clarifying responsibilities and reducing institutional complexity. The representative from *AWS* (E03) describes the pre-2016 arrangement as institutionally dense, with overlapping competences between ministries and implementing organizations that created unclear responsibilities. The subsequent restructuring introduced a clearer division of roles between the Federal Ministry, *ÖSB* Consulting, and participating banking institutions, resulting in a more coordinated governance structure. This shift can be understood as a reorganization of relationships within the existing institutional framework rather than a structural transformation.

Deeg (2007, pp. 626–627) emphasizes that institutional change often occurs through such internal realignments, where adjustments in the coordination between actors improve how a system functions without altering its core structure. Here, the clearer allocation of responsibilities reduces overlap and uncertainty, which strengthens coordination and makes the implementation of microcredit more predictable.

While internal coordination has improved, the empirical material indicates that the system remains less connected to the broader entrepreneurial support environment. A representative from *RIZ UP* (E05) describes the microcredit program as relatively isolated and only weakly embedded in wider support networks. This suggests that strong coordination exists within the core institutional arrangement between public actors and banking institutions, but that linkages to other support structures remain limited. Hall and Gingerich (2009, p. 450) note that complementarities can remain confined to specific institutional relationships, which helps explain why the Austrian microcredit system appears highly coordinated in its core structure but less integrated within the wider entrepreneurial ecosystem.

### 6.1.2. Normative Dimension

The Austrian microcredit program is normatively structured around a clearly defined understanding of who should be supported and under which conditions entrepreneurial activity is considered appropriate. The expert from *ÖSB* Consulting explains that access is strictly limited to individuals who cannot obtain financing through conventional banking channels, while applicants with sufficient collateral or alternative access to credit are explicitly excluded (E08). The expert from *Erste Group* adds that beneficiaries frequently include migrants, women and individuals referred through labor market programs (E07). This delineation corresponds to the broader European understanding of microcredit as an inclusion instrument targeting vulnerable groups such as unemployed individuals or those at risk of exclusion (Botsari et al., 2024, pp. 50–54). In the Austrian case, however, these groups are not simply included but selectively filtered. Scott conceptualizes normative institutions as systems in which shared values define legitimate goals and appropriate beneficiaries, thereby establishing socially accepted boundaries of inclusion (Scott, 2014, pp. 63–64). Microcredit therefore does not operate as unconditional access to finance but as a value-based instrument that specifies who ought to be supported and under which conditions support is considered justified.

The expert from *Erste Group* explains that many applicants would not meet conventional banking criteria (E07), pointing to structural exclusion from credit markets. Armendáriz and Morduch (2010, pp. 30–36) attribute such exclusion to information asymmetries and risk-related uncertainty, which lead financial institutions to ration credit. The Austrian program does not remove these constraints but builds on them by introducing additional expectations. The expert from *ASEP* emphasizes that applicants must demonstrate capability, reliability and entrepreneurial readiness (E09), indicating that exclusion from the market alone is not sufficient for access. Applicants are therefore assessed not only in terms of financial viability but also in relation to what is considered an appropriate entrepreneurial profile. This reflects Scott's understanding of normative systems, which define expected roles and appropriate conduct within a field (Scott, 2014, pp. 64–66). This becomes visible in the selection process itself. The expert from *ÖSB* Consulting describes a multi-stage procedure including financial pre-screening, documentation and a formal hearing (E08), while the expert from *ASEP* highlights that evaluation extends beyond the business idea to include personality, experience and commitment (E09). Ledgerwood and Earne (2013, pp. 213–214) emphasize that lending to underserved clients requires careful assessment of repayment capacity. The Austrian case shows that such assessments are not purely technical but incorporate normative judgments about suitability, linking financial evaluation to expectations of responsible behavior.

The advisory and evaluation processes further reinforce these normative expectations. The expert from *AWS* explains that the program remains highly advisory despite digital elements (E03), while the expert from *ÖSB* Consulting notes that support often exceeds formal requirements (E08). OECD/European Commission (2023, pp. 20–23) emphasize that inclusive entrepreneurship policies combine finance with training and coaching to support disadvantaged groups, which corresponds to the expert accounts indicating that advisory practices shape how entrepreneurship is understood and performed. Scott describes such processes as institutional carriers through which normative expectations are reproduced in organizational routines (Scott, 1995, pp. 52–54; Scott, 2014, p. 66). The expert from *Erste Group* stresses that evaluation cannot be reduced to repayment rates but must include outcomes such as economic stability, employability and confidence (E07), reflecting a broader understanding of success that goes beyond financial performance. OECD/European Commission (2023, p. 6) similarly frame inclusive entrepreneurship as promoting labour market participation and social inclusion, while Deephouse et al. (2017, pp. 19–20) describe such evaluations as forms of moral legitimacy. The expert from *ÖSB* Consulting further defines clear boundaries of appropriateness, indicating that microcredit is suitable for small-scale, low-capital business models and for applicants demonstrating realistic planning and commitment, but not for capital-intensive projects or highly unstable situations (E08), illustrating how normative expectations define what is considered acceptable within the Austrian microcredit system (Scott, 2014, pp. 63–66).

### 6.1.3. Cultural-cognitive dimension

Beyond formal rules and normative expectations, the Austrian microcredit program is shaped by shared ways of interpreting entrepreneurship, risk and financial exclusion. Scott describes the cultural-cognitive pillar as consisting of taken-for-granted assumptions that define what actors perceive as realistic, plausible and appropriate (Scott, 2014, pp. 67–70). In Austria, entrepreneurship is not primarily understood as experimentation or trial-and-error, but as a structured and responsibility-oriented process. The expert from *ASEP* highlights perseverance and realism as central characteristics of viable founders (E09), while the expert from *Erste Group Bank* refers to coherent financial planning and the ability to clearly articulate a business model (E07). These observations indicate that business ideas are interpreted through an implicit cognitive template of what a credible entrepreneur looks like. Projects that rely on overly optimistic assumptions or lack conceptual clarity tend to be perceived as implausible rather than simply underdeveloped, as they do not align with this shared understanding of viable self-employment.

This pattern reflects broader tendencies observed across European microfinance. More specifically, access to microcredit is commonly structured around an assessment of borrowers' repayment capacity as a central criterion (EMN, 2024, pp. 12–13), with lending decisions grounded in evaluations of debt capacity and the ability to meet financial obligations over time (Ledgerwood et al., 2013, pp. 213, 224). The Austrian case, however, suggests that these elements function less as outcomes to be developed and more as preconditions for credibility. While European frameworks often emphasize learning processes and gradual capability building, the expert accounts indicate that business ideas are filtered early on according to whether they fit established interpretations of what constitutes a "realistic" entrepreneurial project. As a result, plausibility is not only assessed in financial terms but shaped by shared cognitive frames that define which forms of entrepreneurship appear viable from the outset.

This cognitive framing becomes especially visible in how financial competence is interpreted. The expert from *Erste Group* notes that many applicants struggle to separate private and business finances (E07), while the expert from *Riz Up* refers to difficulties in realistically assessing economic viability (E05). Ledgerwood and Gibson link financial access to the ability to understand and manage financial information (Ledgerwood & Gibson, 2013, pp. 15–48). The Austrian case reflects this relationship but also suggests that these challenges are not purely technical. Münnich (2017, pp. 110–118) points out that economic behavior is shaped by socially learned interpretations of economic reality, suggesting that evaluations of entrepreneurial activity are not purely objective but depend on shared understandings that define what constitutes a viable and credible economic project. From this perspective, what appears as insufficient financial competence can also be understood as a mismatch between different interpretative frameworks. Applicants may rely on everyday understandings of income, costs or risk that differ from those applied within financial institutions. This helps explain why certain projects are perceived as unrealistic even when the underlying idea itself is not inherently unfeasible. The evaluation process is therefore shaped not only by measurable indicators but by shared interpretations of what counts as economically meaningful and credible.

Entrepreneurship is also understood as an activity that requires embedding in supportive structures rather than purely individual initiative. The expert from *ÖSB* Consulting refers to the importance of networks and institutional support (E08), while the expert from *Erste Group* Bank highlights cooperation and advisory structures (E07). The expert from *ASEP* notes that founders operating in isolation are perceived as significantly more vulnerable (E09). OECD and European Commission describe inclusive entrepreneurship as combining financial support with coaching and guidance to build capabilities over time (OECD/European Commission, 2023, pp. 37-38). The Austrian case reflects this perspective, yet the way entrepreneurship is interpreted remains relatively demanding. Preparedness, structure and discipline are treated as indicators of credibility rather than outcomes that emerge through support. These interpretations shape how entrepreneurial potential is perceived, reinforcing a shared understanding of self-employment as a structured and guided process rather than an open-ended or exploratory activity.

Microcredit itself has not yet become fully embedded in everyday entrepreneurial thinking. The expert from *Riz Up* points to limited awareness of the program (E05), and the former *AWS* expert notes that it is not widely recognized outside specific professional networks (E03). The expert from *ASEP* describes it as a specialized rather than mainstream financing instrument (E09). Scott links cognitive legitimacy to the extent to which practices are widely understood and taken for granted (Scott, 2014, p. 70). This level of taken-for-grantedness appears only partially achieved in Austria. Microcredit is recognized within certain institutional circles, yet it does not automatically enter the range of perceived financing options for many potential founders. Its role therefore remains context-dependent, shaped by visibility, familiarity and shared interpretations of what constitutes a "normal" pathway into entrepreneurship.

## 6.2. Luxembourg

### 6.2.1. Regulative dimension

Microcredit in Luxembourg operates within a regulatory environment that is formally strict but structurally incomplete. The expert from the Ministry of the Economy emphasizes that no specific legal definition or dedicated law for microcredit exists (E01), while the expert from *Microlux* explains that the organization was only able to begin operating after extensive legal clarification and a specific exemption granted by the CSSF (E04). These observations show that formal rules define the boundaries of permissible action without fully specifying how actors such as *Microlux* fit within them. In line with Scott's understanding of the regulative pillar, rules determine who is authorized to act and under which conditions (Scott, 2014, pp. 59–61), yet the interviews indicate that these boundaries remain partly open and require continuous interpretation in practice.

This ambiguity becomes particularly visible in the construction of legitimacy. The expert from *Microlux* describes how operating under a CSSF exemption requires ongoing interaction with supervisory authorities and banking partners to maintain acceptance (E04), whereas the expert from the Ministry presents the framework as clearly structured through national and European regulation (E01). Rather than contradicting each other, these perspectives reveal different levels of the same institutional setting. Deephouse et al. (2017, pp. 4–5, 21–22) argue that legitimacy depends on alignment with multiple audiences and evaluative criteria, but the empirical material shows how this plays out concretely: access to banking cooperation and financial infrastructure depends on whether *Microlux* is perceived as sufficiently compliant within categories that were not originally designed for it. Legitimacy therefore emerges not only from formal rules, but from their interpretation and recognition by different actors.

