European Investment Bank
The EU bank

Operations Evaluation

Stocktaking Exercise on Evaluations of the EIF's Microfinance Activities

October 2015

Prepared by

Operations Evaluation

Kristin Lang, Team Leader
Sonia Vega Vega
Daniela Stoicescu
Emmanuel Pondard
Dawit Demetri
Marie Egret
Ulrike van Geleuken

External Consultants

PwC

Ivory Yong-Prötzel
Head of Operations Evaluation

EVALUATION REPORT

Stocktaking Exercise on Evaluations of the EIF's Microfinance Activities

Prepared by

Operations Evaluation

Operations Evaluation
Kristin LANG, Team Leader
Sonia VEGA VEGA
Daniela STOICESCU
Emmanuel PONDARD
Dawit DEMETRI
Marie EGRET
Ulrike VAN GELEUKEN

External Consultants
PwC

October 2015

* * *

NOTICE

TABLE OF CONTENTS

ANNEXES AVAILABLE UPON REQUEST:

- OVERVIEW OF THE EUROPEAN MICROFINANCE MARKET
- DETAILED METHODOLOGY OF THE STOCKTAKING EXERCISE
- QUESTIONNAIRES USED FOR INTERVIEWS
- INFORMATION FLOWS BETWEEN THE ACTORS INVOLVED IN THE EIF'S MICROFINANCE ACTIVITIES

List of Acronyms

ACP countries	African Caribbean and Pacific countries
ADIE	Association pour le Droit et l'Initiative Économique
AFMA	Access to Finance Market Assessment
BIS	Bank of International Settlements
CGAP	The Consultative Group to Assist the Poor
CIP	Competitiveness and Innovation Framework Programme
COSME	Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CPR	Common Provisions Regulation
CSF	Common Strategic Framework
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion of the EC
DG REGIO	Directorate General for Regional and Urban Policy of the EC
EaSI	EU Programme for Employment and Social Innovation
EC	European Commission
ECA	European Court of Auditors
ECB	European Central Bank
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EIBURS	EIB University Research Sponsorship
EIF	European Investment Fund
EMN	European Microfinance Network
EPMF / Progress MF	European Progress Microfinance Facility
ERDF	European Regional Development Fund
EREM	EIB Group Risk Enhancement Mandate
ESF	European Social Fund
ESI Funds (ESIF)	European Structural and Investment Funds
EU	European Union
EV	Evaluation Division of the EIB
FAER	Societatea de Microfinantare Rurala
FCP	Fonds Commun de Placement
FEI	Financial Engineering Instrument(s)
FEMIP	Facilité Euro-méditerranéenne d'Investissement et de Partenariat
FI	Financial Instrument
FIS	Fonds d'investissement spécialisé
FMA	Fiduciary Management Agreement (guarantees)
FoF	Fund-of-Funds
GA	Gap Analysis
GLE LF	Greater London Enterprise Loan Finance Limited
HF	Holding Fund

IT	Information Technology
Jasmine	Joint Action to Support Microfinance Institutions
Jeremie	Joint European Resources for Micro to Medium Enterprises
MA	Managing Authority
MCE	Microfinance Centre of Expertise
MFI	Microfinance Institution
MRCM EPPA	Micro-Risk Capital Mandate European Parliament Preparatory Action
SIA	Social Impact Accelerator
SME	Small and medium-sized enterprise as per European Commission Recommendation 2003/361
SF	EU Structural Funds (ERDF and ESF)
SWOT	Strengths, Weaknesses, Opportunities and Threats
TA	Technical assistance

List of Figures

List of Tables

List of Boxes

EXECUTIVE SUMMARY

The European Investment Fund (EIF) has received from the European Commission (EC) several mandates supporting the microfinance sector. Several of these have been evaluated by the EC but, until now, no comprehensive study of the EIF's overarching approach to the microfinance sector has been undertaken.

This stocktaking exercise aims to fill this analytical gap by summarising the Fund's role in the microfinance sector and provide areas for further consideration. In doing so, this analysis has drawn on evidence from existing evaluations of EIF microfinance mandates, a literature review, interviews and workshops, in order to: reconstruct the EIF's microfinance objectives, which include enhancing European micro-enterprise access to finance (including for vulnerable groups); review the EIF's performance against its microfinance objectives; and shed light on selected processes that exert influence on the EIF's performance (for example organisation, type of operations and procedures).

As detailed in the following paragraphs, this stocktaking exercise deems that the EIF's activities[1] delivered the expected outputs[2] and achieved the expected outcome.[3] However, the EIF has provided insufficient evidence on its contribution to achieving social impact (outreach to disadvantaged groups).

In view of the EIF's future activities, key challenges will include providing greater incentives for targeting and monitoring social impact, maintaining synergies and developing visibility at EIB Group-level.

A product offering that meets the needs of the microfinance sector

Despite equity financing remaining underutilised within the context of the European Progress Microfinance Facility (Progress MF)[4], the EIF has had success in offering standardised products (senior loans, subordinated loans, guarantees, ratings, assessments and training sessions) to a broad range of financial intermediaries, operating in a variety of European markets. In addition, the EIF has supported financial intermediaries targeting new client segments with traditional loan products (including young start-ups, female borrowers, and innovative funding structures).

The EIF has worked towards developing a relevant product offering by: understanding the sector's needs; adjusting its product offering and selection process where applicable; and providing advice to financial intermediaries on selecting the most appropriate product. Furthermore, the EIF has drawn on its: proactive approach towards awareness raising activities; gap analyses and market assessments; contribution to the development of networks; and garnering of stakeholder interest for realising synergies between microfinance-related initiatives and regional strategies.

Through one-on-one interactions, the EIF has also provided capacity building support to, in particular, small non-bank financial intermediaries. However, there was no evidence of the EIF monitoring capacity building and integrating non-volume activities within EIF staff objectives.

Room for enhancing the management of resources and activities

Progress MF and the Joint Action to Support Microfinance Institutions (Jasmine)[5] were deemed to have transparent and straightforward application, selection, delivery and reporting processes. However, the administrative procedures were deemed as complex and time-consuming for some smaller financial intermediaries.

The transfer of Jasmine from the EIF to the European Investment Bank (EIB) constitutes a change with the previous programming period, reflecting the decision to consolidate EIB Group's technical assistance activities. The transfer offers potential benefits (for example the exchange of best practices at EIB Group-level) as well as challenges (such as maintaining synergies between technical assistance activities and lending activities).

1 Comprises the offering of financial products, and support to capacity building and awareness raising activities.
2 Includes the improved capacity of financial intermediaries and increased leverage in financing final beneficiaries.
3 Consists of the increased access to finance by final beneficiaries.
4 Progress MF is a microfinance initiative, managed by the EIF, which aims to increase access to finance for micro-entrepreneurs.
5 Jasmine is an EU programme, managed by the EIF, which aims to help non-bank microfinance institutions in: scaling up their operations; and maximising the impact of microfinance products on microenterprise development and unemployment reduction within the EU.

EIF and EIB micro-credits

Through intermediated lending, both the EIF and the EIB offer microfinance. EIF intermediaries are mainly non-banks or small local banks that are focused on microfinance (including social outreach to vulnerable groups). As of end 2014, EIF has signed under Progress Microfinance EUR 174.2 m in loans and EUR 25 m in guarantees. Although the EIB is focusing more on SMEs, it does have significant microfinance allocations and has loans dedicated to youth employment. As of end-2014, the EIB microfinance allocations in the EU-28 were EUR 3.9 bn.

Meeting sector needs but challenged in reporting social impact

There is evidence that the EIF has contributed to improving the credibility, liquidity, bankability and self-sustainability of financial intermediaries. Moreover, the EIF has helped some financial intermediaries to kick-start their microfinance operations and develop new products.

Yet the EIF's performance in providing indirect support to final beneficiaries – including vulnerable groups – has been mixed. On the one hand, the EIF has increased access to finance to final beneficiaries, which has contributed to increased entrepreneurship and business creation, as well as the improved sustainability of existing micro-enterprises. On the other hand, Progress MF reporting provided insufficient evidence on actual outreach to handicapped, youth and minority groups, and reported significant variations in the allocations to female borrowers. The EIF assumes that non-banks target vulnerable groups; this would however need to be confirmed through more in-depth monitoring.

Lastly, this stocktaking exercise highlights the following **five points for further consideration**:

1. An EIB Group microfinance strategy could be a strong driver for (i) offering an integrated microfinance products and services offering, (ii) improving data collection especially on social impact, and (iii) strengthening the EIB Group's communication and marketing.
2. Improving social outreach (including to vulnerable groups) is a key objective, but has not been given sufficient weight at pre-appraisal, and have proven difficult to monitor. Incentives for financial intermediaries to improve their social outreach and impact could be explored, including by developing social rating tools. Furthermore, the objective to increase social performance along with already-existing volume targets could be stated within the individual objectives of EIF staff.
3. Operating cost margins between banks and non-banks differ largely because of their varying economies of scale. New products and services might be considered for reducing operational costs for small financial intermediaries.
4. Coordination between the EIF and the EIB, which has so far been done on an informal basis, could benefit from being formalised within both the EIB's and the EIF's stated objectives. This would help secure capacity building synergies between the EIF and the EIB.
5. The evaluation reports and studies conducted in recent years on EIF microfinance mandates provide a wealth of information. The EIF's future microfinance activities would benefit from centralising and considering their recommendations.

Management Response

The EIF's management welcomes the Operational Evaluation (EV) report on EIF Microfinance Activities and supports the broad conclusions and considerations of the report.

As regards a common EIB Group microfinance strategy, this topic has been discussed in the past in the Microfinance Centre of Expertise and a specific working group was created to address the need to document the strategic orientation of EIB and EIF in the microfinance field. EIF is therefore ready to resume the work together with EIB on defining a common EIB Group microfinance strategy.

EIF shares the view of the authors that social performance assessment is of paramount importance for EIF's microfinance activity. Actually, EIF has already started an internal project to develop a social rating tool to be used alongside the microfinance counter-party rating tool that was created under EPMF. The aim is to have such social rating tool ready for the launch of the funded instruments to be deployed under EaSI, scheduled to take place in the second half of 2016. It is evident from the experience under EPMF that reporting on social outreach is very challenging. EIF has to a certain extent mitigated the reporting problem so far by primarily focusing its investment activity towards non-banks, which largely serve micro clients with no or very limited access to mainstream funding channels.

