InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: 3rd Framework Operation for Microfinance and Social Enterprises (Capped Guarantee)

Type of approval: Framework Operation

Type of Financial Intermediaries: National Promotional Institutions, specialized providers of microfinance and social finance, ethical banks, traditional banking players, alternative lenders.

Type of Final Recipients: Natural persons, micro enterprises, not-for-profit organisations and social enterprises.

Country(-ies) of implementation of the operation: Via this Framework Operation, EIF expects to achieve a broad geographical coverage across Member States.

Short description of the financing or investment operation: Framework Operation covering Sub-Projects to be entered into with financial intermediaries supporting micro-enterprises, micro-borrowers and/or social enterprises. Intermediaries supporting the microfinance axis will typically provide debt financing to micro-enterprises and micro-borrowers on an unsecured basis (debt financing benefitting only from a personal guarantee or similar), coupled with accompanying services, such as individual counselling, training and mentoring.

Intermediaries supporting the social entrepreneurship axis will extend debt financing to Social Enterprises, as defined in the ESF+ Regulation.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

Item 7 of Annex II of the InvestEU Regulation:

financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

Item 12 of Annex II of the InvestEU Regulation:

social investments, including those supporting the implementation of the European Pillar of Social Rights

Additionality shall be deemed to be met in all those cases, where a financial intermediary originates final recipient transactions addressing new financing needs, which were normally not covered within their standard lending practice. This may entail a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement financing solutions in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

[1] This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

Item (a) of Annex V A (2) to the InvestEU Regulation:
Support through subordinated positions in relation to other public or private lenders or within the funding structure

In a few cases, EIF expects to support financial intermediaries in originating final recipient transactions which are subordinated debt transactions, aimed at strengthening the capital position of social enterprises. Under the microfinance strand, particularly in France, financial intermediaries may originate *pret d'honor* transactions aimed at increasing the bankability of micro-entrepreneurs in particular.

Item (b) of Annex V A (2) to the InvestEU Regulation:
Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources

EIF expects to support financial intermediaries in originating final recipient transactions (debt financing), which meet at least one of the following enhanced access to finance measures:
a) Reduction/limitation of collateral requirements;
b) Reduction of cost of financing;
c) Reduction in down-payment in respect of Final Recipient Transactions;
d) Increase in financing volumes;
e) Support to excluded segments
f) Financing at longer maturities;
g) Bespoke financing arrangements;
h) Any Subordinated Debt Transactions;
i) Other enhanced access to finance measures proposed by the financial intermediary.

Item (c) of Annex V A (2) to the InvestEU Regulation:
Support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations

The use of the InvestEU Guarantee allows EIF to enter into (counter-) guarantee with financial intermediaries supporting final recipients operating in the Microfinance and Social Entrepreneurship areas, which otherwise would have remained underserved due to lack of programmes targeting these specific policy areas at such scale.

Item (e) of Annex V A (2) to the InvestEU Regulation:
Support that catalyses or crowds in additional private or public financing and is complementary to other private and commercial sources, in particular from traditionally risk-averse investor classes or institutional investors, as a result of the signalling effect of the support from the InvestEU Fund

Under this Framework Operation, EIF will extend support to intermediaries aimed at enhancing access to finance for micro and social enterprises, often excluded from mainstream credit channels. Benefiting from the InvestEU guarantee coverage, financial intermediaries will be able to mobilize funding resources to micro and social enterprises, contributing towards creating and/or preserving jobs in the respective geographies, which will further constitute the basis for the financial and social inclusion of the respective excluded entrepreneurs.

Item (f) of Annex V A (2) to the InvestEU Regulation:
Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets

Microenterprises often outperform small and medium-sized SMEs in terms of their generated value added. Although they were severely affected at the onset of the pandemic, they demonstrated a faster recovery compared to other SMEs.