The tension between regulation and access becomes even more apparent in risk. The expert from the commercial banking sector states that most microcredit clients would not meet standard risk criteria (E02), while the expert from the *EIF* emphasizes that guarantee schemes such as EaSI and InvestEU are essential because they partially absorb these risks (E10). The expert from *Microlux* directly connects both perspectives by noting that these guarantees make cooperation with private banks possible in the first place (E04). While European-level analyses highlight the importance of such instruments for supporting microfinance systems, the interviews show that their role extends further. They effectively modify how regulatory constraints operate in practice, allowing lending activities that would otherwise be excluded. This reflects Scott's view of regulation as a system of monitoring and control (2014, pp. 59 - 63) but also aligns with Hall and Gingerich's argument that institutional arrangements shape economic outcomes through the interaction of different domains rather than through isolated rules (Hall & Gingerich, 2009, pp. 450 - 452). The guarantees do not replace existing regulatory structures but interact with them, thereby altering how risk is distributed within the system.

A similar dynamic emerges when comparing how compliance requirements are perceived by different actors. The expert from *Microlux* highlights anti-money laundering obligations, administrative burdens and difficulties in opening bank accounts as significant constraints (E04), while the expert from the commercial bank describes these same procedures as essential for ensuring financial stability and risk control (E02). The expert from the Ministry further explains that European state aid rules require microcredit to be provided as repayable loans with risk-adjusted pricing rather than as subsidies (E01). Fila (2018, p. 548) describes this broader pattern, noting that increasingly rigorous credit requirements and conservative lending practices make access to finance more difficult for vulnerable groups. The empirical findings reinforce this argument but also show how these constraints are embedded in a broader regulatory logic. What appears as necessary prudential regulation from one perspective becomes a barrier to inclusion from another. Regulation therefore produces differentiated effects depending on the position of actors within the system.

These regulatory pressures are translated into practice through concrete risk management mechanisms. The expert from *Microlux* describes detailed viability assessments and safeguards to prevent over-indebtedness (E04), the expert from the commercial bank emphasizes its role in risk evaluation and compliance oversight (E02), and the expert from the *EIF* points to eligibility criteria, reporting obligations and portfolio monitoring (E10). This is further reinforced by the expert from *ADA*, who highlights the structural tension between financial sustainability and social objectives, given the higher risks and costs associated with microfinance (E06). Fila (2018, p. 548) similarly emphasizes that microfinance systems face structural challenges related to institutional conditions and access to capital, but the interviews show that these challenges are actively managed through cooperation between actors. In this sense, Scott's emphasis on enforcement and monitoring mechanisms (2014, pp. 59–63) is clearly visible, yet the empirical material suggests that these mechanisms are not applied uniformly but are distributed and adapted across organizations.

This interaction between regulatory constraints and organizational practices can be further understood through the lens of institutional complementarity. Deeg (2007, p. 627) argues that complementarities are not fixed properties of institutional systems but may vary across actors and evolve over time, depending on how institutions interact. The Luxembourg configuration reflects this insight. CSSF supervision, European guarantees, banking regulation and organizational practices do not form a fully coherent or stable system, yet they function together in a way that enables microcredit provision. Rather than reflecting a predefined institutional fit, the interviews show that this configuration depends on continuous coordination between actors. In practice, microcredit provision depends on how European guarantees, CSSF supervision and bank participation are combined to make lending feasible despite high risk. Hall and Gingerich (2009, pp. 450–452) highlight that such outcomes result from the interaction of institutional domains, while Deeg (2007, p. 627) emphasizes that these complementarities are not fixed but emerge through the ongoing coordination between actors. The empirical material supports this by showing that microcredit provision is sustained not by a clearly defined regulatory framework, but by the ongoing adjustment of relationships within it.

### 6.2.2. Normative dimension

The normative structuring of microcredit in Luxembourg emerges less from predefined target categories and more from a shared understanding of who should be supported under conditions of financial exclusion. The expert from the Ministry of the Economy explains that microcredit is intended for individuals who are excluded from conventional bank financing but still capable of developing a viable project (E01), while the expert from the commercial banking sector notes that most applicants would not meet standard risk criteria due to insufficient guarantees or unstable income situations (E02). The expert from *Microlux* adds that the program focuses on individuals facing structural barriers to access rather than on formally defined social groups (E04). Across these accounts, microcredit is framed not as a financial product but as a socially meaningful instrument, described as a "second chance" and as a mechanism to prevent exclusion from economic participation (E01; E04). This aligns with the broader European framing of microcredit as an inclusion-oriented instrument targeting financially excluded individuals (Botsari et al., 2024, pp. 50–54), yet the Luxembourg configuration shows that inclusion is not operationalized through fixed categories but through case-by-case evaluation. Scott's conception of normative institutions captures this dynamic, as legitimacy is grounded in shared values and conceptions of what ought to be done (Scott, 2014, pp. 63–64). Deephouse et al. (2017, pp. 6–10) similarly emphasize that legitimacy depends on socially constructed judgments of appropriateness, which in this case are reflected in the interpretation of financial exclusion as a valid reason for support, provided that the individual is considered suitable.

The definition of suitability introduces a second layer of normative structuring that extends beyond financial exclusion. The expert from *Microlux* emphasizes that applicants must demonstrate commitment, coherence and the ability to manage a business activity (E04), while the expert from the commercial bank underlines that even with guarantee mechanisms in place, a credible entrepreneurial profile remains indispensable (E02). Access to microcredit is therefore not determined solely by financial exclusion but by the extent to which applicants conform to expectations of responsible entrepreneurial behavior. Exclusion from credit markets is thus translated into expectations about how applicants should behave and present themselves. The selection process described by the expert from *Microlux* involves evaluating both the project and the individual (E04), indicating that financial viability is closely linked to judgments about reliability, discipline and engagement. Ledgerwood and Earne (2013, pp. 213–214) emphasize that lending to underserved clients requires careful assessment of repayment capacity, which in this context is closely intertwined with expectations regarding the borrower's conduct and commitment. This reflects Scott's argument that normative systems define appropriate roles and expected behavior within institutional fields (Scott, 2014, pp. 64–66). Microcredit thus establishes a model of the "responsible entrepreneur" that applicants are expected to embody to gain access.

Accompaniment plays a central role in stabilizing these expectations and translating them into practice. The expert from *Microlux* explains that support extends beyond the initial application phase and continues throughout the entrepreneurial process, including follow-up and guidance after loan disbursement (E04), while the expert from *ADA* highlights that such continuous support is necessary given the higher vulnerability of the target group (E06). OECD/European Commission (2023, pp. 37–38) frame accompaniment as a core component of inclusive entrepreneurship policies, combining financial support with coaching and mentoring to enable sustainable participation in economic activity. The expert accounts show that accompaniment is not treated as an auxiliary service but as an integral part of how microcredit is implemented. Njiwa and Gandja (2019, pp. 81–105) demonstrate from the perspective of beneficiaries that accompaniment strengthens skills, confidence and project viability, indicating that it actively shapes how individuals develop their entrepreneurial activity. Scott conceptualizes such practices as institutional carriers through which normative expectations are reproduced and stabilized (Scott, 2014, p. 66). In this sense, accompaniment does not only support entrepreneurial activity but also defines how it should be conducted.

The evaluation of outcomes further reflects this normative orientation. The expert from *Microlux* explains that success is not measured solely through repayment rates but also through indicators such as stability, autonomy and the ability to remain economically active (E04). This broader understanding of success corresponds to OECD/European Commission (2023, p. 37-39), which frame inclusive entrepreneurship as promoting labor market participation and social inclusion. Deephouse et al. (2017, pp. 19–20) interpret such evaluations as expressions of moral legitimacy, where outcomes are assessed in relation to socially valued objectives rather than purely technical criteria. The expert from the commercial banking sector nonetheless emphasizes the importance of maintaining financial discipline and credibility (E02), while the expert from *ADA* highlights the need to balance social objectives with sustainability (E06). The Luxembourg system therefore operates within a normative framework in which inclusion, responsibility and financial discipline are jointly defined as appropriate, shaping both access to microcredit and the way entrepreneurial activity is evaluated.

### 6.2.3. Cultural-cognitive dimension

In Luxembourg, microcredit unfolds within a particular way of thinking about welfare, work and economic participation. The expert from the banking sector recalls that, for a long time, it was assumed that "there was no real problem" in Luxembourg and therefore little need for microcredit (E02). The expert from the Ministry of the Economy similarly points out that financial vulnerability is often not immediately visible in such a high-income context (E01). This perception does not result from regulatory barriers or explicit disagreement, but from a taken-for-granted belief that social exclusion is limited and not strongly associated with entrepreneurship. The gradual recognition that precarious situations also exist in affluent contexts reflects a shift in collective understanding rather than institutional redesign. Scott emphasizes that such shared cognitive frames shape what actors perceive as necessary, plausible or even imaginable (Scott, 2014, pp. 67–70). In this sense, the emergence of microcredit in Luxembourg is closely linked to changing interpretations of economic vulnerability.

Entrepreneurship itself is embedded in culturally powerful meanings that go beyond economic activity. The expert from *Microlux* explains that microcredit helps individuals regain confidence, rebuild daily structure and re-enter economic participation (E04). The expert from the banking sector, however, focuses more on enabling activity despite financial exclusion (E02). What appears consistently is the importance of being able to say, “I work” or “I have my own activity,” especially in a context where unemployment is perceived as stigmatizing (E04). The restoration of rhythm, recognition and self-confidence is repeatedly emphasized (E04; E02). This points to a shared cognitive script linking work with dignity, usefulness and social belonging. The Council of Europe Development Bank similarly shows that microfinance strengthens autonomy, confidence and social participation (CEB, 2024, pp. 12–15). These observations also align with the idea that economic action is shaped by social relations and shared meanings rather than purely rational calculations, as Ledgerwood and Gibson (2013, pp. 15–48) underline that financial inclusion depends on how individuals understand and interpret financial opportunities. In line with Scott’s cultural-cognitive pillar, entrepreneurship in Luxembourg therefore becomes a meaningful and socially intelligible pathway to autonomy (Scott, 2014, pp. 67–70).

Cognitive barriers play a central role in shaping access to microcredit. The expert from *ADA* explains that many potential beneficiaries lack familiarity with financial terminology and administrative procedures (E06), while the expert from *Microlux* highlights that some individuals initially operate informally because formalization appears complex and intimidating (E04). The expert from the banking sector confirms that these gaps complicate both preparation and evaluation (E02). These patterns indicate that the challenge is not primarily a lack of motivation, but a lack of interpretative frameworks. Ledgerwood and Gibson (2013, pp. 15–48) emphasize that limited financial literacy constrains access to financial services, yet the Luxembourg case shows that this also concerns how individuals make sense of institutional requirements. Microcredit institutions therefore invest heavily in financial education, step-by-step explanations and structured preparation phases (E04; E02). These interventions do more than transfer knowledge; they reshape how individuals perceive the feasibility of entrepreneurship and help translate abstract requirements into understandable routines.

Münnich (2010, pp. 145–148) similarly argues that economic practices depend on socially embedded interpretative frameworks that enable actors to understand and navigate institutional contexts. In this sense, microcredit support in Luxembourg functions as a process of re-framing and sense-making rather than simple training.

Awareness of microcredit itself remains uneven, indicating that it has not yet become fully taken for granted. The expert from *ADA* stresses that many individuals who could benefit from microcredit are not aware of its existence (E06), while the expert from the banking sector explains that access often begins through informal inquiries or word-of-mouth rather than structured institutional channels (E02). The expert from the Ministry also highlights the importance of visibility and outreach (E01). OECD/European Commission (2023, pp. 24–26) identify lack of awareness as a key barrier to inclusive entrepreneurship, particularly for disadvantaged groups. In Luxembourg, microcredit therefore still depends on narratives, personal encounters and communication rather than being widely recognized as a standard option. Scott notes that institutions become cognitively stable when they are widely understood and no longer require explicit justification (Scott, 1995, p. 40; Scott, 2014, pp. 67–70). This stage has not yet been fully reached. Microcredit is increasingly recognized but remains in a phase of ongoing cognitive consolidation. Deephouse et al. (2017, pp. 6–9) emphasize that legitimacy depends on such shared perceptions, suggesting that the further development of microcredit in Luxembourg will depend on how strongly it becomes embedded in these collective understandings.