Going forward, EaSI will not only seek to address financial and social exclusion through micro-credits to entrepreneurs, but also by supporting so-called social enterprises, i.e. enterprises whose primary objective is to provide goods or services with a social impact. Many social enterprises are active in the field of job integration of vulnerable groups or providing services that directly or indirectly come to the benefit of vulnerable groups, including young people as well as refugees and asylum seekers. It could therefore be worth exploring setting specific objectives for the EIF as manager of the programme, andante cascade for the EIF staff involved in this activity - beyond the traditional volume and leverage targets - to better ensure social performance of this activity.

The report highlights that operating cost margins between banks and non-banks differ largely because of their varying economies of scale. In EIF's view this is also one of the main reasons behind the difference in loan pricing between banks and non-banks, whereby the latter category of microloan providers typically have no other options but to pass on the full cost of their lending activity to the micro-borrowers. EIF follows closely the development of a more automatized and larger non-bank market for financial intermediation to micro-borrowers, e.g. e-lending platforms. Over time, some of these platforms are likely to achieve competitive operating cost margins. Where mandate requirements allow, EIF supports such platforms with funding and/or credit guarantees and it thereby plays also a signalling role that could further attract resources to these platforms.

EIF recognises the need to have a more formal cooperation with EIB as regards technical assistance to micro-credit providers within the European Union. Following the transfer of JASMINE from EIF to EIB in 2014 (now under the integrated TAP platform), and the expected launch of the capacity building investments under EaSI in the second half of 2016, a formal cooperation is likely to enhance the catalytic impact of EIB's TA activity and the accompanying investments in non-banks by EIF.

Finally, the EIF's management would like to thank EV staff for the excellent cooperation and for the strong dedication to the project work leading up to this report.

1. Introduction

1.1 Objectives of the study

The EIF has received from the EC several mandates supporting the microfinance sector. In recent years, the EC has commissioned several evaluations on these mandates. Yet, given the target audience and individual programme scope, the EIF's sphere of influence was not the focus of these evaluations. Thus, this stocktaking exercise was undertaken in order to:

- Learn from the EIF's experience in implementing microfinance activities; and
- Identify key points for consideration in the future design, development and implementation of the EIF's microfinance activities for the 2014-2020 programming period.

1.2 Approach

In order to meet the aforementioned objectives, data was collected from existing reports (see Table 1). These reports:

- Cover the EIF's main microfinance activities and products, whether in the form of debt finance, guarantees or technical assistance;
- Cover different time periods, for example, Report 1 dates back to 2009 and only provides ex-ante elements relating to Progress MF[6], whereas Reports 2, 3 and 4 are interim and ex-post evaluations; and
- Vary in their degree of relevance, as Reports 2, 3 and 4 focus on microfinance, while Reports 5 and 6 relate to the Joint European Resources for Micro to Medium Enterprises (Jeremie)[7], a programme that did not solely focus on microfinance.

The numbering system found in Table 1 is used to distinguish the six evaluation reports/studies reviewed within the context of this stocktaking exercise. Figure 1 (Page 3) provides a timeline of when these reports were delivered, when the EIF received each one of its mandates, and when microfinance-related processes were adopted by the Fund.

Table 1: Key evaluation reports/studies analysed in the literature review

Numbering	Title of evaluation report or study	Programme
Report 1	Ex-Ante Evaluation of the Progress Microfinance, DG EMPL, July 2009.	Progress MF
Report 2	Interim Evaluation of Progress Microfinance Facility: Interim Report, Ramboll for DG EMPL, December 2013. Interim Evaluation of Progress Microfinance Facility: Draft Final Report, Ramboll for DG EMPL, August 2014.[8]	
Report 3	Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument, Unterberg et al. for DG EMPL, January 2014.	EaSI
Report 4	Evaluation of the Jasmine technical assistance Pilot Phase, ICF GHK for DG REGIO, November 2013.	Jasmine
Report 5	Ex-Post Evaluation of Jeremie “Evaluation Phase” as it relates to the EIF, EIB-EV, 2011.	Jeremie
Report 6	Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, the EC and the EIB, March 2013.	

Source: EIB-EV, 2015

[6] Progress MF is a microfinance initiative, managed by the EIF, which aims to increase access to finance for micro-entrepreneurs.
[7] Jeremie was an EU initiative that aimed to finance SMEs and develop micro-credit.
[8] The final report was not taken into account in this stocktaking exercise, as it was only published on 5 May 2015. Available at: http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7760&type=2&furtherPubs=yes

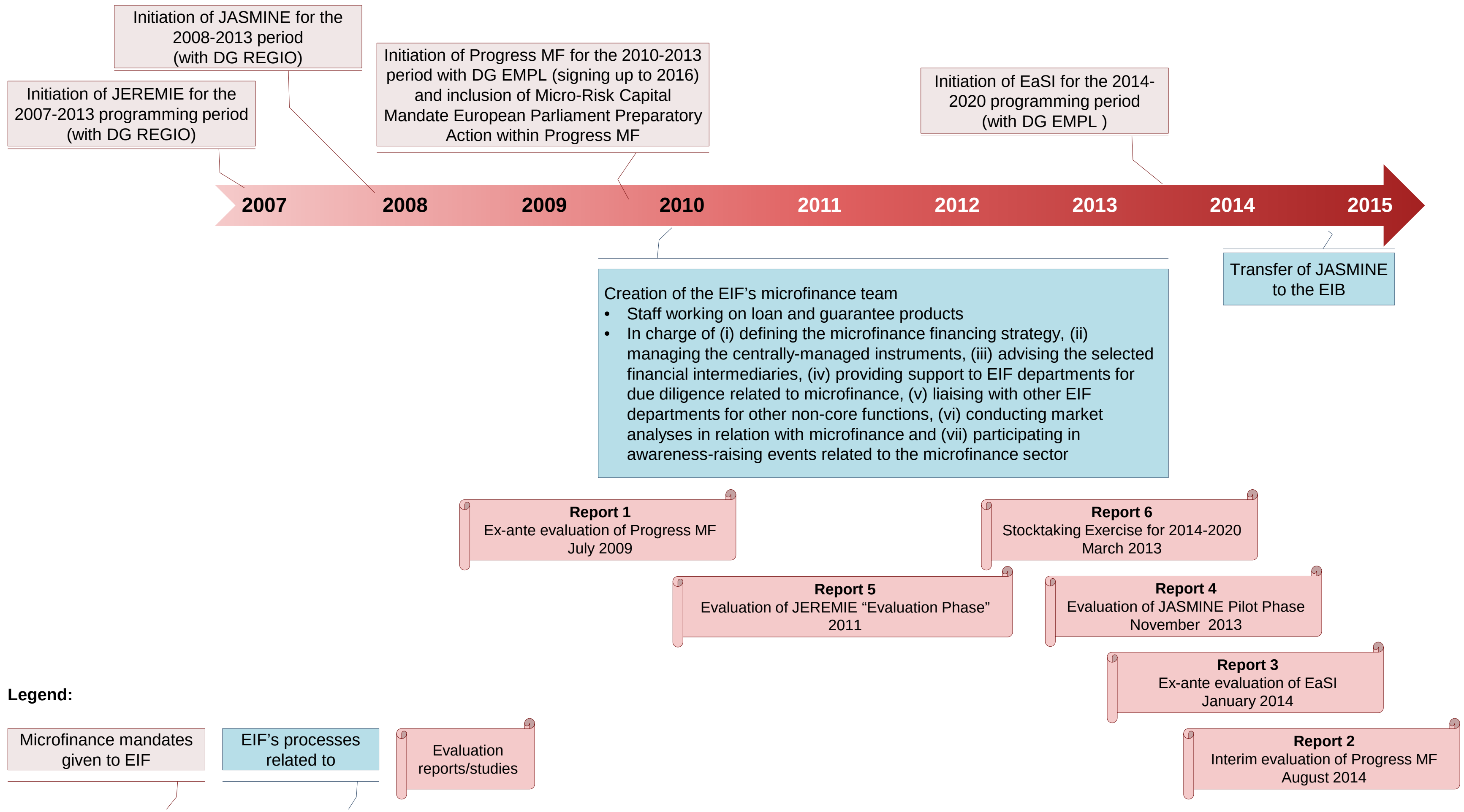
Further to this literature review, workshops and interviews were carried out with the EIF, the EIB and financial intermediaries.

1.3 Content of the report

The report presents:

- The intervention logic for the EIF's microfinance activities (Chapter 2);
- The extent to which the EIF has achieved its objectives at the sector, intermediary and final beneficiary levels (Chapter 3);
- An analysis of four EIF selected processes, defined as a series of operations or procedures, used by the EIF in order to adhere to its mandates (Chapter 4); and
- Key points for consideration in the development and implementation of the EIF's microfinance activities over the 2014-2020 programming period (Chapter 5).

Figure 1: Timeline of the EIF's microfinance mandates, processes and evaluation reports/studies



Source: PwC, 2015

2. INTERVENTION LOGIC OF THE EIF'S MICROFINANCE ACTIVITIES

2.1 MICROFINANCE POLICY AND MANDATE BACKGROUND

The need for a dedicated European Union (EU) microfinance policy was acknowledged as early as March 2003, when the European Council highlighted the need to focus on microfinance for supporting entrepreneurship and growth amongst European micro-enterprises (see Box 1). This led to:

- The Entrepreneurship Action Plan proposing a set of measures to help entrepreneurs realise their ambitions, and provide them with a business climate conductive to entrepreneurship;[10]
- The Lisbon Strategy both highlighting the EU's need to improve access to debt finance, and inviting Member States to ensure that national legislation facilitates the provision of microfinance;[11] and
- The EC communication on financing small and medium-sized enterprise[12] (SME[13]) growth calling for increases in risk capital investment and bank finance for innovation, as well as better governance of public funds used for venture capital investment.