According to the ECB's SAFE survey[2], microenterprises tend to utilize fewer external financing instruments than their larger peers, likely due to difficulties in accessing finance. For instance, in the first half of 2022, only 11% of microenterprises relied on bank loans, whereas 16% of small companies and 22% of medium-sized companies utilized this funding option. Interestingly, over 40% of microenterprises acknowledged the relevance of bank loans as a financing source, despite their limited usage. Additionally, microenterprises reported challenges in accessing bank loans, citing insufficient collateral or guarantees as barriers. The survey also revealed that microenterprises faced the highest rejection rate for bank loans (10%), compared to 6% for small firms and 4% for medium-sized firms. Consequently, many microenterprises feel discouraged from applying for loans due to the fear of rejection, with a consistent share of 7%.

Since microenterprises frequently encounter issues such as insufficient collateral, high interest rates, and excessive paperwork when seeking bank loans, they often turn to alternative solutions, such as microcredit provided by Microfinance Institutions (MFIs). MFIs partially bridge the gap left by traditional banks and have less stringent collateral and guarantee requirements. Clients find MFIs to be more personalized, offering tailor-made solutions with simplified paperwork. However, MFIs often charge higher interest rates, particularly in Eastern Europe. Moreover, MFIs face challenges in meeting their own funding needs, as borrowed funds remain the primary source of financing for their loan portfolios. A recent EMN survey highlighted a significant demand for guarantees, with nearly 30% of overall funding requests seeking such support, a notable increase from the 12% reported in 2019[3].

The following market failures are addressed by the Framework Operation:

Item (c) of Annex V A (1) to the InvestEU Regulation:
Information asymmetries, in particular in the case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities.

The most recent EIF **European Small Business Finance Outlook 2022** states that *microenterprises tend to apply for smaller loans more often than for bigger loans. When they apply for bigger loans, they are more likely to be rejected, or they refuse because the cost was too high. This implies that microenterprises with high funding needs face persistent barriers to growth. Barriers for scaling up businesses are especially prominent for those from disadvantaged groups, as in addition to difficulties accessing finance, they face other barriers, including lack of entrepreneurship skills and smaller entrepreneurship networks (OECD, 2022)"[4].*

In terms of unmet potential demand, the total annual market gap for microfinance (EU and non-EU) is estimated at EUR 23.9bn (excluding informal businesses). The estimate for EU Member States is EUR 12.9bn. Potential demand is expected to increase as a result of economic growth and inflation. Supply of finance is expected to grow at more modest rates due to rising inflationary pressure (currently inflation was historically very low) and consequential increasing nominal interest rates.

[2] Survey on the access to finance of enterprises, Survey results April to September 2022. December 2022.
[3] EMN-MFC (2022). Microfinance in Europe: Survey Report 2020-2021
[4] The European Small Business Finance Outlook 2022 - https://www.eif.org/news_centre/publications/EIF_Working_Paper_2022_84.htm

This is estimated to reach EUR 16.7bn in 2027 under a strong growth scenario (+29%) or EUR 15bn under 'normal growth' assumptions (+16%).[5]

As to the social entrepreneurship, the annual funding gap in terms of debt amounts to EUR 321m to EUR 783m per year[6].

Item (e) of Annex V A (1) to the InvestEU Regulation:
Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology

Social enterprises often encounter difficulties in accessing bank loans due to their still-limited presence and structuring as well as to insufficient knowledge of the peculiarities of social enterprises on the part of the banking system. A reason for this might be that the financing of social enterprises needs dedicated units within the bank as these business models are different from other enterprises. A loan officer at a bank might have difficulties understanding the nature of their businesses, the hybrid income structures or the reliability and predictability of philanthropic resources[7].

EIF will extend guarantees to financial intermediaries that in turn provide debt financing to eligible final recipients.

EIF guarantees proved to be instrumental especially for non-bank financial institutions, helping these institutions to attract additional funding resources to be used for on-lending to micro and social entrepreneurs.

At the same time, the guarantee instrument contributes to maintaining the sustainability of the financial intermediary by reducing both
(i) provisioning levels and
(ii) the risk weighted assets,
thus improving the respective institution's financial standing risk profile and becoming more attractive for various funding providers.