## 7. Operational Organization of Microcredit Provision

The operational organization of microcredit provision reflects how financial resources, advisory services and institutional support mechanisms interact in practice to enable access to credit for disadvantaged entrepreneurs. While the previous chapters examined the broader institutional environments shaping microcredit systems, this chapter focuses on the operational arrangements through which lending and support activities are implemented in Austria and Luxembourg. In doing so, it prepares the empirical ground for the analysis of Hypothesis 2 in Chapter 8.2, which examines the role of non-financial support in shaping the effectiveness of microcredit programs. Rather than testing the hypothesis directly, the analysis identifies and compares how financial and non-financial components are combined in practice and how these configurations' structure the conditions for sustainable entrepreneurial activity. **Figure 7** provides an overview of the operational structure of microcredit provision in both countries.

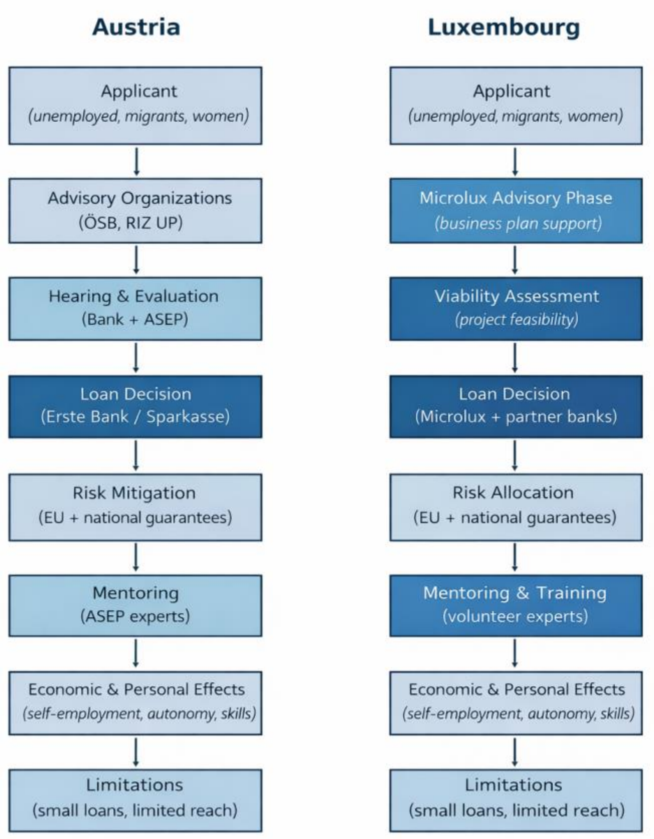


*Figure 7: Operational structure of microcredit provision in Austria and Luxembourg based on interview evidence. (own illustration)*

The figure illustrates the main stages of the lending process, beginning with the initial contact between potential applicants and intermediary organizations and extending to loan decisions, risk-sharing arrangements and post-loan mentoring. Although the specific institutional actors involved differ across the two national contexts, the overall structure reveals several common elements. In both cases, microcredit provision combines financial intermediation with advisory support and public risk-sharing mechanisms, reflecting the institutional complexity of financial inclusion instruments in developed welfare economies. In particular, the integration of mentoring, training and business advisory services highlights the operational relevance of non-financial support. The figure thus serves as a conceptual guide for the analysis presented in this chapter by summarizing the key operational components identified through the interview material and illustrating how different institutional actors interact throughout the microcredit process. Building on this overview, the following sections examine the operational organization of microcredit provision in Austria and Luxembourg in greater detail, focusing on lending models, the provision of non-financial support, and the resulting economic and social effects as well as structural limitations.

## 7.1. Austria

### 7.1.1. Lending Model and Risk Allocation

The Austrian microcredit program departs from conventional bank lending not only in its target group but in the underlying logic of credit assessment. Empirical evidence from *Erste Group* Bank (E07) and *ÖSB* Consulting (E08) indicates that applicants frequently lack the financial documentation required in standardized lending processes, while *Riz Up* (E05) highlights that business ideas are often initially formulated in broad or overly optimistic terms. This does not simply constrain lending but reshapes how creditworthiness is established. Rather than relying on pre-existing financial information, assessment is organized around the gradual construction of assessable data. Ledgerwood and Earne (2013, pp. 213–216) describe such situations as requiring adaptations of conventional appraisal techniques due to missing financial indicators. The Austrian case goes further, as information is not only incomplete but actively produced through interaction, and not all projects reach a level of structure that allows them to enter the formal lending process.

This becomes particularly visible in the role of advisory organizations. *AWS* (E03) and *Riz Up* (E05) describe how business plans and financial projections are often developed during the advisory process, while *Erste Group* Bank (E07) emphasizes the lack of basic financial structuring at the outset. Lending decisions are therefore based on information that emerges iteratively rather than on fixed inputs. Chmelíková et al. (2019, pp. 3–5) interpret this as a shift toward relational and process-based information, and Sinha (2020, pp. 77–78) similarly highlights the reliance on flexible, context-specific assessment practices in microcredit. In the Austrian case, advisory support does not merely accompany lending but shapes it, as capacity building and evaluation occur simultaneously. This also introduces a selective dimension, since only projects that achieve sufficient coherence through advisory processes become eligible for financing.

The structure of lending decisions reflects this interdependence. Interviews with *Erste Group* Bank (E07), *ÖSB* Consulting (E08) and *ASEP* (E09) indicate that credit approval emerges from coordinated evaluation processes involving multiple actors. Hearings bring together banks, advisors and experienced entrepreneurs, combining financial risk assessment with experiential judgments about feasibility. These perspectives do not fully converge, banks emphasize financial plausibility (E07), while *ASEP* focuses on entrepreneurial realism (E09), and *ÖSB* highlights the coordination of these criteria (E08). Lending decisions therefore result from the interaction of different forms of expertise rather than from a single standardized logic. This corresponds to institutional complementarity, where different institutional domains reinforce each other in shaping outcomes (Amable, 2015, pp. 79–80) but also requires ongoing coordination between distinct institutional logics (Deeg, 2007, pp. 611–612). Creditworthiness is thus not given but constructed through these interactions.

Risk allocation further illustrates both the enabling and limiting dimensions of this configuration. *Erste Group* Bank (E07) and *ÖSB* Consulting (E08) stress that banks remain constrained by regulatory requirements and internal risk considerations, even within the microcredit program. Public guarantees, as described by *ASEP* (E09) and *EIF* (E10), reduce financial exposure by covering a substantial share of potential losses and are therefore essential for enabling lending. This aligns with the role of risk-sharing mechanisms in microfinance systems embedded in formal banking environments (Ledgerwood & Earne, 2013, pp. 217–220). However, guarantees do not eliminate constraints, as high-risk applications may still be rejected (E08). Risk management is therefore distributed across financial and non-financial mechanisms, including continuous advisory support and monitoring during early business development (E03; E09).

The Austrian microcredit system thus operates as a coordinated institutional configuration in which lending and risk allocation emerge from the interaction between financial institutions, advisory organizations and public actors. These elements reinforce each other but also define the boundaries of inclusion. As Amable (2015, p. 80) notes, institutional complementarities generate context-specific arrangements shaped by internal tensions rather than stable equilibria. In Austria, banks retain final decision-making authority (E07; E08), which limits access for higher-risk applicants despite guarantees and advisory support. The system therefore restructures rather than eliminates financial exclusion. In line with Sinha (2020, pp. 84–85), the Austrian lending model can be understood as a hybrid configuration that combines multiple institutional mechanisms adapted to its specific environment.

### 7.1.2. Non-financial Support

The provision of non-financial support represents a central operational element of the Austrian microcredit program and reflects the broader objective of enabling disadvantaged individuals to establish viable self-employment activities. Interview evidence shows that many applicants approach the program with entrepreneurial ideas but lack the knowledge required to translate these ideas into sustainable business projects. This directly reflects the broader insight that financial resources alone are insufficient to generate meaningful entrepreneurial outcomes, as access to credit does not automatically translate into business expansion or stable income generation (Banerjee et al., 2015, pp. 3–4). While Riz Up (E05) emphasizes the need to transform initial ideas into coherent business concepts, *ÖSB* Consulting (E08) highlights more technical deficits related to financial planning and administrative requirements. The coexistence of these perspectives indicates that the constraints faced by applicants are not purely financial but also cognitive, organizational and procedural. In this sense, the Austrian case empirically supports the argument that financial and non-financial services operate in an interdependent relationship, as suggested by Flores and Serres (2009, p. 3), with non-financial support functioning as a necessary condition for making credit usable in the first place.

This interdependence becomes even more visible in how support is structured over time. Both *Riz Up* (E05) and *ÖSB* Consulting (E08) describe advisory services as continuous processes that extend beyond the formal loan application and accompany entrepreneurs during the early stages of business creation. This reflects the broader European pattern in which microcredit is embedded within structured accompaniment systems that support individuals from project conception to implementation (Pytkowska & Benaglio, 2024, p. 21). Yet, the interviews reveal an aspect that is less explicitly emphasized in theoretical accounts. Not all projects are developed to the stage of formal application, indicating that advisory processes also perform a filtering function. This adds an important nuance to the understanding of non-financial services.

While they are designed to build capabilities, they simultaneously shape access to credit by determining which projects are considered viable. Non-financial support therefore does not only expand opportunities but also structures them, challenging overly optimistic narratives that portray microcredit primarily through successful outcomes (Sholar, 2012, pp. 144–145).

The interaction between advisory organizations and financial institutions further illustrates how this interdependence operates in practice. The representative from *Erste Group* Bank (E07) emphasizes that applicants frequently fail to meet basic financial criteria, particularly in relation to cost calculations and the separation of personal and business finances. Advisory actors, in contrast, frame these deficits as a normal starting point that can be addressed through training and guidance. This divergence highlights a structural tension between a developmental logic focused on capability building and a financial logic oriented towards risk assessment. Non-financial support mediates between these logics by translating informal entrepreneurial ideas into structured proposals that can be evaluated within banking frameworks. In line with the capability approach, this process can be understood as a conversion mechanism, as it enables individuals to transform available resources into outcomes that are recognized as viable within the institutional environment (Hirani & Richter, 2017, p. 47). Creditworthiness therefore emerges through this interaction rather than existing independently of it.

The role of non-financial support in risk mitigation also becomes evident when comparing different actors. *ÖSB* Consulting (E08) emphasizes structured monitoring and continuous guidance as a means of preventing poorly designed or financially unstable projects. In contrast, the Austrian Senior Experts Pool (E09) highlights the importance of experience-based mentoring, particularly in areas such as strategic decision-making and business development. These approaches correspond to different dimensions of risk. Formal advisory structures address calculable risks related to financial planning and operational management, while mentoring relationships help entrepreneurs navigate more complex and uncertain situations. This combination reflects the broader understanding that non-financial services contribute to improved enterprise performance and more stable repayment behavior (CEB Technical Assessment and Monitoring Directorate, 2024, p. 18). Risk mitigation therefore emerges as a distributed process, relying on both structured guidance and experiential knowledge rather than on a single form of intervention.