Against this contextual backdrop, the EU mandated the EIF to implement pan-European initiatives, programmes and financial instruments, including: Jeremie; Jasmine; Progress MF; and the Programme for Employment and Social Innovation (EaSI). These mandates differ in terms of their: management and implementation; objectives; activities; and periods of operation. Furthermore, and as detailed hereunder, they demonstrate a shift in the emphasis of EU microfinance, away from the development of the micro-credit market and increased access to finance for SMEs, towards maximising the social impact of microfinance activities.

Box 1: Definitions of key terms[14]

- **Microfinance** is defined as guarantees, micro-credits, equity and quasi-equity extended to persons and micro-enterprises.
- **Micro-credits** are loans under EUR 25,000.
- **Micro-enterprises** are enterprises that employ fewer than 10 employees and whose annual turnover and/or balance sheet total do not exceed EUR 2 m.
- **Social enterprises** have as their primary objective the achievement of measurable, positive social impact rather than the generation of profit for their owners, members and shareholders (for further detail see Box 5).
- **Social reporting** is a term used by the European Commission to define the monitoring of the outreach to disadvantaged groups.
- **Social impact** refers to the outreach to disadvantaged groups and encompasses support to:
  - Entrepreneurship to fight unemployment;
  - Women entrepreneurs;
  - Youth and senior entrepreneurship;
  - Minorities;
  - Micro-borrowers with no formal education.

[10] COM (2004) 70 final.
[11] COM (2005) 24 final.
[12] COM(2006) 349 final.
[13] As per Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.
[14] Sources: EC Decision No 283/2010/EU, European Commission, COM (2008) 394: "Small Business Act" for Europe; Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on EaSI; COM(2014) 639 final, Report from the Commission on the Implementation of the European Progress Microfinance Facility.

Jeremie, which was developed by the EC's Directorate General for Regional and Urban Policy (DG REGIO), in consultation with the EIF, was an initiative that aimed to finance SMEs and develop micro-credit[15] over the period 2007-2013. In order to do so, Jeremie offered EU Member States - through their national or regional Managing Authorities - the opportunity to use part of their EU Structural Funds to finance SMEs (by means of equity, loans or guarantees) through a revolving Holding Fund acting as an umbrella fund.

Jasmine, which was also developed by DG REGIO, was an EU programme managed by the EIF during the period 2007-2013. The programme sought to help non-bank microfinance institutions in: scaling up their operations; and maximising the impact of microfinance products on microenterprise development and unemployment reduction within the EU. In order to achieve these objectives, technical assistance was provided in the form of:

- Assessment exercises, which targeted younger and emerging institutions wishing to improve their institutional strength, attract donor funding and enhance their social impact;
- Rating exercises for risk and social impact, which targeted mature micro-credit providers wishing to enhance visibility and obtain new financing; and
- Training courses and consulting to build the capacity of staff or management at financial intermediaries, particularly in the areas of risk management, strategic planning, governance, and management information systems.

For the 2014-2020 programming period, Jasmine was transferred from the EIF to a single advisory platform at the EIB.

In contrast to Jeremie and Jasmine developed by DG REGIO, **Progress MF** was developed by the EC's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL). It is a microfinance initiative that operates over the period 2010-2016. The Facility was established with EUR 203 m[16] of funding from the EC and the European Investment Bank (the EIB), is managed by the EIF, and aims to increase access to finance for micro-entrepreneurs (including the self-employed).[17] It seeks to achieve this by enhancing the micro-credit capacity of intermediaries by offering: micro-credit guarantees (direct or counter-guarantees); and funded instruments (different forms of loans and equity investments).

The successor of Progress MF is the EU Programme for Employment and Social Innovation (**EaSI**). Developed by DG EMPL, the overall budget of EaSI 2014-20 is EUR 919 m, of which over EUR 193 m is managed by the EIF for microfinance and social entrepreneurship activities. EaSI builds on the microfinance support provided under Progress MF and Jasmine and goes beyond the previous mandates by providing:

- Funding up to EUR 500,000 to develop and expand social enterprises (with annual turnover or annual balance sheet total not exceeding EUR 30 m).
- Funding for capacity building in financial intermediaries, in the form of Jasmine-type activities provided by the EIB under fi-compass's dedicated work stream, EaSI Technical Assistance (EaSI TA).

Progress MF will continue to operate until April 2016, after which the Facility's remaining funds will be transferred to the EIF's EaSI mandate.

---

15 ''Special emphasis would be given to supporting technology transfer, start-ups, technology and innovation funds, micro credit. The financial intermediaries will monitor investment implemented by supported SMEs.'' Jeremie Memorandum of Understanding signed between European Commission and EIF on May 30, 2006.

16 The structured investment vehicle (henceforth referred to as FCP) under which the funded instruments are provided was set up in November 2010 and was allocated EUR 178 m of the total amount available for the Progress Microfinance facility. The guarantees window was launched on 1 July 2010 and is funded only by the Commission (EUR 25 m allocated).

17 Progress MF has a particular focus on groups with limited access to the conventional credit market. Examples include women, youth, disabled or minority entrepreneurs.

2.2 INTERVENTION LOGIC

The intervention logic of the EIF's microfinance activities was reconstructed in collaboration with staff members engaged in the Fund's overall strategy and microfinance activities (see Figure 2, Page 7). This exercise enabled stakeholders to clarify the EIF's microfinance vision, and provide the basis from which EIF performance was assessed against expected objectives (see Section 3 on Page 8). The intervention logic highlights:

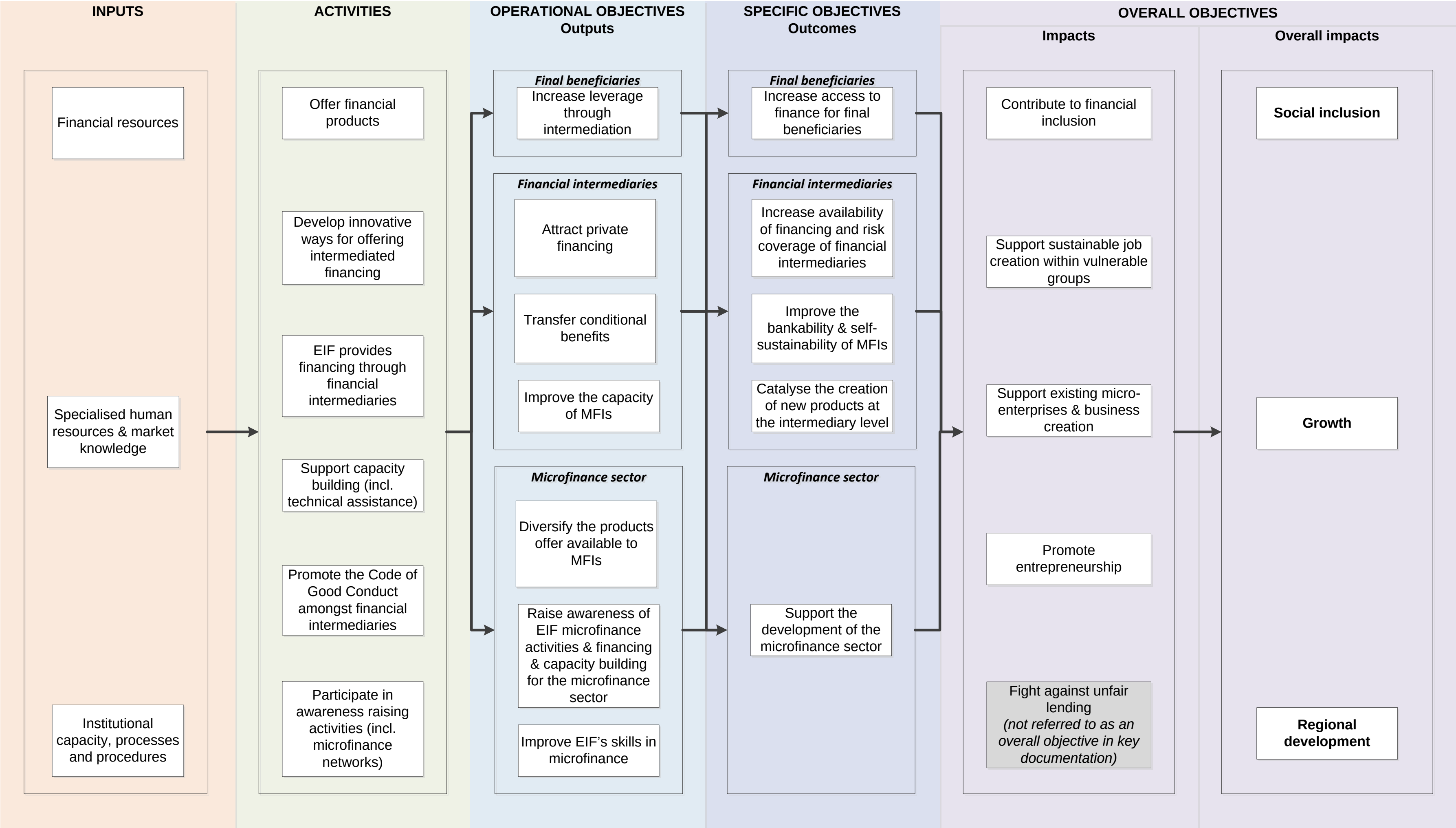
- The links between inputs, activities and expected effects (for example how each activity is delivering expected outputs and how each output feeds into an outcome);
- The interactions of the EIF with other microfinance actors, such as the financial intermediaries and the final beneficiaries; and
- Expected complementarities between each activity.

Through its microfinance activities (offering of financial products, support to capacity building and awareness raising activities), the EIF aims to achieve three specific objectives:

- Increase access to finance for micro-entrepreneurs, especially for unemployed people and vulnerable groups.
- Support the microfinance sector, by promoting knowledge transfer, professionalism, synergies between microfinance-related initiatives and regional development strategies; and
- Support financial intermediaries, as to their risk coverage, bankability and self-sustainability.

Combined, these objectives aim to contribute to financial inclusion, sustainable business and job creation, and entrepreneurship.