In addition, similar to the previous European Progress Microfinance Facility (EPMF) and EaSI guarantee instruments, it is expected for the InvestEU microfinance & social guarantee product to have a strong signaling effect in terms of awareness raising about:
- the missing entrepreneurs or entrepreneurs in need, generally excluded from mainstream credit markets but also
- different business models that seek to achieve measurable, positive social impacts vs profit maximization.

This will further support the crowding-in of additional resources aimed at financial and social inclusion, with direct impact on scaling-up and further developing the microfinance and social entrepreneurship finance market segments.

[5] Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027 Final Report, May 2020, p.95
[6] Social enterprise finance market: Analysis and recommendations for delivery options, European Center for Social Finance, 2020, p.24
[7] Social enterprise finance market: Analysis and recommendations for delivery options, European Center for Social Finance, 2020, p.15

EIF offers support both pre- and post-signature of the guarantee agreement. Pre-signature, EIF help the financial institution navigate the different types of guarantees, different types of eligibility criteria, supporting the FI in assessing which type of guarantee structure is most relevant for the specific portfolio of final recipients targeted.

Under this Framework Operation, EIF mainly expect to enter into direct guarantees with financial intermediaries, ensuring a certain level of consistency. Counter-guarantees and umbrella/participating entities structured may be used in a few occasions and require more adaptation and structuring input from EIF given the multi-layer dimension of implementation.

EIF provides practical guidance to financial intermediaries in order to ensure terms and conditions of the guarantee are met and to facilitate the deployment and ramp-up of the portfolio. This may take the following forms:
- Ad hoc assistance (e.g. monitoring, reporting, eligibility checking, etc.);
- Webinars for individual or groups of intermediaries (on all aspects of the implementation of the InvestEU guarantee). EIF for instance is regularly participating as a speaker in various micro and social finance market events (EMN, MFC and/or FEBEA annual conferences; dedicated investment readiness workshops etc) aimed at increasing the capacity of the financial intermediary to access financial instruments dedicated to enhancing access to finance for targeted final recipients.
- Guidance provided during or after EIF's desktop or physical monitoring visits;
- Formal capacity building and advisory services under the InvestEU Advisory.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) has been estimated in the range of c. 5x-10x.

The Sub-Projects aim at providing other benefits for the final recipients such as longer maturity, contribution to diversification and stability of final recipient's financing, reduced collateral requirements, subordinated loans and transfer of financial benefit by the intermediary to the final recipient, among others. In addition, financing in local currency will improve the access of the final recipients to longer tenors funding in their functional currency, which will further support the sustainable development of their respective businesses.

With respect to the impact on the ecosystem, the guarantee instruments launched by the Commission and managed by the EIF in the field of microfinance and social entrepreneurship have come a long way. The transition from the EPMF pilot in 2010 to the EaSI Guarantee was instrumental for the development of the microfinance market first, and then of the social entrepreneurship finance market. More than 100 financial institutions have benefitted from these programmes. InvestEU further supported and scaled up the intervention in these markets and will continue to do so.

In addition, EIF will play a role in setting standards relevant for the market:
- on one hand, by ensuring that the microfinance intermediaries adhere to the European Code of Good Conduct for Microcredit Provisions, which provides for a set of standards in terms of management, governance, risk management, reporting, and consumer and investor relations that are common to the microcredit sector in the European Union;
- on the other by promoting the use of a common definition of social enterprises across Europe, which still experiences very fragmented frameworks in this respect.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation **(Excellent)**

Pillar 4 - Financial and technical contribution by the Implementing Partner **(Very Good)**

Pillar 5 - Impact of the financing or investment operation **(Excellent)**		
Pillar 7 - Complementary indicators[8]		
Key characteristics	**Expected as of time of submission**	**Comments**
Leverage Effect	Indicatively in the range of 5x-10x	Preliminary estimation
Multiplier Effect	Indicatively 11.7x on average	
SISW specific Indicators		
(b) Microfinance and social enterprise finance: Number of microfinance recipients and social enterprises supported	Indicatively c. 50,000 micro-entrepreneurs and 2,500 social enterprises	Preliminary estimation

ESG aspects

Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.

[8] The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.