A similar dynamic can be observed in relation to capability development and financial literacy. Advisors from *Riz Up* (E05) and *ÖSB* Consulting (E08) consistently report deficits in pricing, cost calculation and financial planning, which must be addressed through training and continuous support. These findings align with the broader view that non-financial services build the capabilities required to use credit effectively (Nijwa & Ganja, 2019, p. 82). However, the perspective of the banking actor (E07) shows that these competencies are not only developmental outcomes but also prerequisites for access to credit. This indicates that capability development is closely linked to selection processes, as borrowers must reach a certain level of competence to meet institutional requirements. Non-financial support therefore plays a dual role, simultaneously enabling entrepreneurial activity and defining the thresholds for financial inclusion.

The interviews further demonstrate that non-financial support is embedded in a broader network of actors, including advisory organizations, financial institutions and mentoring initiatives. *Riz Up* (E05) and *ÖSB* Consulting (E08) are responsible for preparing and structuring applications, *Erste Group* Bank (E07) evaluates financial viability, and *ASEP* (E09) provides ongoing mentoring and practical expertise. This configuration reflects the idea that microcredit provision is embedded in organizational and institutional networks rather than being the result of isolated financial transactions (Münnich, 2017, pp. 110–112). Non-financial support emerges within this network as a coordinating mechanism that connects borrowers to different forms of expertise and institutional requirements. In this context, financial inclusion is not simply a matter of providing access to credit but of integrating individuals into a structured support system that enables them to navigate the complexities of entrepreneurial activity.

### 7.1.3. Effects and Limitations

*i. Economic Effects*

In Austria, microcredit primarily functions as a labor-market oriented instrument aimed at facilitating the transition into self-employment for individuals who lack access to conventional bank financing. The program targets people who often cannot provide collateral or sufficient financial guarantees and would therefore be rejected by traditional lending institutions (E07; E09). Within this context, microcredit provides relatively small loans, typically between EUR 12,000 and EUR 15,000, which enable entrepreneurs to finance the initial stages of a business activity, for example through the purchase of equipment, small inventories or basic operational investments. While these financial volumes are modest compared to conventional start-up financing, interviewees emphasized that they can nevertheless be decisive for individuals attempting to establish small-scale service businesses or self-employed activities that require limited initial capital (E07).

Interview material further indicates that the economic impact of microcredit extends beyond the immediate financing of a single entrepreneur. In some cases, successful borrowers subsequently create additional employment opportunities, for instance by involving family members or collaborators in the business activity (E09). Although such employment effects remain limited in scale, they demonstrate that microcredit can contribute to local economic activity and the creation of small entrepreneurial structures. In addition, interviewees repeatedly stressed that economic outcomes depend heavily on the viability of the underlying business model and the personal capabilities of the entrepreneur. Access to credit alone does not guarantee economic success, and if the business model proves unrealistic, borrowers may ultimately remain with outstanding debt obligations (E03; E09). Microcredit therefore represents both an opportunity for economic participation and a financial risk associated with entrepreneurial activity.

*ii. Personal Effects*

Beyond financial outcomes, expert findings suggest that microcredit can also generate important personal and social effects for participants. Engagement with the microcredit process often requires applicants to develop business plans, articulate their entrepreneurial ideas and engage with financial planning, sometimes for the first time. Several experts emphasized that this process alone could strengthen self-confidence, self-esteem and entrepreneurial competencies, even in cases where the business project is ultimately not implemented (E03). By requiring applicants to reflect systematically on market opportunities, costs and potential risks, the application process encourages individuals to engage with entrepreneurial thinking and economic decision-making. In this sense, the microcredit process itself functions as a form of capability-building that may contribute to personal development independently of the financial outcome of the project. From the perspective of the capability approach, such processes may expand individuals' substantive freedoms by enabling them to pursue economic activities they value and to exercise greater agency in shaping their livelihoods (Sen, 1999, pp. 18–19).

These personal effects are further reinforced through mentoring and advisory support structures integrated into the Austrian microcredit program. After the loan is granted, entrepreneurs may receive follow-up mentoring from experienced professionals, often retired managers or entrepreneurs from the *ASEP*, who provide practical guidance during the early stages of business development (E09). This mentoring typically begins shortly after loan approval and often involves proactive contact with borrowers in order to discuss the development of the business and identify potential difficulties at an early stage. The advisory interaction frequently focuses less on technical business consulting than on practical problem-solving and motivational support. Conversations may address issues such as customer acquisition, payment problems, or general uncertainty about entrepreneurial decisions, and are often conducted through informal exchanges such as phone calls or personal meetings (E09). Interviewees emphasized that such guidance can be particularly valuable once the initial enthusiasm of starting a business declines and entrepreneurs face the everyday challenges of self-employment.

The empirical evidence consistently suggests that individual characteristics constitute a decisive factor in determining long-term entrepreneurial stability. Perseverance, adaptability and intrinsic motivation were repeatedly described as crucial factors influencing whether a business can overcome early difficulties and develop sustainably (E09). While mentoring and advisory support can provide encouragement and orientation, they cannot fully compensate for unrealistic business models or a lack of commitment to entrepreneurial activity. These observations suggest that microcredit can support entrepreneurial development not only through financial resources but also through capability-building and social support structures. Nevertheless, individual agency and the personal capacities of entrepreneurs remain central determinants of whether microcredit ultimately leads to stable economic participation.

#### *iii. Structural Limits*

Despite these potential benefits, several structural limitations constrain the overall impact of the Austrian microcredit system. A frequently mentioned issue concerns the relatively limited visibility of the program. Experts repeatedly emphasized that many potential beneficiaries are simply not aware that microcredit exists, which restricts the number of applicants and limits the broader reach of the instrument (E03; E09). Even after more than a decade of implementation, the program remains relatively unknown among many entrepreneurs and advisory actors. As one expert noted, many applicants are surprised to learn that such a financing instrument exists at all (E03). This limited awareness reflects the relatively small scale of the program and its positioning as a niche instrument within the broader ecosystem of start-up and labor market support measures in Austria.

A second limitation concerns the institutional organization of the program. The Austrian microcredit system involves several actors, including ministries, advisory organizations, banks and expert panels responsible for evaluating applications. While this multi-actor structure allows different forms of expertise to be integrated into the decision-making process, experts also pointed to the complexity created by the involvement of numerous institutions (E03). Earlier institutional arrangements were described as involving overlapping responsibilities and multiple approval stages, which increased administrative effort relative to the comparatively small loan volumes involved. Even though the institutional structure has been simplified over time, the implementation of microcredit programs still requires a considerable administrative infrastructure compared to the modest financial amounts being disbursed.

In addition, the limited size of microcredit loans also restricts the types of entrepreneurial activities that can be financed. Because loan amounts typically remain below EUR 15,000, the instrument is primarily suited to small-scale service activities or business models with low initial capital requirements. Capital-intensive ventures, such as technology-based start-ups or businesses requiring substantial equipment or inventory investments, cannot realistically be financed through microcredit (E03; E09). As a result, the Austrian microcredit system primarily supports forms of self-employment located in low-capital sectors. While this structure allows disadvantaged entrepreneurs to access small amounts of start-up financing, it simultaneously limits the broader economic scope of the instrument and confines its impact largely to small-scale entrepreneurial activities.

## 7.2. Luxembourg

### 7.2.1. Lending Model and Risk Allocation

The operational structure of microcredit in Luxembourg is organized through a lending model in which financial risk and operational responsibilities are distributed across several institutional actors. Credit provision does not occur within a single institution but emerges from the interaction between *Microlux*, commercial banks, public authorities and European guarantee mechanisms (E04; E02; E10). This configuration corresponds to institutional complementarities, where different institutional components perform distinct functions that only generate effective outcomes in combination (Deeg, 2007, p. 3; Amable, 2015, pp. 79–80).

Microcredit provision therefore depends on coordination rather than isolated decision-making. This aligns with the financial market system perspective, which conceptualizes access to finance as the result of interactions between financial transactions and supporting functions such as advisory services and information generation (Ledgerwood & Gibson, 2013, pp. 27–29). The empirical material reflects this structure. *Microlux* (E04) prepares and evaluates projects, banks (E02) provide financial infrastructure but apply conventional risk criteria, and the *EIF* (E10) enables lending through guarantees. Credit access is therefore produced through institutional interdependence rather than market-based selection alone.

The generation of borrower information illustrates how this interdependence operates in practice. Credit appraisal in microfinance contexts is characterized by the absence of reliable financial data, which requires adapted assessment approaches (Ledgerwood & Earne, 2013, pp. 213–216). The Luxembourg case shows that this is not only an adjustment of existing techniques. Information is constructed during the lending process itself. *Microlux* (E04) reports that applicants frequently lack structured business plans, while *ADA* (E06) points to persistent gaps in basic financial planning skills. Financial projections and cost structures are therefore developed through interaction between borrowers and advisors. This corresponds to the argument by Chmelíková et al. (2019, pp. 3–5), who show that microfinance institutions rely on relational forms of information generated through close engagement rather than standardized indicators. The empirical findings extend this argument. The preparation phase does not only support applicants but continuously evaluates them. Project viability is assessed throughout the process, which turns advisory activities into mechanisms of selection. Creditworthiness is not verified against fixed criteria but produced through an iterative evaluation process.

*Microlux* occupies a central position within this arrangement by linking advisory and financial functions. The organization translates informal business ideas into structured proposals that can be assessed within the lending framework (E04). This reflects a broader pattern in microfinance systems, where financial intermediation is combined with capacity-building functions (Ledgerwood & Gibson, 2013, pp. 31–33). The empirical material shows that this combination creates a functional overlap. Advisory activities generate the information required for lending decisions, which means that support and evaluation are not clearly separable. Cull et al. (2018, pp. 222–224) describe microfinance institutions as operating between social and financial objectives. The Luxembourg case illustrates how this tension is managed in practice. Processes designed to support entrepreneurs simultaneously serve to filter projects based on viability.

Inclusion is therefore conditional on the ability to align with institutional evaluation criteria that emerge during the process itself.

The allocation of financial risk in Luxembourg follows a different logic, as it is structured around the intermediary role of *Microlux* rather than being primarily anchored within commercial banks. Interview material indicates that banks remain involved in the provision of capital and regulatory infrastructure (E02), yet their role is mediated through a system in which risk is partially externalized and collectively managed. The *EIF* (E10) provides portfolio guarantees that absorb a significant share of potential losses, which enables bank participation despite the high-risk profile of borrowers. This reflects the argument by Ledgerwood and Earne (2013, pp. 217–220) that microfinance in regulated financial systems relies on risk-sharing arrangements to bridge the gap between inclusion objectives and banking regulation.

The empirical findings suggest, however, that risk management in Luxembourg is not primarily organized through the banking sector itself but through the interaction between *Microlux* and its partner institutions. *Microlux* (E04) assumes responsibility for screening, preparing and accompanying borrowers, which shifts part of the risk assessment process away from banks and into the intermediary structure. This corresponds to observations by Chmelíková et al. (2019, pp. 4–5), who show that European microfinance institutions often internalize elements of risk management through close monitoring and relational engagement with clients. In Luxembourg, this takes the form of continuous accompaniment, where project development and business performance are monitored throughout the early stages of entrepreneurial activity (E04; E06).