Figure 2: Intervention Logic of the EIF's microfinance activities[18]



Source: EIF, EIB-EV, PwC, 2015
Microfinance Institution *(MFI) used in lieu of financial intermediaries in the diagram. In this report, the term ''financial intermediaries'' covers both banks and non-banks.*

---

[18] The documentation studied made reference to the first four overall objectives and impact presented in the Intervention Logic (*i.a.* "financial inclusion"). The "fight against unfair lending", however, is not referred to as one of the global objectives/impact in the literature but was mentioned during interviews and the Intervention Logic workshop with the EIF. This impact is highlighted in a different colour to distinguish it from the other overall objectives.

3. Overview of EIF performance against its objectives

By drawing on the six evaluation reports and studies, as well as the complementary sources, this section assesses the extent to which the EIF has achieved the objectives stated in its intervention logic at the sector, intermediary and final beneficiary levels.

3.1 Supporting the microfinance sector

The EIF has focused on supporting the development of the microfinance sector and raising awareness of the Fund's microfinance activities, whether by offering financing products or capacity building services.

For instance, gap analyses and market assessments carried out by the EIF were particularly important in understanding the needs of the microfinance sector. Furthermore, they well-equipped the Fund in supporting the microfinance sector through a number of formal activities, including*:*

- The provision of microfinance products and services, which improved the capacity of financial intermediaries. For example, Progress MF's selection process was considered educational, as intermediaries were often given advice on the most suitable financing product to apply for (Report 2).
- Presentations, conferences and training courses (including those in the context of Jasmine) helped increase the capacity, professionalism and performance of the microfinance sector by sharing knowledge and good practice (Reports 2, 4 and 6).
- Insight provided by the EIF's Research and Market Assessment division for the European Microfinance Network.
- Contributions to the development and promotion of the European Code of Good Conduct for Micro-credit Provision.

Examples of the above are provided at both national and regional-levels, for instance, in Bulgaria, it was deemed that the EIF's involvement improved the image of microfinance providers and helped them to be acknowledged as credible and trustworthy institutions (Report 2). Furthermore, for some regional actors (i.e. regional Managing Authorities), the EIF contributed to the development of networks, as well as the garnering of stakeholder interest, both of which contributed to greater synergies between microfinance-related initiatives and regional development strategies[19] (Report 3).

3.2 Supporting financial intermediaries

In order to support financial intermediaries active in Europe's microfinance sector, the EIF has sought to: increase the availability of financing; provide risk coverage to financial intermediaries; improve the bankability and self-sustainability of non-bank financial intermediaries; and catalyse the creation of new products.

In terms of increasing the availability of financing and providing risk coverage to financial intermediaries operating in the microfinance sector (particularly non-bank financial intermediaries), the EIF has used dedicated financing products, technical assistance and informal capacity building activities. This was demonstrated by Reports 5 and 6, both of which highlighted the importance of capacity building and the need to align it with the provision of financing products.

The EIF has also played a direct role in kick-starting the operations of some financial intermediaries**.** For example, the provision of guarantees under Progress MF enabled MicroStart (Belgium) and Microfinance Ireland to unlock financial support from their founding investors (Report 2). Similarly, Reports 2, 3 and 4 provided evidence of non-bank financial intermediaries accessing debt financing - that they would not have otherwise accessed - thanks to the EIF's microfinance activities.

[19] Jeremie placed greater emphasis on SMEs (which included micro-credits) while Progress MF specifically focused on microfinance.

Box 2: Key figures of the EIF's microfinance portfolio (as of the end 2014)

Progress MF transactions 2010-2014

	Volume (signed)	Number of transactions	*financial intermediaries*	*of which Jasmine beneficiaries*
Progress MF FCP (lending)[20]	EUR 174.2 m	39	*22*	*8*
Progress MF FMA (guarantee)[21]	EUR 24.7 m	37	*18*	*8*
Total	**EUR 198.9 m**	**76**	***40***	***16***

Progress MF-FCP (lending) transaction types 2010-2014

	Volume (signed)	Number of transactions
Senior loan	EUR 160.2 m	37
Risk sharing loan	EUR 14.0 m	2
Total	**EUR 174.2 m**	**39**

Source: PwC's analysis of EPMF transactions 2010-2014

In relation to improving their bankability and self-sustainability, some non-bank financial intermediaries indicated in report 2 that, without Progress MF, they would have had to downscale their lending activities in terms of: the number of micro-credits provided (Mikrofond, FAER); and their size (Siauliu Bankas, Association pour le Droit et l'Initiative Économique (ADIE)). For instance, Mikrofond emphasised that Progress MF enabled it to: keep existing branches open during the financial crisis; open three additional branches in selected areas; and better attract private investors (Report 2).

Furthermore, the EIF's reputation lent credibility to the financial intermediaries it supported. Evidence of this is provided in Report 2, which finds that financial intermediaries often apply for EIF products and services in order to open financing doors, receive a stamp of quality and attain increased visibility.

Financial intermediaries in Romania acknowledged that the EIF's management of Progress MF had improved the image of EU funding among the final beneficiaries in Romania, as they are now able to put a name (i.e. those of the loan officers) to the face of EU financing; and, as a result, funding seems within reach (Report 2).

Lastly, as per its Board documents, the EIF has helped financial intermediaries target new client segments with traditional loan products, as exemplified by the support provided to:

- Adie's Propulse, which drew on Progress MF's Senior Loan product in order to offer micro-credits between EUR 6,000 and EUR 10,000, thereby enabling Adie to respond to financing requests that were not completely covered by their previous offering.
- Initiative France agreed to establish a new portfolio of micro-credit for projects with high potential social, economic or environmental impact on communities' long term development.

[20] European Progress Microfinance Facility Fonds Commun de Placement
[21] European Progress Microfinance Facility Fiduciary Management Agreement

3.3 SUPPORTING FINAL BENEFICIARIES

As the interim evaluation of Progress MF provides the most information on this subject matter, Report 2 is the focus of this analysis on the support to beneficiaries. However, even Report 2 only highlights a few ex-ante final beneficiary targets set by Progress MF and, as a result, the evaluability of social inclusion, in particular, is hindered.

The final beneficiaries targeted by Progress MF are laid out in Article 2 of Decision No 283/2010/EU, which states that:

> *"1. The Facility shall provide Union resources to increase access to, and availability of, microfinance for:*
> *(a) persons who have lost or are at risk of losing their job, or who have difficulties entering or re-entering the labour market, as well as persons who are facing the threat of social exclusion or vulnerable persons who are in a disadvantaged position with regard to access to the conventional credit market and who want to start or further develop their own micro-enterprise, including self-employment;*
> *(b) micro-enterprises, especially in the social economy, as well as micro-enterprises which employ persons referred to in point (a).*
> *2. The Facility shall provide Union resources for access to microfinance, and actively promote equal opportunities for women and men".* [22]

Report 2 provides evidence of the positive results achieved by the EIF in increasing access to finance to targeted final beneficiaries through intermediated lending. For example, it notes that Progress MF's results are in line with the target leverage effect of five[23]. This increased access to finance has also positively contributed to:

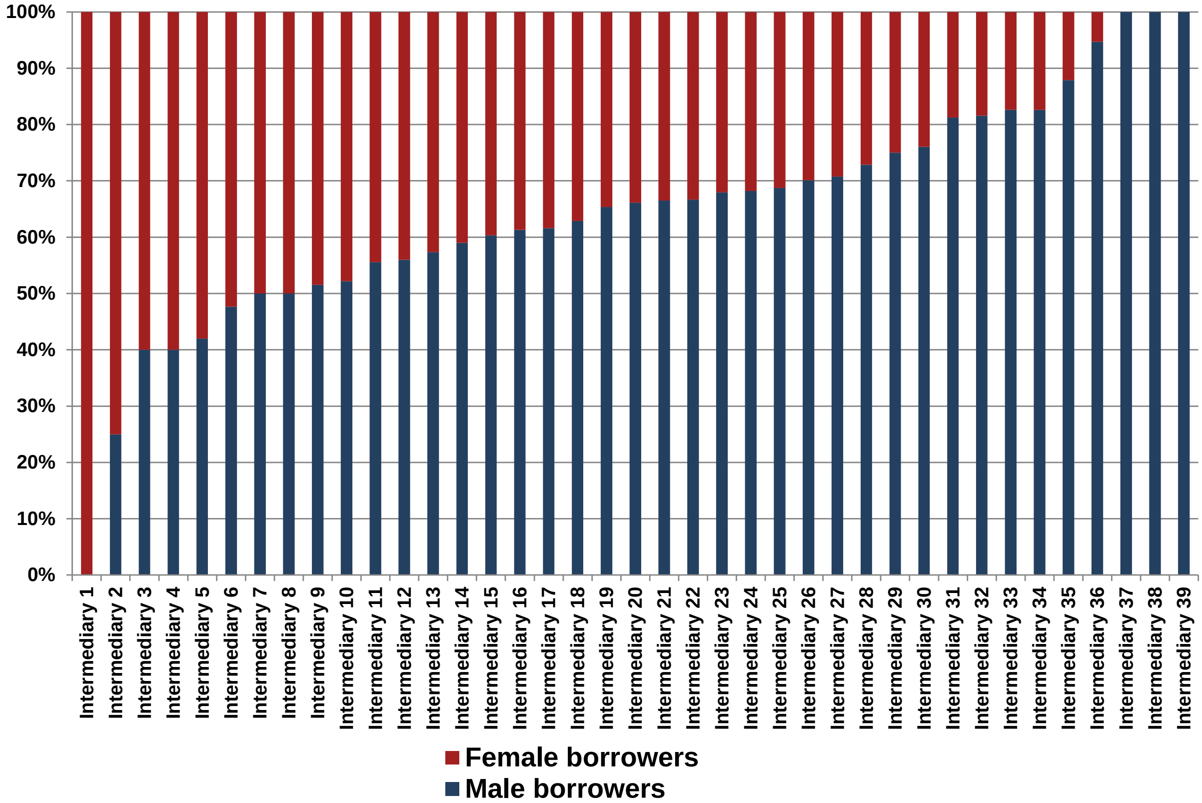
- The promotion of entrepreneurship and business creation, as 44 % of the businesses receiving a microloan under the Facility had been established for less than a year at the time of application[24];
- The sustainability of existing micro-enterprises, as just 4% of the final beneficiaries supported under Progress MF are no longer operating; and
- Financial inclusion, since as many as 2,140 European individuals and micro-enterprises previously rejected by financial institutions, have subsequently received financing from financial intermediaries supported by Progress MF. During the period 2011-2013, 59 % of all Progress MF final recipients who applied for a loan as a natural person were unemployed or inactive at the time of loan signature.

