

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, Microfinance and Social Enterprises (Capped Guarantee)

Type of approval: Framework Operation

Type of Financial intermediaries: National Promotional Banks or 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:

Geographical spread of Sub-Projects across c. 20 countries, with initial country coverage expected to be wider in the field of Microfinance than in the field of Social Enterprises. Sub-Projects are expected to be entered into with financial intermediaries primarily, but not exclusively, operating in Spain, Romania, France, Netherlands, Italy, Czech Republic, Greece, Finland, Ireland, Lithuania, Poland, Portugal, Luxembourg, Bulgaria, Belgium, Slovenia, Sweden, Slovakia and Austria.

Short description of the financing or investment operation:

Framework Operation for Sub-Projects to be entered into with financial intermediaries **supporting micro-enterprises, micro-borrowers and/or social enterprises**. It builds on the implementation of the previous guarantee programme managed by the EIF, namely the **EaSI Guarantee Financial Instrument ("EaSI GFI")**.

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 those cases where financial intermediaries originate final recipient transactions which carry a higher risk profile than the risk generally deemed acceptable by such intermediary, inter alia:

- In the form of targeting final recipients of lower creditworthiness; or
- Implementing financing solution in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website and which carry an

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.

increased risk profile (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:

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 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, it will offer support for originating *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 toward 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

Market imperfections persist in the microfinance market, creating a mismatch of supplied volume/number of microloans vs the estimated demand of different target groups of microfinance. Access to suitable financing represents a central bottleneck for the wider microloan provision, resulting in an insufficient social outreach of microcredit providers. Social enterprise finance is still a nascent market in Europe, and part of an emerging market ecosystem that is not fully developed and public funding in this area is still lacking, especially at national levels. Stakeholders in the social entrepreneurship market indicate there is an unmet demand for mainly debt financing, as financial institutions consider social enterprises as being “not-investment ready”.

The following market failures are addressed by this Framework Operation:

Item (c) of Annex V A (1) to the InvestEU Regulation:

Information asymmetries, in particular in 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

According to an EIF paper² which refers to data extracted from a recent ECB SAFE survey³, “Microenterprises have perceived a significant increase in the external financing gap indicator. Additionally, the share of enterprises which sees access to finance as their most important problem has increased and remained higher among microenterprises than among their larger peers”.

“Microenterprises, in general, use less bank loans than their larger peers, as they are more likely to be rejected if they decide to apply for a bank loan. Often they choose not to apply for a bank loan due to fear of rejection, insufficient collateral, high interest rates and excessive paper work. Customers, as they get rejected by or discouraged from banks, often apply for a microcredit from Microfinance institutions (MFIs). MFIs do not always charge lower interest rates than banks, but they are less demanding in terms of collateral and guarantee requirements. MFIs are currently facing challenges in securing adequate sources of debt.”

The InvestEU guarantee provided in particular to the microfinance institutions may therefore represent a vital resource to keep this type of business afloat.

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.

This is estimated to reach EUR 16.7bn in 2027 under a strong growth scenario (+29%) or EUR 15bn under ‘normal growth’ assumptions (+16%).⁴

² The European Small Business Finance Outlook 2021 -

https://www.eif.org/news_centre/publications/eif_working_paper_2021_75.pdf

³ [Survey on the Access to Finance of Enterprises in the euro area - October 2020 to March 2021 \(europa.eu\)](https://ec.europa.eu/economy_finance/survey-on-the-access-to-finance-of-enterprises-in-the-euro-area-october-2020-to-march-2021_en)

⁴ Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027 Final Report, May 2020, p.95

As to the social entrepreneurship, the annual funding gap in terms of debt amounts to EUR 321m to EUR 783m per year⁵.

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 resources⁶.

EIF guarantees proved to be instrumental especially for non-bank financial institutions⁷, 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, with direct impact on the respective institution's P&L, as well as on an improved risk profile of such institution that becomes 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 signalling 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.

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.

⁵ Social enterprise finance market: Analysis and recommendations for delivery options, European Center for Social Finance, 2020, p.24

⁶ Social enterprise finance market: Analysis and recommendations for delivery options, European Center for Social Finance, 2020, p.15

⁷ Under the previous EaSI Guarantee Instrument, non-banks represent 47% from the number of financial institutions that implemented an EaSI guarantee product.

- 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 on average as c. 8x.

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 will further support and scale the intervention in these markets.

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 indicators⁸

Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 8x on average	Preliminary estimation
Multiplier Effect	Indicatively 11.7x on average	
SISW specific Indicators		
social enterprise finance: social enterprises/impact-driven enterprises	Indicatively up to 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 any 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.