Risk is therefore not only mitigated through financial guarantees but managed through a combination of institutional mechanisms that operate before and after loan disbursement. Public support, as highlighted by the Ministry of the Economy (E01), further stabilizes this arrangement by covering operational costs linked to project preparation and mentoring. The lending model thus reflects a hybrid structure in which financial risk is distributed across banks, European instruments and public actors, while operational risk is largely absorbed and managed within the intermediary organization. This configuration differs from more bank-centered models by relocating key elements of risk assessment and control into the preparatory and monitoring phases of the lending process.

### 7.2.2. Non-financial support

In Luxembourg, microcredit provision extends well beyond the financial transaction itself. Across the interviews, lending is described as inseparable from a broader set of support activities accompanying entrepreneurs throughout the development of their projects. *Microlux* states this most explicitly, presenting financing and accompaniment as inseparable components of its activity and indicating that loans are generally not granted without individualized guidance (E04). The Ministry of the Economy frames microcredit in similar terms, not as a standard financial product but as an inclusion instrument intended for individuals who cannot access conventional bank finance (E01). This configuration directly supports the argument made by Flores and Serres (2009, p. 3) that financial and non-financial services operate in an interdependent relationship rather than as separate layers of intervention. It also resonates with Banerjee et al. (2015, pp. 3–4), who caution that credit alone often produces only limited entrepreneurial change. The Luxembourg interviews make this point concrete: access to finance is treated as insufficient unless it is combined with support that helps transform an initial idea into a viable and manageable business activity. This already complicates the kind of success-oriented narrative criticized by Sholar (2012, pp. 144–145), because the interviews do not portray entrepreneurship as a direct result of lending, but as a fragile process requiring sustained institutional work.

This institutional work begins before any credit decision is taken. *Microlux* explains that applicants approach the institution at very different stages of project maturity, ranging from well-developed plans to vague or only partially articulated ideas (E04). Support therefore starts with clarification, restructuring and feasibility testing. *ADA* adds another layer to this picture by stressing that many clients do not simply lack technical business knowledge but operate under precarious social and economic conditions that make long-term planning difficult (E06). The Ministry reinforces this interpretation by linking the need for support to the structural exclusion of these target groups from mainstream financial channels (E01). These positions correspond closely to the capability perspective. Osmani (2016, pp. 3–6) argues that access to a resource does not automatically amount to a real opportunity, while Hirani and Richter (2017, p. 2) show that conversion factors shape whether individuals can turn resources into meaningful outcomes. The Luxembourg material illustrates these conversion factors very clearly: advisory support is needed not only because clients lack capital, but because financial literacy, planning capacity, confidence and stability are unevenly distributed. Simultaneously, the interviews show that accompaniment is not purely enabling. Projects that cannot be stabilized, formalized or rendered plausible do not advance to the financing stage. Support therefore expands opportunities while also structuring the limits of access.

The content of this support corresponds closely to what argue Pytkowska and Benaglio (2024, pp. 9, 21), in that case European microfinance institutions commonly combine lending with entrepreneurship development, operational assistance and financial capability building. This is precisely the configuration described in Luxembourg. *Microlux* emphasizes work on business plans, pricing, financial needs and operational risks (E04). The commercial bank confirms that many applicants would not be assessable within conventional frameworks without this prior structuring work (E02). The Ministry points to complementary actors such as the House of Entrepreneurship and the Chamber of Commerce, which extend support beyond *Microlux* itself (E01). Support is therefore not concentrated in one institution but distributed across a wider ecosystem. This matters analytically because it shows that non-financial support is not simply a service attached to a loan. It is part of the institutional architecture through which entrepreneurial projects are produced, evaluated and stabilized. Kamaha Nijwa and Valant Ganja (2019, pp. 82–83) argue that accompaniment helps individuals assess whether a project is coherent with their own capacities and environment. The Luxembourg interviews strongly support this point. Advisors do not merely help applicants "improve" projects; they also help determine whether a project is realistic at all under the conditions in which the applicant lives and works.

The same applies to risk. The commercial bank treats advisory support as important because it reduces uncertainty before a file reaches formal credit assessment (E02). *Microlux* describes support in similar terms, though from a developmental perspective, by explaining how weaknesses in a business model can be identified and corrected during preparation and follow-up (E04). The Ministry adds that microcredit clients face structural constraints such as administrative complexity, high costs and difficulties in accessing broader financial services, all of which increase project vulnerability (E01). These observations align with the argument advanced by the CEB Technical Assessment and Monitoring Directorate (2024, p. 18), namely that guidance, mentoring and monitoring contribute to stronger enterprise performance and more resilient repayment dynamics. The Luxembourg material deepens this argument by showing that risk mitigation is not only something that occurs after a loan is granted. It is already embedded in the preparatory phase, where advisory support functions as a mechanism for sorting, reformulating and sometimes abandoning projects before they become financial exposures. In this sense, non-financial support enhances creditworthiness, but not in a passive sense. It actively produces a more manageable borrower-project relationship while simultaneously protecting institutional sustainability.

The interviews also show that support continues after disbursement, though not without tension. *Microlux* and the commercial bank both stress the importance of staying in contact with entrepreneurs during the launch and early development of their activity in order to respond to emerging difficulties (E04; E02). This is consistent with the European pattern described by Pytkowska and Benaglio (2024, p. 21), where accompaniment often extends from project conception to consolidation. Yet the Luxembourg evidence also reveals a limit that is less visible in broad programmatic accounts: some clients disengage once financing is secured and experience follow-up as intrusive rather than supportive (E04). This matters because it qualifies the assumption that the availability of non-financial support automatically leads to better outcomes. The impact of accompaniment depends on whether it is accepted, used and integrated into the entrepreneur’s own practice. This is where Münnich’s perspective becomes useful. Economic action is embedded in relationships, communication and institutional expectations rather than taking place as an isolated market exchange (Münnich, 2017, pp. 110–111). In Luxembourg, support works through precisely these relationships: volunteers, advisors, public actors and institutional partners all contribute to the entrepreneurial trajectory. Access to microcredit therefore depends not only on capital, but on insertion into a network of guidance, monitoring and institutional translation. Non-financial support in Luxembourg develops capabilities, mitigates risk, aligns projects with real-life constraints and filters access to finance. It is therefore not secondary to the loan. It is one of the main mechanisms through which the Luxembourg microcredit model operates.

### 7.2.3. Effects and Limitations

i. Economic Effects

Across the Luxembourg interviews, microcredit is primarily described as an instrument that enables individuals excluded from traditional banking services to engage in entrepreneurial activity. Representatives from *Microlu*x (E04), the commercial banking sector (E02) and the *EIF* (E10) converge on the view that even relatively small loan amounts can play a decisive role in covering essential start-up costs such as equipment, materials or initial working capital. These loans allow beneficiaries to initiate or sustain small income-generating activities that would otherwise not be feasible. From the perspective of the banking sector, the relevance of microcredit lies precisely in its ability to reach individuals who do not meet conventional creditworthiness criteria, which explains the need for specialized intermediaries such as *Microlux* to bridge this gap (E02). Microcredit therefore operates less as a substitute for standard lending and more as a mechanism that extends access to financial resources to segments excluded from mainstream financial markets.

The interviews nevertheless point to clear limitations regarding the scale of economic impact. Projects supported through microcredit are typically concentrated in small-scale, service-oriented activities that operate within local markets and therefore offer limited potential for expansion (E04; E01). In this context, microcredit does not primarily function as a driver of business growth or job creation. Instead, it facilitates entry into self-employment and supports relatively modest and often unstable forms of income generation. This observation aligns with the broader argument that access to credit alone does not necessarily lead to substantial entrepreneurial expansion but often finances incremental or subsistence-oriented activities rather than scalable enterprises (Banerjee et al., 2015, pp. 3–4). The European Investment Fund (E10) reinforces this interpretation by noting that microcredit programs in developed welfare states tend to operate on a smaller scale than in developing economies, where financial exclusion is more widespread and credit constraints are more severe. In Luxembourg, microcredit therefore plays a targeted but limited role, addressing specific gaps in financial inclusion without fundamentally transforming the structure of entrepreneurial activity.

ii. Personal Effects

Beyond financial outcomes, microcredit may generate important personal effects for beneficiaries. Several interviewees emphasize that the possibility of running an independent activity and generating one's own income can strengthen individuals' sense of autonomy and self-confidence (E04; E02). Entrepreneurship may allow individuals who previously faced labor market exclusion to regain a sense of dignity and social recognition. In Sen's framework, development involves the expansion of individuals' capabilities to lead lives they have reason to value, including the ability to participate meaningfully in economic and social life (Sen, 1999, pp. 18–19). The entrepreneurial process itself often produces learning effects. Managing a small business requires developing practical skills related to financial planning, pricing strategies and client relations (E04; E06). Through this process, beneficiaries may acquire experience and competencies that can improve their future economic opportunities. Some respondents underline that even when projects remain small or face difficulties, the experience gained through entrepreneurship can still strengthen individual capabilities and professional confidence (E04; E06). Interview material also suggests that entrepreneurial pathways are not always driven by opportunity. In many cases, particularly for migrants, refugees or long-term unemployed individuals, entrepreneurship emerges as a necessity rather than a voluntary career choice (E04). Microcredit may therefore enable economic participation, but it also reflects structural barriers within the labor market that limit access to salaried employment.

iii. Structural limits

Despite these positive outcomes, the interviews reveal several structural constraints that limit the overall impact of microcredit in Luxembourg. One frequently mentioned challenge concerns the high-cost structure of the Luxembourg economy. High rents and operating costs can make it difficult for micro-enterprises to remain economically viable, particularly when businesses operate in highly competitive local markets (E04; E02). Administrative complexity represents another important barrier. Establishing a business often requires navigating a range of regulatory procedures and interacting with multiple public institutions, which can be particularly challenging for first-time entrepreneurs or individuals unfamiliar with the Luxembourgish administrative system (E04; E01). Language barriers and limited knowledge of administrative procedures may further complicate this process. These findings reflect Sen's argument that unemployment can generate capability deprivation extending beyond the loss of income, including psychological harm, social exclusion and reduced agency (Sen, 1999, p. 94).

Both the *ADA* representative and the Ministry of the Economy underline that microcredit occupies a rather niche position within Luxembourg's economic landscape. The combination of a strong labor market and comprehensive social protection reduces the need for alternative income strategies such as self-employment, which in turn limits the number of individuals who rely on microcredit as a financing instrument (E06; E01). However, limited visibility of microcredit programs means that many potential beneficiaries are not aware that such instruments exist (E02). Indeed, the provision of microcredit itself involves significant operational challenges. Institutions must work with relatively small loan amounts while supporting financially vulnerable clients and providing intensive accompaniment throughout the entrepreneurial process (E04; E10). Microcredit therefore depends heavily on cooperation between public actors, private banks and European guarantee mechanisms to remain financially viable. For this reason, it is widely understood as a complementary instrument within a broader ecosystem of social, labor market and financial policies rather than as a comprehensive solution to financial exclusion

# 8. Discussion of the Empirical Results

## 8.1. The Role of Institutional Context in Microcredit Effectiveness

The empirical findings presented in Chapter 6 provide the basis for evaluating Hypothesis 1, which assumes that the effectiveness of national microcredit systems in fostering socioeconomic inclusion is strongly influenced by the institutional framework in which they operate. This assumption directs attention to the institutional environment in which financial inclusion instruments are embedded. Microcredit programs rarely function as isolated financial instruments. They are organized through broader institutional arrangements that structure cooperation between public authorities, financial institutions and intermediary organizations. These arrangements shape how financial risks are distributed, how responsibilities are allocated among participating actors and how potential beneficiaries are identified, evaluated and supported throughout the entrepreneurial process. The empirical material therefore suggests that the effectiveness of microcredit depends not simply on the existence of a loan product, but on the extent to which relevant actors are coordinated within a functioning institutional framework.