In contrast, the EIF has had mixed results in terms of its support to sustainable job creation within vulnerable groups. This may be linked to reporting received by the EIF, as Report 2 noted that the data collected did not accurately monitor support to vulnerable groups/individuals, whether by gender, age, minority group, disability or education level of staff. The EIF partly explains this limitation by the reluctance of credit applicants to disclose such information, either because they don't consider themselves disadvantaged or because they fear discrimination

The analysis hereunder provides a snapshot of Progress MF's outreach to a few vulnerable groups. Unemployed and inactive persons accounted for 58% of Progress MF's loans; demonstrating the Facility's ability to improve financial inclusion. Likewise, Progress MF's achieved a relatively high level of outreach to vulnerable individuals with limited to no educational background, as they represented 19% of all micro-borrowers. At 36.5%, a high proportion of borrowers were female; however, there were large variations in the performance of financial intermediaries, as illustrated below.

[22] Article 2 of Decision No 283/2010/EU.
[23] The funds committed from the EU budget of EUR 100 m had a leverage target of five; thereby generating EUR 500 m in micro-credits. This leverage effect can be achieved by co-investment from other partners, by the revolving nature of the funds, and by the products offered.
[24] Progress MF, Annual Implementation Report 2013.

Figure 3: Targeting of women borrowers (anonymised data)



Source: PwC's analysis of EIF Annual Implementation Report, 2014

The EIF's 2014 annual implementation report also provides data on social outreach, whether at the portfolio or financial intermediary level. In terms of the latter, the report highlights large discrepancies in financial intermediaries' ability to reach target groups. Such variations have been attributed to differences in the primary focus of financial intermediaries, and their track record in supporting vulnerable groups. But given that there is a specific objective in Progress MF to "actively support equal opportunities"[25], such disparities merit better follow up.

In interviews, the EIF confirmed that, under EaSI more detailed information from financial intermediaries on their own activities and the characteristics of the final beneficiaries they support will be required. Under the social entrepreneurship window, the social enterprise receiving funds under the EaSI guarantee has to present to the financial intermediaries an explanation of outcomes and impact being targeted, for whom and how they will be achieved and regular reports shall be provided in this respect. Moreover the social enterprise and the financial intermediary have to agree on a measurement framework of the achievement of outcomes and impact. The fact that intermediaries will be responsible for defining their own monitoring system will bring challenges in terms of global monitoring by the EIF: the aggregation of data at portfolio level will at least require a set of indicators common to all contracts, and guidelines in terms of definition, frequency, collection process, etc. in order to both ensure aggregation and comparability from one operation to another.

The indicative term sheet for the EaSI microfinance guarantee requires semi-annual "impact data" to be provided on final beneficiaries, which includes information on gender, employment status, age, migrant background, disability, educational background, duration of unemployment/ inactivity (if concerned), and number of female and male employees[26].

This "impact data" framework also calls for information on when the final beneficiaries has been offered training or mentoring for EaSI micro-credits. However such information is insufficient for

[25] Article 2.2 (Objective) OJ Volume 53, 7 April 2010.
[26] Source: Annex II to the Open Call for Expression of Interest to select Financial Intermediaries under EaSI - Capped Guarantee under EaSI, Indicative Term Sheet for the EaSI Microfinance Guarantee.

measuring impact, as it only provides data on service delivery. Furthermore, the term “offered” is vague, as it implies the mere presentation of the service for the final beneficiary’s acceptance or rejection. Thus, a more appropriate data framework would determine:

- The output of the service, whether in terms of the number of training courses completed, and the relevance and usefulness of the training (for example collected through satisfaction surveys);
- The outcomes of the service in terms of the skills developed (for example the number of skill tests passed by final beneficiaries); and
- The impact of the service, which, at a later stage, will determine the extent to which the beneficiary has used such skills (for example by carrying out field visits).

In summary, evidence from the reports and interviews found that the EIF has helped financial intermediaries’ kick-starting operations, target new client segments with traditional loan products, and lent credibility to the financial intermediaries it supported. Through dedicated financing products, technical assistance and informal capacity building activities, the EIF has increased the availability of financing and providing risk coverage to financial intermediaries operating in the microfinance sector (particularly non-bank financial intermediaries). Progress MF achieved positive results in terms of promotion of entrepreneurship and financial inclusion of micro-entrepreneurs. In contrast, it has had mixed results in terms of its support to specific vulnerable groups.

Chapter 4 identifies key drivers and obstacles determining the EIF’s level of performance.

4. Analysis of selected processes

Although the intervention logic provides a basis for assessing the extent to which the EIF has performed against its expected objectives, it does not identify the drivers and obstacles determining the EIF's level of performance.

Four processes were therefore selected for obtaining greater insight into how the EIF operates. They address key stages of the policy cycle (notably selection, implementation and monitoring of mandates) and the interactions among key actors (within the EIF, and with the EC, the EIB and other stakeholders).

The four processes selected are as follows:

- The selection and delivery procedures, which may reveal an over- or under-representation of certain types of financial intermediaries due to inadequate eligibility criteria and selection procedures. They may also explain delays, bottlenecks or the timely implementation of the different mandates, as well as how EIF guidance and advice has boosted or insufficiently supported applicants.
- The approach for ensuring that EIF microfinance products meet the needs of financial intermediaries and final beneficiaries, which plays a major role in determining the relevance and effectiveness of the products offered.
- The approach for ensuring that the EIF targets vulnerable groups and contributes to social inclusion, which entails implementing operational measures at different stages of the policy cycle.
- The process for ensuring complementarity between EIF microfinance programmes, and other EU, national and regional microfinance programmes which have coordination costs but potentially generates greater benefits.

4.1 Selection of financial intermediaries and delivery procedures

This section focuses first on the procedures used to select financial intermediaries and, more specifically, on the due diligence, contract negotiation, pre-signature and signature processes applied by the EIF to each financial intermediary.

This section also addresses:

- The role of the EIF's Mandate Management department in the design and set-up of MF programmes;
- The EIF's delivery procedures; and
- Coordination between the various EIF microfinance programmes.

4.1.1 EIF's internal organisation and its set-up of microfinance programmes

Over the period 2009 to 2014, the EIF deepened its understanding of the microfinance sector and, subsequently, improved its internal processes as well as the products offered to financial intermediaries[27]. Such procedural requirements were a necessity as the EIF's microfinance operations were implemented under different sources of funding and different mandates – DG REGIO (Jasmine, Jeremie), DG EMPL (Progress MF), and the EIB.

The Mandate Management department was the front office of Jeremie and Jasmine, while the microfinance team was the front office of Progress MF. Under EaSI, and according to interviews conducted during this stocktaking exercise, the Mandate Management department will have a more active role in attaining an overview of all the EIF's mandates and organising more formal communication flows.

[27] As illustrated in Figure 1 (Page 3) the EIF's microfinance activities began with Jasmine in 2009, as Jeremie was largely SME-focused.

In 2010, the EIF shifted away from having teams dedicated to Financial Instruments (equity, guarantee, loans) towards a dedicated microfinance team to cover all EU Member States. According to Report 3, and interviews with EIB Group staff, having a dedicated microfinance team facilitated the monitoring of microfinance programmes and resulted in the accumulation of expertise on microfinance within the EU. However, the microfinance team’s ability to fulfil its extensive roles and responsibilities was challenging given the large number of new intermediaries with total assets under EUR 50 m (see Table 2).

Coordination of a decentralised instrument like Jeremie was difficult, as reflected by the launch of its microfinance-related activities being delayed (Report 5). As such, the EIF had to educate financial intermediaries and other stakeholders with little previous knowledge of financial engineering. In addition, it was the first time that the EIF had to work with the DG REGIO financial engineering unit, as well as with country desks (Reports 2 and 5). But moving forwards, EaSI, under DG EMPL, should provide a more integrated approach to microfinance activities, as both the technical assistance and financial instruments will be unified under an umbrella structure.

This year’s transfer of Jasmine to the Advisory Services Department at the EIB creates opportunities and risks. On the one hand, it will probably favour the transfer of best practices and knowledge between teams involved in different technical assistance initiatives at the EIB; thereby creating synergies and reducing overlaps between these initiatives. However, it equally brings about the risk of reducing synergies between the technical assistance services provided under Jasmine and the financing products to be provided under EaSI.

The interaction between the EIF microfinance team and the EIB’s single technical assistance platform has thus far been proactive but has remained informal. A more formal coordination process, which should include EIF-EIB cooperation as a stated objective, would certainly secure synergies between the two programmes and ensure they meet the needs of the financial intermediaries as a whole. Moreover, these ties would integrate capacity building services provided by the EIF staff members.

4.1.2 Management of the selection procedure

The absence of a single European microfinance market forces the EIF to balance its centrally-managed procedures with the needs and characteristics of each market and each financial intermediary in the EU. In doing so, the EIF has built on its experience with Jeremie, by strengthening its overall selection process of financial intermediaries over the 2009-2015 period.

In doing so, the EIF faced the challenge of combining centralised management with a broad coverage of its microfinance mandates (both in terms of geographies and final beneficiaries). Report 2 viewed central management at the EU-level as the best way to avoid fragmenting microfinance activities across individual Member States[28].

4.1.3 Information and advice to financial intermediaries

Report 2 also indicated that the EIF provided sufficient guidance, clear explanations and support through timely communication with financial intermediaries. In addition, most financial intermediaries involved in the European microfinance network considered that the provision of information made by the EIF was important and useful.

In the case of Progress MF, transactions originated from both sides, as either the financial intermediary made contact with the EIF or the EIF investigated a specific area and engaged potential intermediaries. Nevertheless, once a potential financial intermediary applied, the EIF undertook a detailed due diligence on its According to Report 2, under Progress MF, this “origination stage” of the overall process often constituted the longest part of negotiations.

[28] An ECA report which, due to its recent publication, did not form a core part of the literature review, found that this approach helped provide better information than for financial instruments under shared management. The citation of this report is as follows: European Court of Auditors, Special Report: Is EU financial support adequately addressing the needs of micro-entrepreneurs? (14 July 2015).

With regards to Jasmine, the eligibility criteria and the timetable were perceived as clear and straightforward by the financial intermediaries (Report 4). The selection of the financial intermediaries was conducted on pre-defined eligibility and award criteria detailed in a two-stage expression of interest process, which included: (i) a basic eligibility check of the application; and (ii) the evaluation of applications by a panel discussion (including members of the EIF microfinance team). However, some financial intermediaries did not know that they could repeatedly apply to Jasmine and benefit from various capacity building trainings (Report 4).

Small intermediaries generally require more time and energy to close deals than banks or repeat clients, because additional assistance may be needed to guide them through the application process. The EIF helped build the institutions capacity through the one-to-one interactions. Examples of such capacity building included:

- The EIF's provision of advice when data was being collected for due diligence purposes and business plan preparation.
- The EIF's credit department working with financial intermediaries until their financial reporting met acceptable standards.
- The EIF's provision of advice on which products – whether guarantee, debt or equity – were most suitable to smaller and less experienced financial intermediaries.
- One EIF staff member producing a specific guide in Italian in order to support the financial intermediary in the implementation of a specific Jeremie-related loan.

Yet despite the time needed for these activities, especially with non-bank financial intermediaries, no evidence was found in interviews that the non-volume related EIF activities were recognised. Furthermore, they were not integrated into the individual objectives of the EIF staff.

4.1.4 Selection Criteria

The majority of intermediaries interviewed in Report 2 considered the overall application procedure to be relevant and reasonable. In order to further explore comments made in Report 2 about the selection criteria of Progress MF[29], EIF data was analysed and interviews were carried out in order to gain further insight into the portfolio and profile of selected financial intermediaries.

The analysis found that the EIF has to strike a balance between its orientation towards achieving a target volume and orienting itself to the social targets of its microfinance mandates. This was reflected in interviews with EIB Group staff that highlighted how the transactions with the highest volumes did not necessarily translate to those with the highest social impact.

Under Progress MF, some smaller financial intermediaries perceived EIF assistance during the selection process to be inadequate. For instance, Report 2 cited that the EIF asked financial intermediaries to conduct projections on loan provision when performing their application, but did not provide them with the appropriate methodologies for doing so. Thus, it was judged that the provision of such methodologies would be helpful for, in particular, smaller, less experienced intermediaries.

In the case of Jasmine, it gradually increased its geographical coverage during the last programming period. In addition, it engaged more types of intermediaries, including banks and less specialised financial intermediaries. However, rejected applicants deemed there to be a lack of transparency and communication in the selection process (Report 4). Furthermore, it was noted that Jasmine could be more actively promoted to non-European Microfinance Network members.

[29] Selection criteria are detailed in the Fiduciary and Management agreement between the EU and the EIF for the European Progress Microfinance Facility for Employment and Social Inclusion.

4.1.5 Who is being selected? Categorisation of the financial intermediaries supported by Progress MF

Using EIF data from 2009-2013, the financial intermediaries supported by Progress MF were analysed to understand their financial profile and to see how the EIF was balancing the achievement of volume and social targets, as well as improving the capacity of financial intermediaries. Their characteristics in terms of total assets, net income and loan portfolios were very diverse as they supported non-banks to banks (shown in Table 2 and Figure 3).

As shown in Table 2, 32 transactions were concluded with intermediaries with total assets under EUR 50 m; however, nearly half of the loan volume was allocated to 15 financial intermediaries with assets totalling more than EUR 1 bn.

The vast majority of the final beneficiaries were supported by Category 1 and Category 2 financial intermediaries (21,890 final beneficiaries, i.e. 79.7% of the total number of micro-borrowers). As such, working with larger financial intermediaries does not necessarily help the EIF reach out to targeted final beneficiaries or the lending pipeline for smaller financial intermediaries is robust and facilitates the speedier allocation of financing.

Table 2: Classification of the financial intermediaries supported by Progress MF according to their total assets (at the time of integration into the facility) from 2009 to 2013

Category	Total Assets (mEUR)	Number of financial intermediaries	Number of transactions	Number of borrowers
1	0-50	23	32	11,486
2	50-200	9	11	10,404
3	200-500	3	3	232
4	500-1000	3	3	607
5	> 1000	15	19	4,747
Total		53	68	27,476

Source: PwC's analysis of EIF data

Under Progress MF, the EIF concluded deals with a diversified range of actors, with on average 1.3 deal per financial intermediary, 5.7% of the intermediaries having concluded three transactions with the EIF and 17% with two transactions. The EIF built up a new client base under Progress, many clients being new to the EIB Group. The EIF advised that most applicants to EaSI's initial pipeline are those it had worked with under Progress MF.

The financial intermediaries selected for Progress MF also presented diverse ratings between BBB and CCC, with an overall credit portfolio downgrading over the years but above B as required by the Risk Policy Guidelines[30].

The overall loan portfolio performance is illustrated in Box 3.

[30] Only financial intermediaries supported by Progress MF and with available information on their total assets have been taken into consideration. This information was provided in the EIF's due diligence documentation for each financial intermediary. For that reason, it comprises information from 2009 to 2013.

Box 3: Performance of Progress MF loan portfolio (as of 30 June 2014)

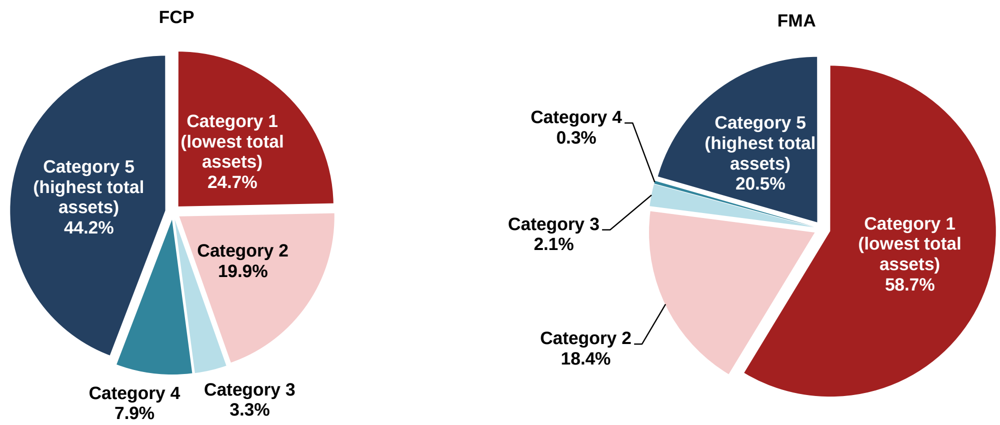
- 72% of the loans are performing, 27% are under review with negative outlook, and 1% is under review with positive outlook
- 16% of the financial intermediaries are rated BBB, *55% are rated BB*, 21% are rated B, and 8% are rated CCC. Such a rating breakdown needs to be put in perspective of the strict risk limits for EPMF FCP set by the founding investors.
- 80% of the financial intermediaries selected by the EIF provided mentoring services[31].
- The credit quality of the Progress MF loan portfolio has deteriorated since the inception of Progress MF (seven financial intermediaries downgraded and three upgraded) but remains consistent with the Microfinance Investments Credit Risk Policy Guidelines which state a minimum portfolio credit of B.

Source: EIF, Microfinance Portfolio Review, 2014

When considering the volumes of financing provided by the EIF to the five categories of financial intermediaries, it is noticeable that:

- The largest financial intermediaries (banks with more than EUR 1 bn in total assets) received almost half of the loans and 20.5% of the guarantees (demonstrating the volume targets of the EIF); and
- The smallest financial intermediaries (with less than EUR 50 m in total assets) received more than half of the guarantees, illustrating their need to cover their risks. This size category also represented 24.7% of the loans provided by the EIF under Progress MF, illustrating their need for liquidity (but in smaller volumes than the largest financial intermediaries).

Figure 4: Allocation of volumes provided by the EIF to the five categories of financial intermediaries for both FCP and FMA



Source: PwC analysis of EIF data

Two separate structures have been set up for Progress MF: a guarantee window launched under a Fiduciary and Management Agreement (FMA) between the Commission and the European Investment Fund, and a structured investment vehicle, in the form of a *fonds commun de placement-fonds d'investissement spécialisé* (FCP-FIS) under Luxembourg law, which offers funded instruments for

[31] EIF (March 2015). European Progress Microfinance Fund ("EPMF") – Presentation to IC, 23/03/2015. Information as at 31/04/2014. 39% of them are deemed to provide full mentoring services. The available documentation does not specify whether Jasmine supported these financial intermediaries in developing and implementing their mentoring services.

intermediaries (debt, equity and risk-sharing).[32] The allocation of volumes provided by the EIF to the five categories of financial intermediaries – whether in the FCP or FMA form – is illustrated in Figure 4 above.

4.1.6 EIF's delivery procedures

The EIF's delivery procedures are largely driven by mandate requirements. The financial intermediaries consider the application, selection and reporting processes set up by the EIF as transparent and straightforward (Reports 2 and 4). As such, the EIF's quality assurance processes are highly regarded by financial intermediaries; the 2014 CGAP (Smart Aid Index) reported that the EIF is trusted to opt for the appropriate financial Instrument.[33] Similarly, a recent ECA report acknowledges that Progress MF's set-up arrangements and, in particular, the EIF's standard due diligence procedures, were generally satisfactory.[34]

Administrative procedures have been acknowledged as being complex and time-consuming[35], as financial intermediaries spend a great deal of time completing the administrative documents required to benefit from the programmes. In particular, Report 2 notes that – among the 27 intermediaries interviewed – the smaller, less experienced ones indicated that the process was fairly challenging, particularly when negotiating complex legal contracts.