The Austrian case illustrates this logic through a decentralized but highly coordinated institutional structure. Microcredit provision is embedded in a network of public authorities, advisory organizations, commercial banking institutions and guarantee providers, each fulfilling a distinct but interdependent role. The program operates through cooperation between ministries responsible for labor market and entrepreneurship policies, intermediary organizations that accompany entrepreneurs throughout the preparation phase, and partner banks such as *Erste Bank* and the *Sparkasse* group that ultimately issue the loans. Within this configuration, advisory organizations play a central role in preparing loan applications. They assist potential borrowers in developing business plans, preparing financial projections and assessing the feasibility of their entrepreneurial projects before a credit application is submitted to the bank. This preparatory process reduces information asymmetries between borrowers and lenders and enables individuals who lack formal financial documentation or entrepreneurial experience to participate in the lending process. Microcredit provision thus remains embedded in the formal banking system, but its exclusionary effects are moderated through institutional support structures that expand access.

A central feature of the Austrian system concerns the distribution of financial risk between public and private actors. Commercial banks are generally reluctant to lend to individuals who cannot provide collateral or a reliable credit history, particularly under strict regulatory conditions. In Austria, this constraint is addressed through guarantee mechanisms supported by national and European institutions, which absorb a substantial share of the credit risk associated with microloans. These guarantees enable participating banks to extend financing to borrowers who would otherwise fall outside conventional lending criteria while limiting their financial exposure. Financial capital, advisory support and public risk sharing therefore operate as complementary elements within the same institutional configuration. The Austrian case demonstrates that microcredit provision is not made possible by bank participation alone, but by the coordinated interaction of ministries, advisory organizations, banks and guarantee providers. The empirical findings further indicate that this coordination is strong within the core lending arrangement, even if the system appears less embedded in the wider entrepreneurial support ecosystem.

The Luxembourgish case reflects a similarly coordinated institutional environment, but one organized through a different logic. Rather than relying on a decentralized network of specialized institutions, microcredit provision is concentrated within the microfinance institution *Microlux*. *Microlux* provides microloans while simultaneously accompanying entrepreneurs throughout the preparation and development of their business projects. This accompaniment includes assistance with developing viable business models, analyzing market opportunities and preparing financial planning before a lending decision is made. The integration of financing and advisory services within a single organization reduces the number of institutional interfaces involved in the lending process and creates a clearer institutional entry point for individuals seeking entrepreneurial support. Coordination is therefore achieved less through functional differentiation across several actors and more through organizational concentration within a central institution.

This organizational centralization does not eliminate the need for broader institutional coordination. The Luxembourgish system depends on cooperation with external actors to ensure financial sustainability and operational legitimacy. *Microlux* operates through partnerships with private sector shareholders and receives institutional support from actors such as the European Investment Fund, which provides guarantees covering part of the credit risk associated with microloans. These guarantee mechanisms are essential because they enable lending to higher-risk borrowers while protecting the financial stability of the institution and its partners. The empirical material also shows that regulatory ambiguity does not prevent microcredit provision, but requires continuous alignment between *Microlux*, supervisory bodies and financial partners. The Luxembourgish case therefore confirms that even a centralized model depends on coordinated institutional support structures beyond the lending organization itself.

The comparison between Austria and Luxembourg highlights that the decisive issue is not whether coordination exists, but how it is organized. In Austria, coordination takes place through a decentralized governance structure in which responsibilities are distributed across several specialized actors, including ministries, advisory organizations, banks and guarantee providers. This arrangement allows microcredit to be connected to broader labor market and entrepreneurship policies, but it also introduces greater institutional complexity. In Luxembourg, coordination is achieved through organizational centralization. The concentration of financial and advisory functions within *Microlux* simplifies institutional interactions and allows much of the lending process to be managed within a single organization, even though external partnerships remain indispensable. The two cases therefore differ in governance form, but not in the underlying institutional requirement for coordinated interaction.

The empirical findings confirm Hypothesis 1. In both countries, the effectiveness of microcredit as an instrument of socioeconomic inclusion is strongly shaped by the institutional framework in which it operates. Access to credit for disadvantaged entrepreneurs is only possible because financial institutions, public actors and intermediary organizations cooperate within coordinated arrangements that combine financial resources, advisory support and risk-sharing mechanisms. Without these institutional configurations, lending to higher-risk borrowers would be difficult to sustain under prevailing regulatory conditions and risk constraints. The comparison further shows that coordinated institutional environments can be realized through different governance structures. Austria relies on a decentralized network of cooperating institutions, whereas Luxembourg operates through a more centralized organizational model. Both cases nevertheless demonstrate that institutional coordination constitutes a central condition for making microcredit provision viable and inclusion oriented.

### 8.2. Operational Practices and Inclusion Outcomes

The analysis of operational practices in Chapter 7 shifts the focus from institutional arrangements to the concrete mechanisms through which microcredit is implemented. Hypothesis 2 assumes that the effectiveness of microcredit in fostering socioeconomic inclusion is not determined by access to finance alone, but by how lending is combined with advisory support throughout the entrepreneurial process. This perspective highlights the importance of how borrowers are guided, how projects are shaped and how support is maintained over time. These elements are particularly significant in microcredit, as many beneficiaries face structural constraints that limit their ability to independently develop and manage a business. The findings therefore suggest that the transformative potential of microcredit lies less in the loan itself and more in the processes that surround it.

In Austria, these processes begin at the stage of project assessment, which functions as more than a simple selection mechanism. Applicants are required to present their entrepreneurial ideas within a structured setting involving both financial institutions and experienced practitioners. This interaction allows for the evaluation of economic feasibility while simultaneously reshaping the project itself. Initial ideas are refined, financial assumptions are adjusted and unrealistic expectations are addressed. The assessment phase thus operates as a space in which entrepreneurial projects are actively constructed rather than merely evaluated. This is particularly relevant given that many applicants enter the process with limited technical or financial expertise and depend on external input to develop viable business models.

Following loan approval, support continues through mentoring and advisory activities during the early stages of business development. Experienced professionals assist borrowers in dealing with practical challenges such as managing finances, attracting customers and organizing operations. This accompaniment helps stabilize businesses in a phase characterized by uncertainty and limited experience. Within the same process, the findings show that access to this support is uneven. The intensity and availability of mentoring vary across cases and depend partly on available resources and voluntary engagement. As a result, while non-financial support is clearly embedded in the Austrian system, its delivery is not fully standardized, which affects how consistently it contributes to entrepreneurial outcomes.

In Luxembourg, operational practices follow a similar rationale but are structured differently. Key functions of lending and advisory support are concentrated within a single institution, which allows for continuous interaction with borrowers throughout the process. Support frequently begins before any lending decision is taken. Applicants receive assistance in structuring their business models, assessing market conditions and preparing financial projections. This preparatory phase plays a decisive role in determining which projects move forward. It not only improves the quality of applications but also filters out projects that are unlikely to succeed under existing conditions. In this way, operational practices define the boundaries of access to microcredit by shaping what is considered a viable entrepreneurial activity.

After loan disbursement, support continues through ongoing mentoring and advisory interaction. Borrowers are accompanied during the implementation phase and receive guidance in addressing emerging challenges. This reflects the recognition that many beneficiaries require sustained support to navigate the demands of self-employment. The findings also point to certain constraints. Monitoring tends to focus on immediate operational indicators, while broader socioeconomic outcomes remain difficult to capture. In addition, limited program visibility restricts outreach, as not all potential beneficiaries are aware of the available support. These factors indicate that the effectiveness of operational practices depends not only on their design but also on their accessibility and continued use.

The comparison between Austria and Luxembourg shows that both systems rely on the combination of financial and non-financial support, while differing in how these practices are organized. In Austria, support is distributed across multiple actors and depends on coordination between institutions. In Luxembourg, it is more centralized and embedded within a single organizational structure. Despite these differences, the findings point to a shared pattern. Microcredit becomes effective where lending is embedded in structured processes that guide borrowers in developing and implementing their projects. Where such processes are less consistent or less accessible, their impact is reduced. The empirical findings support Hypothesis 2. In both countries, the effectiveness of microcredit in fostering socioeconomic inclusion depends not only on the availability of financial resources but on the operational practices that accompany borrowers throughout the entrepreneurial process. Advisory support, mentoring and structured project development are central to this process. Without these elements, access to credit alone would not enable many beneficiaries to establish sustainable economic activities.

The comparison further indicates that while different organizational forms can deliver these practices, their presence and consistency remain decisive for the inclusionary potential of microcredit systems.

### 8.3. Constraints of Microcredit

This thesis examined how institutional environments and operational practices shape the effectiveness of microcredit systems in fostering socioeconomic inclusion among disadvantaged entrepreneurs, focusing on Luxembourg and Austria between 2017 and 2025. The study was guided by the following research question: **How do institutional and operational factors influence the effectiveness of microcredit systems in fostering socioeconomic inclusion among disadvantaged entrepreneurs in Luxembourg and Austria between 2017 – 2025?**

The empirical findings provide a clear answer. The effectiveness of microcredit systems is strongly conditioned by the institutional environment in which they operate and by the operational practices through which credit and support are delivered. Microcredit does not function as an isolated financial instrument. Its outcomes depend on coordinated interaction between public authorities, financial institutions and intermediary organizations, as well as on the integration of financial and non-financial support throughout the entrepreneurial process. The analysis shows that in both Luxembourg and Austria, lending is embedded in institutional arrangements that structure how risks are distributed, how responsibilities are allocated and how borrowers are supported from project preparation to implementation. These coordinated structures enable disadvantaged entrepreneurs to access financial resources, confirming that institutional coordination and operational practices jointly shape the effectiveness of microcredit systems.

The empirical material also reveals several structural limitations that constrain the broader effectiveness of microcredit in developed European economies. A first limitation concerns the scale and outreach of microcredit programs. Despite their role in addressing financial exclusion, these programs operate on a relatively small scale and reach only a narrow segment of the population that could potentially benefit from them. Microcredit therefore remains marginal within the broader landscape of entrepreneurial support policies. In Luxembourg, this limitation is reinforced by low visibility. Potential beneficiaries are often unaware of available microcredit schemes or do not know how to access them, which means that participation frequently depends on existing advisory networks and institutional intermediaries. Individuals who are not already connected to these support structures are therefore less likely to access microcredit, which restricts its inclusionary reach despite the presence of institutional coordination.