The implementation procedures for Jasmine and Progress MF differ, as one offers technical assistance for mitigating risks, while the other assumes risk (Reports 2 and 3). In addition, while financial intermediaries could apply to Jasmine through specific annual calls for expressions of interest (Report 4); financial intermediaries could apply to Progress MF throughout the year.

[32] Implementation of the European Progress Microfinance Facility - 2010, COM(2011) 195 Final, Page 6.
[33] CGAP (2014). SmartAid Index 2013: European Investment Fund (EIF) of the European Investment Bank Group.
[34] European Court of Auditors, Special Report: Is EU financial support adequately addressing the needs of micro-entrepreneurs? (14 July 2015).
[35] Sources: Reports 2, 3, 4, 5 and 6.

4.2 Ability of the EIF microfinance products to meet the needs of financial intermediaries and final beneficiaries

This process is analysed on the basis of:

- The adequacy of the EIF's standardised product offering for financial intermediaries;
- The flexibility of the product offering to adjust to the specific needs of financial intermediaries; and
- The ability of the EIF's microfinance products to meet the needs of the final beneficiaries.

4.2.1 Adequacy of the standardised product offering for financial intermediaries

Products supported an array of financial intermediaries, ranging from developed financial markets, like the UK and France, to less developed financial markets, such as Bulgaria and Greece. The six evaluation reports/studies highlight the relevance of the EIF's microfinance products to meet the needs of these financial intermediaries, especially non-bank institutions. For example, in Report 2, most non-bank financial intermediaries indicated that, in the absence of Progress MF, they would have had to downscale their lending activities in terms of the number and size of micro-credits they provided.

Over the 2009-2014 period, the EIF – and especially the microfinance team – sought to improve its product offering vis-à-vis the financial intermediaries. The following activities were carried out:

- Before launching Jasmine, the EIF conducted surveys in Member States to prepare the ground for the programme and the design of its products (Report 4). The EIF maintained a proactive attitude towards developing the market (although mandates are provided to the EIF by the EC) by identifying market gaps, and approaching potential mandators and financial intermediaries.
- The EIF learned to assess and work with non-bank financial intermediaries (Reports 2, 3 and 4) and, in doing so, has developed an in-house rating methodology.[36] EIF's intermediaries are mainly non-banks or small local banks. EIF non-bank counterparties are generally focused on microfinance (including vulnerable groups).
- The EIF also benefited from knowledge-sharing platforms such as the Microfinance Centre of Expertise which draws on the experience and capacity of the EIB Group in order to exchange knowledge and expertise between microfinance actors (Report 4). EIB microfinance activity outside the EU was historically covered in the Microfinance Centre of Expertise while the intermediated lending to European micro-enterprises fell under the SME Centre of Expertise.
- The EIF showed a willingness to link technical assistance with the provision of microfinance products to the financial intermediaries (hence focusing on their needs and not only on financial products). As such, the EIF also provided information on other EU programmes related to microfinance, which may align with a specific local market.

As such, risk-sharing loan products are seen by the EC as having failed to meet their target intermediaries (Report 3) and, also, equity financing available under Progress MF has had limited use. Financial intermediaries often knew which products they needed and wanted. EIF explained that few risk sharing instruments proposals were approved under Progress MF in part due to the strict risk limitations set by the EIB on such products.[37] For equity products, the EIF advised that, in most cases, there were no co-investors or any share capital to subscribe to for that matter. The EIF reports a lack of co-investors and a need of financial intermediaries for grants rather than share capital, which in practice limited the attractiveness of equity investment for intermediaries.

Reports 3, 4 and 6 looked at Progress MF and suggested combining grants and/or equity financing with other financial instruments (such as senior loans and guarantees). According to Report 3, the best products and services for contributing to EU policy goals are direct guarantees, soft loans and repayable grants, as well as technical assistance services; followed by senior loans, subordinated

[36] The selection process under Progress MF adopts a rating system that differentiates between "start-up MFIs", "standard MFIs", and "small financial institutions".

[37] See Management Regulations in respect of the EU Microfinance Platform FCP-FIS, para. 1.6.3 on Portfolio Limits and Restrictions.

loans, counter-guarantees and indirect guarantees. Report 3 recommended that the offer for equity financing is reinforced in order to match the corresponding high demand from some financial intermediaries that seek to implement their investment plans. Report 3 also notes that risk-sharing loans seem to contribute little to the achievement of EU policy goals.

Financial intermediaries positioned in more developed markets (France and the UK) expressed concerns about the requirements of the offered products and sought support beyond the standard products offered by the EIF (i.e. senior loans and guarantees). Report 2 and interviews highlighted how the limit of EUR 25,000 for micro-credits was not always viewed as adequate, especially in Member States where the microfinance sector is developed or where the financing needs for business creation require higher sums, such as in the United Kingdom.

The three main factors affecting a lender's loan pricing to a final beneficiary are the funding cost margin[38], the credit risk margin[39], and the operating cost margin[40]. The EIF mandated products currently address funding cost through loans, and credit margins through guarantee instruments. Different Jasmine training programs[41] aimed at indirectly contributing to the alleviation of the financial intermediary's operating margins. EIF can indirectly leads to reduced operational costs, through supporting the growth of many small non-banks.

4.2.2 Flexibility to adjust to specific needs of financial intermediaries

The EIF products (senior loans, subordinated loans, guarantees, ratings, assessments, and training sessions) were overall considered to be able to adjust to the specific needs of each financial intermediary. For instance, the financing products offered under Progress MF demonstrated sufficient flexibility in terms of prices, terms/conditions and incentives (Reports 2 and 3). In parallel, the products offered under Jasmine, though standardised in terms of assessment and rating reports, were followed by tailor-made training events perceived as well-fitted to the needs of financial intermediaries; especially since the intermediaries were able to select their trainers from a short-list. Report 3 highlighted the future need for an additional supply of affordable debt finance and long-term investment for both non-bank institutions and banks.

Financial intermediaries under Jasmine called for institutional assessments and training courses to be unbundled into optional products, rather than packages. In addition, they called for a wider choice of rating products and assessments, and a database of accredited subject-matter experts to complement the product offering (Report 4). In addition, it was suggested that the assessments, ratings and training sessions proposed under Jasmine ought to have been provided as grants to some financial intermediaries, rather than direct services.

In order to foster the adaptability of the products proposed under Jasmine, Report 4 recommended regionalised delivery, and referred to the regional approach of Jeremie as best practice. In the context of Jasmine being transferred to the EIB, it is currently unclear if this recommendation will be taken into consideration for the design and implementation of Jasmine over the 2014-2020 programming period. Furthermore, it was unclear to interviewees as to what types of training will be offered for social entrepreneurs, and if training on targeting vulnerable groups would be offered at all.

---

[38] Funding cost margin varies significantly across the European microcredit providers, depending on the microfinance institution and type of lender (bank, non-bank MFI, promotional agency, etc.).

[39] Credit risk margin is mainly a function of the inherent credit risk in the micro-borrower segment (for example, start-ups are riskier than well-seasoned micro-enterprises) and the practise of the lender in terms of security (for example, unsecured loans or those benefitting from soft collateral are riskier than loans backed by hard collateral). Source: idem.

[40] In the case of operating cost margin, most banks benefit from significant scale advantages in credit origination. Micro-credit activity typically makes up a very small portion of their overall lending, while many non-bank MFIs almost exclusively provide micro-credits and benefit from very limited scale advantages (given small overall size of operations). Source: idem.

[41] Jasmine training topics included good governance, management information services, strategic planning and risk management. Although there was no specific topic related to operating margins, in view of self – sustainability the subject was viewed by EIF to be indirectly covered.

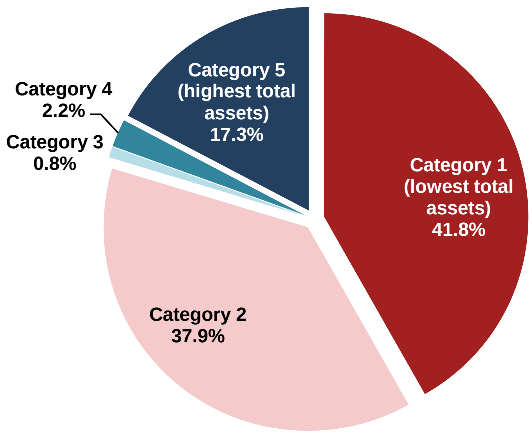
4.2.3 Ability of the EIF's microfinance products to meet the needs of the final beneficiaries

Reports 2, 3 and 4 assessed the relevance of the EIF's products to the needs of the final beneficiaries as being largely satisfactory over the 2007-2013 programming period. In particular, Reports 2 and 3 deem that the EIF has applied sound market pricing principles[42], has provided clear analyses on the potential leverage effect, and has appropriately measured and monitored its added value.[43]

Yet the issue of pricing to the final beneficiary and whether or not collateral is requested often arises. As the financial intermediaries have very different cost structures often with grants (in the case of non-banks) and cross subsidies (banks), it is difficult to compare the rates charged to the final beneficiaries. With support from the EIF, an EIBURS[44] project on the "Impact of microfinance on financial and social inclusion in Europe" will tackle the subject of loan pricing.

By comparing the pricing of Progress MF and larger loans available on the market, Report 2 builds on declarations from the intermediaries interviewed: half of the interviewees stated that the conditions for credits have been positively affected by the support provided from Progress MF. In addition, interviewees for this stocktaking exercise stated that, in comparison to grant and non-market price funding, EIF support led to higher funding cost in some cases.

Figure 5: Distribution of the 27,476 final beneficiaries supported by the financial intermediaries (supported by Progress MF) per by total asset category



Source: PwC analysis of EIF data

As Figure 5 shows, the average loan amount provided by each of the size categories of financial intermediaries varies only marginally, from EUR 11,293 (smallest financial intermediary – Category 1) to EUR 17,557 for a mid-sized financial intermediary (Category 3). The average loan size was EUR 13,777 with the highest loan size notably not from the largest-sized financial intermediaries.