A second limitation arises from the operational model of microcredit provision itself. The findings show that financial capital alone rarely enables disadvantaged individuals to establish viable business activities. Effective microcredit requires intensive and continuous non-financial support, including assistance with business planning, feasibility assessment and administrative procedures. This support often extends beyond loan disbursement, particularly during the early stages of business creation when operational challenges emerge. In Luxembourg, such accompaniment relies to a considerable extent on volunteer engagement, with experienced professionals providing mentoring on a largely voluntary basis. While this model offers valuable expertise and individualized guidance, it introduces clear constraints in terms of scalability. The availability of support depends on the willingness and capacity of volunteers, which limits the expansion of microcredit provision unless additional organizational resources are mobilized. The same operational practices that enable borrowers to develop viable projects therefore also create structural limits to the growth of the system.

The findings also point to limits in the type of inclusion that microcredit can generate. While microcredit facilitates access to self-employment and supports economic participation, its contribution to broader forms of social inclusion appears more restricted. Entry into entrepreneurial activity does not automatically lead to wider social integration or long-term improvements in living conditions. Individuals may already possess social networks within their communities, and access to a small business loan does not necessarily alter these broader dynamics. Microcredit therefore operates primarily as an economic instrument that enables participation in entrepreneurial activity, rather than as a comprehensive mechanism addressing multidimensional forms of exclusion.

Further constraints emerge in relation to the evaluation of outcomes. Monitoring practices within microcredit programs focus primarily on operational indicators such as the number of loans granted, the volume of financing distributed or the number of supported projects. These indicators capture program activity but provide limited insight into longer-term developments such as business survival, income stability or sustained economic autonomy. The lack of systematic longitudinal data makes it difficult to assess whether microcredit leads to lasting improvements beyond the initial phase of business creation, which limits the ability to evaluate its long-term effectiveness.

Finally, structural and regulatory conditions influence the sustainability of microcredit provision. Microcredit operations involve relatively high administrative costs due to the combination of lending, advisory support and monitoring, which is difficult to sustain given the small loan volumes involved. Regulatory frameworks may further constrain expansion where they do not account for the higher cost structures and risk profiles associated with microcredit compared to conventional lending. These factors create challenges for the financial viability of microcredit institutions and limit the potential to scale up provision. Microcredit therefore occupies a specific position within the broader ecosystem of financial inclusion and entrepreneurial support. It functions as a targeted instrument designed for individuals whose projects require limited capital but substantial advisory support, and its effectiveness depends not only on access to credit but on the institutional infrastructures, mentoring capacities and regulatory environments within which it is embedded.

## 9. Conclusion

The analysis developed in this thesis was guided by the objective of understanding how microcredit systems operate as instruments of socioeconomic inclusion within advanced European economies, with particular attention to the role of institutional environments and operational practices in shaping their effectiveness. By focusing on Luxembourg and Austria between 2017 and 2025, the study moved beyond a narrow understanding of microcredit as a financial product and instead examined the conditions under which it can enable disadvantaged individuals to participate in entrepreneurial activity. The empirical findings show that microcredit effectiveness is not determined by the availability of small loans alone, but institutional structures organize access to these resources and by the operational processes through which borrowers are supported in transforming financial access into viable economic activity.

The results demonstrate that institutional environments play a decisive role in structuring microcredit provision, thereby confirming Hypothesis 1. In both Luxembourg and Austria, microcredit is embedded in coordinated arrangements that connect public authorities, financial institutions and intermediary organizations. These arrangements define how responsibilities are distributed, how risks are managed and how borrowers are selected and accompanied throughout the lending process. In Austria, microcredit provision is organized through a decentralized configuration in which advisory organizations, public actors and financial institutions perform distinct but interdependent functions. This division of roles allows for the integration of microcredit into broader labor market and entrepreneurship policies, while simultaneously reducing information asymmetries and enabling individuals without conventional credit profiles to access financing. Luxembourg, in contrast, relies on a more centralized organizational model in which key functions of lending and advisory support are concentrated within a single institutional framework. This structure simplifies access and reduces institutional fragmentation, while still depending on external partnerships for financial sustainability and risk-sharing. Despite these differences in governance, both cases demonstrate that institutional coordination constitutes a fundamental precondition for microcredit effectiveness, as it enables the alignment of financial provision with support structures and regulatory frameworks.

The findings also provide strong support for Hypothesis 2, highlighting that operational practices are equally central in shaping the outcomes of microcredit systems. In both countries, microcredit is delivered through processes that combine financial services with continuous non-financial support, including mentoring, advisory services and training. These practices structure how entrepreneurial ideas are developed, assessed and implemented. The empirical material shows that many borrowers enter microcredit programs with ideas that are conceptually viable but lack the practical and organizational foundation required for successful implementation. Operational support addresses this gap by guiding borrowers through business planning, financial structuring and administrative procedures, thereby enabling them to translate abstract ideas into concrete business activities. This support frequently extends beyond the disbursement of the loan, particularly during the early stages of business creation when entrepreneurs face significant uncertainty. Microcredit therefore functions as a process-based mechanism in which financial and non-financial elements are closely intertwined. Its effectiveness depends on the extent to which these elements are integrated within a coherent operational framework that supports borrowers over time.

While the empirical findings confirm that microcredit can facilitate access to entrepreneurship under specific conditions, they also reveal a number of structural limitations that constrain its broader effectiveness within developed European economies. A first limitation concerns the restricted scale and outreach of microcredit programs. Despite their relevance for individuals excluded from traditional banking systems, these programs operate on a relatively small scale and reach only a limited segment of the population that could potentially benefit from them. Microcredit therefore remains a marginal instrument within the broader landscape of financial inclusion and entrepreneurial support policies. In Luxembourg, this limitation is further reinforced by low visibility and reliance on existing advisory networks, which means that access to microcredit often depends on prior contact with institutional intermediaries. Individuals who are not embedded in these networks are less likely to be reached, which restricts the inclusionary potential of microcredit despite the presence of coordinated institutional structures.

A second limitation arises from the operational model through which microcredit is delivered. The findings show that effective microcredit provision requires intensive and continuous non-financial support, which constitutes both a strength and a constraint of the system. On the one hand, this support enables borrowers to develop viable business models and navigate complex administrative and market environments. On the other hand, it is resource-intensive and difficult to scale. In Luxembourg, mentoring structures rely partly on voluntary engagement, which provides valuable expertise but limits expansion due to constrained human resources. This creates a structural tension between depth and scale: the same operational practices that enhance effectiveness at the individual level restrict the capacity of microcredit systems to reach a larger number of beneficiaries. Expanding microcredit provision would therefore require not only additional financial resources but also increased organizational capacity to deliver sustained support.

The analysis also highlights limits in the type of inclusion that microcredit can generate. While microcredit enables individuals to enter self-employment and participate in economic activity, it does not automatically lead to long-term economic stability or broader forms of social integration. Entrepreneurial activity remains associated with uncertainty, and outcomes are influenced by market conditions, individual capabilities and external constraints that cannot be fully addressed through microcredit alone. Access to a loan and accompanying support may improve initial conditions, but it does not eliminate structural inequalities or guarantee sustainable income generation. Microcredit thus operates primarily as an economic inclusion mechanism, and its contribution to addressing multidimensional forms of exclusion remains limited.

Further constraints emerge in relation to the evaluation of outcomes and the financial sustainability of microcredit provision. Monitoring practices within microcredit programs tend to focus on short-term operational indicators, such as the number of loans granted or projects supported, while long-term developments such as business survival, income stability and sustained economic autonomy are less systematically assessed. This limits the ability to evaluate the lasting impact of microcredit beyond the initial phase of business creation. Simultaneously, microcredit provision involves relatively high administrative and advisory costs compared to the small loan volumes granted, which creates challenges for financial viability. Regulatory frameworks may further influence these dynamics where they do not fully account for the specific characteristics of microcredit activities, particularly their higher cost structures and risk profiles compared to conventional lending. These factors constrain the potential for large-scale expansion and reinforce the position of microcredit as a targeted instrument within the financial system.

The comparative perspective developed in this thesis demonstrates that microcredit systems can take different institutional forms while relying on similar underlying mechanisms. Austria's decentralized network of interacting actors and Luxembourg's more centralized organizational model represent distinct approaches to coordinating financial and advisory functions. These differences reflect national institutional trajectories and policy traditions, yet both cases confirm that effectiveness depends on the alignment between institutional coordination and operational support. Microcredit systems are therefore shaped not only by economic conditions but by the institutional and organizational arrangements through which financial inclusion is structured in practice.

Several limitations of this study should be acknowledged. The empirical analysis is based on qualitative expert interviews and focuses on a limited number of actors involved in microcredit provision, which restricts the generalizability of the findings. The focus on Luxembourg and Austria further narrows the scope of the analysis, as microcredit systems in other parts of the European Union may operate under different institutional conditions and produce different outcomes. Future research could extend the comparative scope by including additional countries and combining qualitative and quantitative approaches to assess long-term socioeconomic effects more systematically. It could also explore how microcredit interacts with other policy instruments aimed at promoting entrepreneurship, labor market integration and financial inclusion.

The findings of this thesis indicate that microcredit should be understood as an institutionalized and practice-based mechanism rather than as a simple financial product. Its effectiveness depends on the coordination of actors within institutional frameworks and on the operational practices that enable individuals to transform financial access into entrepreneurial activity. Where these conditions are present, microcredit can create meaningful opportunities for individuals excluded from conventional financial systems. Where they are absent, its impact remains limited. Microcredit therefore occupies a specific and bounded role within the broader ecosystem of socioeconomic inclusion, functioning as a targeted instrument whose effectiveness is shaped by the interplay between institutional environments and operational practices.

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# Appendices

## Appendix 1: Interview guide

1. **Introduction & Background**
    1) What are your tasks and areas of responsibility within your institution, particularly in relation to microcredit or inclusion programs?
    2) In which concrete areas is your organization active regarding microcredit or socio-economic inclusion measures?
    3) In what form and to what extent is this engagement carried out, and are there specific target groups or thematic priorities?
    4) What are the central objectives your organization pursues with its microcredit or business support programs? Which target groups do these objectives apply to, and what priorities are most important for you?
2. **Institutional Environment**
    1) How would you describe the institutional environment for microcredit in your country?
    2) How well does cooperation between public and private actors' function within existing legal frameworks, support programs, and responsibilities (e.g., credit assessment, advisory services, financing)?
    3) To what extent do existing social, labor market, or welfare systems make it easier or more difficult for people to access microcredit, or influence whether demand for microcredit rises or falls?
    4) What role do European or national programs (e.g., EIF, ESF, InvestEU, ministries) play in your work?
    5) How well are microcredits integrated into legal regulations, support programs, and organizational structures (e.g., processes, distribution of roles, cooperation)? Or do they function more independently?
3. **Operational Practice**
    1) Which internal procedures and processes are triggered when a microcredit applications submitted, and how does the process unfold up to repayment and possible follow-up support?
    2) Besides lending: Do you offer non-financial support services such as training, mentoring, or business consulting?

3) What role do your non-financial services play in the social, economic, or personal progress of your clients, and how do you evaluate this progress?
4) How do you assess whether your microcredit and support services are financially and socially effective? Which methods or criteria do you use?
5) What challenges arise when trying to provide financial support while simultaneously pursuing social goals such as improving socio-economic inclusion or access to entrepreneurial opportunities?
6) Have your operational practices changed since 2017 (e.g., digitalization, new funding structures, COVID-19)?

**4. Socioeconomic Inclusion & Impact**

1) How effective are microcredits, in your view, in promoting the socioeconomic inclusion of disadvantaged individuals, such as unemployed persons, migrants, women, or people with limited financial security?
2) Which target groups are particularly well reached by microcredit in your experience, and where is additional support still needed?
3) Which factors are essential for borrowers to remain economically stable long-term while strengthening their social and professional participation?
4) Do you observe differences in inclusion outcomes between regions or countries (e.g. Luxembourg vs. Austria)?

**5. Prospects & Policy Implications**

1) Which institutional, legal, or operational barriers currently limit the effectiveness of microcredit?
2) Which political or organizational measures, in your view, could help improve legal regulations, support programs, or collaboration among institutions within the microcredit system?
3) How do you assess the future role of microcredit compared to emerging instruments such as crowdfunding, microleasing, or social enterprises?

**6. Conclusion**

1) Is there anything we have not discussed that you consider important for understanding the effectiveness of microcredit systems?
2) May I contact you again at a later stage should additional questions arise?

## Appendix 2: Overview of Interviewee Profiles

**E01: Ministry of the Economy (Luxembourg)**

The interview was conducted with Gilles Scholtus, Senior Government Advisor and Head of the Directorate-General, and Laurent Solazzi, Advisor and Deputy Head of the Directorate-General. Both are responsible for SME policy, administrative simplification, crafts and commerce, and are involved in the Establishment Authorization's Service, with a focus on entrepreneurship support and business creation.

**E02: Expert (Banking Sector, Luxembourg)**

The interviewee is a senior expert from a commercial bank in Luxembourg with professional responsibility in the credit area and involvement in the Board of Directors of *Microlux*. The interviewee contributes expertise primarily in compliance and credit risk management and provides insights into the interaction between commercial banking practices and inclusion-oriented microcredit initiatives.

**E03: Expert (Public Development Bank, Austria)**

The interviewee is a former senior expert at Austria Wirtschaftsservice (AWS) who was responsible for the Austrian microcredit program until 2016 and acted as program manager in close coordination with ministries and partner organizations. Their responsibilities included conducting hearings, assessing business model viability, and supporting the transition of successful microcredit recipients into follow-up financing and state guarantee schemes.

**E04: Jérémy del Rosario (Microlux, Luxembourg)**

The interview was conducted with Jérémy del Rosario, Credit Manager at Microlux who is responsible for microcredit and inclusion activities at Microlux, combining credit provision with personalized accompaniment for entrepreneurs excluded from traditional banking. His work focuses on supporting vulnerable groups such as unemployed individuals, migrants, and refugees, and on balancing social impact objectives with financial prudence within the Luxembourgish microcredit system.

**E05: Karin Zoubel-Schleinzer (Riz up, Austria)**

The interview was conducted with Karin Zoubek, a start-up consultant at Riz up, the business support organization of the Province of Lower Austria. Her work focuses on advising early-stage entrepreneurs and small businesses, particularly through business planning and financing guidance, including preliminary support related to microcredit applications.

**E06: Amaury Martin (ADA, Luxembourg)**

The interview was conducted with Amaury Martin, a digital project manager at ADA (Appui au Développement Autonome) with a professional background in microfinance and development finance. While not directly involved in domestic microcredit provision in Luxembourg, he contributes expert insights based on extensive experience in microfinance systems, institutional frameworks, and inclusion-oriented finance in developing countries.

**E07: Ulrike Wald (Erste Bank, Austria)**

The interview was conducted with Ulrike Wald, who works in Social Banking at Erste Bank and is responsible for the implementation of the Austrian microcredit program. Her role includes assessing microcredit applications, conducting hearings together with senior experts, coordinating with public partners, and overseeing the combination of financial and non-financial support for disadvantaged entrepreneurs.

**E08: Lukas Sommer & Edwin Baroian-Haftvani (ÖSB Consulting, Austria)**

The interview was conducted with Lukas Sommer, Project Manager for the Austrian microcredit program and Head of the business field “Entrepreneurship” at ÖSB Consulting, and Edwin Baroian-Haftvani, Microcredit Advisor at ÖSB Consulting. Their work focuses on the operational implementation of the microcredit program, including applicant screening, advisory support throughout the application process, and coordination with banks and public contracting authorities.

**E09: Johann Humenberger (ASEP, Austria)**

Hans Humenberger serves as a board member of ASEP and is responsible for the organization’s involvement in the Austrian microcredit program. His activities focus primarily on preparing and conducting hearings with microcredit applicants, as well as providing post-disbursement mentoring and practical follow-up support aimed at strengthening the sustainability of newly established businesses.

**E10: Cristina Dumitrescu & Simone Petrillo (European Investment Fund)**

Simone Petrillo works as an Investment Officer at the European Investment Fund (EIF), where he is responsible for microfinance institutions, alternative lenders, and fintech within the Inclusive Finance team. Cristina Dumitrescu is a senior professional in inclusive finance at EIF, with more than 25 years of experience in the financial sector, specializing in investment management, client relationship management, and the deployment of EU microfinance and social entrepreneurship instruments through financial intermediaries under the delegated mode.

## Appendix 3: Coding Map

| CODE | MAIN CATEGORY | SUBCATEGORY | DEFINITION | ANCHOR EXAMPLE | CODING RULE |
|---|---|---|---|---|---|
| **1.** | | | | | |
| 1a | Objectives | Social inclusion | Text passages referring to microcredit as a tool to promote social or economic inclusion, particularly by enabling individuals without access to traditional bank loans to start or maintain entrepreneurial activities. | "Microcredit primarily targets individuals who are excluded from conventional bank financing." (E04) | Code all statements that explicitly link microcredit with social inclusion or improved access to entrepreneurship. |
| 1b | | Sustainability | All text passages emphasizing long-term business viability rather than short-term support | "The goal is not short-term support, but that clients can run their business independently over the long term." (E07) | Code whenever interviewees refer to long-term business stability or sustainable entrepreneurship. |
| **2.** | | | | | |
| 2a | Target Groups | Women | All text passages explicitly referring to women as a target group | "Our clients predominantly come from the AMS start-up program and very often are women." (E07) | Code whenever women are explicitly mentioned as beneficiaries or target groups. |
| 2b | | Migrants/refugees | Text passages referring to migrants or individuals with a migration background as beneficiaries of microcredit. | "Many clients have a migration background and face difficulties accessing | Code all statements referring to migrants as target groups. |

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| | | | | traditional bank loans." (E09) | |
| 2c | | Other excluded groups | Passages referring to groups excluded from microcredit program | "Certain professions are excluded from the program; these include liberal professions such as physicians or lawyers" (E07) | Only code explicit exclusions |
| **3.** | | | | | |
| 3a | Access | Gatekeepers | Text passages referring to institutions that facilitate access to microcredit programs. | "Employment services often act as the first contact point for potential applicants." (E08) | Code statements describing institutions that channel applicants into microcredit programs. |
| 3b | | Awareness | Statements referring to lack of awareness or visibility of microcredit | "Many potential beneficiaries do not know that microcredit exists." (E07) | Code statements describing lack of knowledge or visibility of microcredit. |
| **4.** | | | | | |
| 4a | Institutions | Banks | Text passages describing the role of banks in granting microcredits or managing financial risks. | "From the bank's perspective, the program requires balancing financial risk and social objectives." (E02) | Code statements referring to banks' involvement in lending decisions or risk evaluation. |
| 4b | | Public bodies | Text passages referring to ministries or public institutions involved in coordinating or supporting microcredit programs. | "The ministry supports the program through policy coordination and funding mechanisms." (E01) | Code statements referring to public authorities involved in microcredit systems. |
| 4c | | Intermediaries/Partners | Text passages referring to intermediary organizations supporting borrowers during | "ÖSB supports clients and accompanies them | Code statements describing cooperation |

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| | | | the application or advisory process. | throughout the entire process.” (E07) | between different institutions. |
| **5.** | | | | | |
| 5a | Regulation | Compliance | Text passages referring to regulatory or legal requirements that govern the provision of microcredit. | “Microcredit must follow the same regulatory standards that apply to other banking products.” (E02) | Code statements referring to legal frameworks, banking regulations, or compliance requirements affecting microcredit. |
| 5b | | Risk management | Text passages referring to the assessment and management of financial risks within microcredit lending. | “For banks, the key challenge is balancing financial risk with the social objectives of the program.” (E07) | Code statements describing risk evaluation or financial risk management in microcredit lending. |
| 5c | | Constraints | Text passages referring to regulatory limitations or institutional barriers that restrict the functioning or expansion of microcredit programs. | “Certain regulatory requirements limit how flexible microcredit programs can be.” (E10) | Code statements describing regulation as a limitation or constraint. |
| **6.** | | | | | |
| 6a | Implementation | Application | Text passages describing how potential borrowers apply for microcredit, including documentation or application requirements. | “Applicants must submit a business plan and several financial documents before the evaluation.” (E08) | Code statements referring to procedural steps in the application process. |
| 6b | | Decision-making | Text passages referring to how credit decisions are made within microcredit programs. | “The final lending decision is taken after a joint evaluation of the business plan.” (E07) | Code statements describing approval or rejection procedures. |

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| 6c | | Monitoring | Text passages referring to follow-up procedures after the loan has been granted. | “Once the loan is granted, the repayment and development of the business are monitored.” (E02) | Code statements referring to loan monitoring or repayment supervision. |
| **7.** | | | | | |
| 7a | Support | Mentoring | Text passages referring to advisory services, coaching, or mentoring accompanying microcredit provision. | “Entrepreneurs receive mentoring during the first months after the loan has been granted.” (E09) | Code statements describing non-financial support services. |
| 7b | | Financial literacy | Text passages referring to financial education or knowledge gaps among borrowers. | “Many applicants have strong ideas but lack financial planning experience.” (E06) | Code statements referring to financial knowledge, training, or financial literacy. |
| 7c | | Networks | Use of professional or institutional networks that support entrepreneurs | “Through the program, entrepreneurs gain access to a broader professional network.” (E05) | Code statements referring to networks, contacts, or professional connections. |
| **8.** | | | | | |
| 8a | Barriers | Administrative burden | Text passages referring to bureaucratic procedures or administrative challenges within microcredit programs. | “Preparing the documentation can be challenging for first-time entrepreneurs.” (E03) | Code statements describing administrative complexity. |
| 8b | | Capacity limits | Text passages referring to limited institutional capacity or financial resources within microcredit programs. | “There are many potential applicants, but the number of available loans remains limited.” (E04) | Code statements describing resource limitations or program capacity constraints. |

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| 8c | | Client challenges | Text passages referring to difficulties faced by borrowers when establishing or maintaining their businesses. | “Some applicants require more intensive guidance due to their personal or economic situation.” (E09) | Code statements referring to challenges faced by borrowers. |
| **9.** | | | | | |
| 9a | Effects | Economic effects | Text passages referring to economic outcomes of microcredit programs. | “Microcredit enables individuals to transition from unemployment to self-employment.” (E10) | Code statements referring to economic outcomes such as business creation or income generation. |
| 9b | | Personal effects | Text passages referring to personal development outcomes resulting from entrepreneurial activity. | “Starting a business often increases self-confidence and personal independence.” (E05) | Code statements describing personal empowerment or individual development. |
| 9c | | Limitations | Text passages referring to critical assessments or limitations of microcredit programs. | “Microcredit cannot solve all structural barriers faced by disadvantaged entrepreneurs.” (E06) | Code statements describing limitations or critical perspectives on microcredit. |