42 In Reports 2 and 3, it is highlighted that the microfinance market pricing to the final beneficiary include: (i) a premium for no requiring collateralisation (though some financial intermediaries providing micro-credits require collateral, when supported by Progress MF), (ii) the pricing of the mentoring and tutoring services provided by the financial intermediary, (iii) the cost structure of the financial intermediary (Human Resources, location and material) and (iv) the funding structure (cost of capital).

43 CGAP (2014), SmartAid Index 2013: European Investment Fund (EIF) of the European Investment Bank Group.

44 The EIB University Research Sponsorship (EIBURS) programme supports EU University Research Centres as well as research centres, foundations, institutes not formally linked to a university, working on research topics and themes of major interest to the EIB Group. The beneficiary centre can obtain up to EUR 100,000 a year, for a period of three years, to develop activities in the selected research area, additional to those that would normally be carried out by the beneficiary centre.

4.3 Ability of the EIF to target vulnerable groups and contribute to social inclusion

This section addresses the extent to which the EIF put social inclusion targets at the core of its microfinance activities. In line with Progress MF, particular focus has been placed on disadvantaged individuals, vulnerable social groups, and social entrepreneurs. Reaching out to these final beneficiaries can be achieved through different processes implemented along the project cycle, including: the targeting of financial intermediaries financing such groups; the use of specific eligibility and selection criteria; an offering of tailored financing products; and the monitoring and analysis of reporting to understand why certain financial intermediaries are more successful than others in reaching out to vulnerable groups.

4.3.1 Incentive provided by the EIF to prioritise vulnerable groups

In most cases no specific targets for financing vulnerable groups were set for each financial intermediary. The EIF believed that this is due to the complexity and operational costs that would impact the smooth implementation of transactions.

Box 4 summarises how the EIF has typically assessed the social outreach of funded transactions at due diligence and pre-approval stage under Progress MF. The current scorecard aims to encompass various elements, including innovation, relevance to local context and social performance. As per this scorecard:

- Social criteria (highlighted **in bold** in Box 4) account for only one of the value-added criteria.[45] Social performance is not a decisive criterion for approval, as a medium or low contribution to social outreach can technically be compensated by higher ratings on the innovative side.
- The value-added at transaction level encompasses a sub-criterion defined as “strengthen [intermediary’s] social performance”. This criterion is not defined or associated to a specific assessment grid, which leaves room for interpretation as regards its coverage and calculation. More guidance on how social performance should be calculated would help give more weight to this criterion at diligence and pre-approval stages.

Box 4: EIF’s value-added scorecard

Value added at market level (market development):

- Impact on the local market: degree to which the transaction addresses a market gap. Valued by **high unemployment rate in the region or country, high percentage of people at risk of poverty, financial intermediaries' offices localisation and operation areas, limited number of other financial intermediaries or micro-credit providers in the relevant region or country, recent incorporation of the oldest MFI in the region or country**, market innovation, appropriate new EIF products for the specific market, support of new financial intermediary product.
- Access to finance: degree to which the transaction addresses access to finance for target beneficiaries. Valued by low coverage of small lending by banks to entrepreneurs, limited alternative sources of finance for micro-enterprises in the area, the already high number of active clients of the financial intermediaries in the area, **high micro-credits rejection rates in the conventional banking market, high percentage of population in a situation of financial exclusion in the area, focus and support to disadvantaged groups (migrants, minorities, disabled etc.).**
- Complementarity of EIF investment with available public funding sources for the same purpose. Valued by absence of funding alternatives or the attraction of private funding with the EIF deal, high synergies with other EC programmes (Jasmine, EPPA, ESF Business Support Services etc.).

[45] Each criterion is assigned a rating from A – high to D – none. Three global ratings are then given to (i) Value Added at Market Level, (ii) Value Added in terms of structuring Input, and (iii) catalytic effect.

Value added at transaction level:

- Improvement of Intermediary capacity building (financial or social) in terms of leverage of EIF investment to new products within MFI, expansion into new business lines/products/regions, strengthened prospects for self-sustainability in short/medium/long term, strengthen the intermediary lending process, staff productivity, strengthened ability to attract new stakeholders (investors, customers, local communities), and **strengthen social performance**.
- Educational role and other best practices. Valued by degree to which EIF supports the financial education of the intermediary, enhanced data collection on disadvantaged groups for specific reporting to the EIF, promotion of best practice, ability to propose innovative transactions that combine original and creative financial intermediaries' practices with advanced financial engineering instruments.

Catalytic effect (signalling role)

- MFI maturity (seasoning and impact on sustainability)
- MFI development (replicability of model character for other financial intermediaries in the region or country, raising awareness of MFI's activity).
- Degree to which EIF investment is expected to attract new investment capital or private funding or open up additional funding sources.

Source: EIF, value added assessment - Users guide for Microfinance / EPMF

Report 2 notes that Progress MF has increased access to and the availability of microfinance for microenterprises: 68% of the final beneficiaries to Progress MF were first time applicants for microfinance support; and 43% had net incomes beneath the poverty threshold at the time they received financial support. However, the same report also provides evidence that Progress MF did not incentivise microfinance providers to target groups which they were not already targeting. Furthermore, under Progress MF, only three contracts with financial intermediaries had social outreach minimum requirements and incentives, which came in the form of a discount on the interest rate.[46] Lastly, Report 2 notes that in cases where financial intermediaries already had a strong social mission (such as ADIE in France), the EIF's contribution influencing the intermediary focus was marginal.

The essence of microfinance is to provide financing to individuals and micro-enterprises that do not have access to mainstream banking which has collateral requirements. In this regard, the reports analysed did not offer concrete evidence of the degree to which financial intermediaries have more flexible collateral requirements than mainstream banks, and are offering loans under EUR 25,000. The results of the social reporting of the beneficiaries of senior loans under Progress MF were mixed. Report 2 indicates that the collateral requirements were the most frequent reason for the rejection of applicants, particularly for the very young. Several such final beneficiaries who applied for microfinance products did not meet the (rigid) requirements set by the financial intermediaries in terms of maturity, profitability, turnover and provision of collateral.[47] Report 3 notes that the conditions for senior loans were market-oriented and therefore had no impact on lowering the interest rates for final beneficiaries, or reducing the collateral required by financial intermediaries. The issue of collateral merits monitoring and more in-depth review in future evaluations.

46 In particular, the Romanian microfinance institution Societatea de Microfinantare Rurala (FAER) targets young unemployed persons who are in the process of taking over the family farm from their parents. FAER is supported by Progress MF and could not develop this approach without the EIF (Report 2). The Belgian financial intermediary MicroStart has implemented a programme called DreamStart to help unemployed persons under 30 years old to strengthen their business projects (and business plans) through courses and workshops in business-related subjects. It is also supported by Progress MF (Report 2).

47 For example, a Bulgarian financial intermediary supported by Progress MF stated that it requires a four month track record before considering a loan application, thus excluding unemployed people starting new businesses. Furthermore, it was stated that collateral is required for loans over EUR 10,000. For loans under EUR 10,000 this financial intermediary requires a personal guarantee.

4.3.2 Social Economy

Targets relating to the final beneficiary's profile were not always defined in the agreements signed between the EIF and the financial intermediaries; nevertheless, financial intermediaries provided reporting on the social characteristics of final beneficiaries.[48] However, reported information was limited to the profile of the business owner at the moment of the application, and did not consider the business's evolution.

Under Progress MF, there is a lack of evidence on the impact of the EIF's microfinance activities in reaching micro-enterprises in the social economy sector (Reports 2 and 3), despite such targeting being a clear objective of Progress MF (Report 1). Report 2 notes that Progress MF has not actively encouraged or required financial intermediaries to include enterprises in the social economy within their portfolio.

Similarly, there was a clear lack of reporting under Jasmine which was a limiting factor in evaluating the social impact of the programme (Report 4). Exceptions existed when the financial intermediary had already developed its own social reporting system (such as ADIE in France).

4.3.3 The social entrepreneurship window

When implementing the social entrepreneurship window within EaSI, the EIF must respect the following minimum percentage allocations: 45% to microfinance and micro-enterprises (including vulnerable groups); and 45% for social entrepreneurship. However, no target related to social entrepreneurship has been defined for technical assistance over the 2014-2020 programming period.

Box 5: EaSI and social entrepreneurship

As per Regulation (EU) No 1296/2013, the Microfinance and Social Entrepreneurship (MF/SE) axis of EaSI aims to:

- (a) increase access to, and the availability of, microfinance for:
    - (i) vulnerable persons who have lost or are at risk of losing their job, or have difficulty in entering or re-entering the labour market, or are at risk of social exclusion, or are socially excluded, and are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own micro- enterprises;
    - (ii) micro-enterprises in both start-up and development phase, especially micro-enterprises which employ persons as referred to in point (i);
- (b) build up the institutional capacity of microcredit providers;
- (c) support the development of the social investment market and facilitate access to finance for social enterprises .

Social enterprises are not defined by their legal form. They must have as their primary objective the achievement of measurable, positive social impact rather than generating profit for its owners, members and shareholders. Social enterprises promote social responsibility, social cohesion and social inclusion by promoting inclusive labour markets and social services accessible to all. The sector is growing in Europe and presents a need for financing.

The social economy is growing in Europe and presents a need for financing and, in this context, the new "social entrepreneurship window" of EaSI aims to:

- Improve the access to finance of new financial intermediaries that lack liquidity and focus on social entrepreneurs and/or cooperatives;
- Leverage existing actions already conducted by financial intermediaries towards social entrepreneurship and the social economy as a whole; and
- Contribute to the ultimate goals of job creation and social inclusion.

[48] Characteristics include: employment status; level of education; gender; age; disabilities; and minority group.

A social enterprise can receive up to EUR 500,000 while respecting state aid rules. Programme support will be limited to enterprises not listed on the stock market, with a turnover or annual balance sheet not exceeding EUR 30 m. The EIF advised that this ceiling constitutes a lesson learned from Progress MF, during which it was observed that many social enterprises have funding needs in excess of EUR 25,000.

Sources: European Commission, COM (2008) 394: "Small Business Act" for Europe; Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on EASI

"Social entrepreneurship" is broad in its scope, and so requires intense coordination between the EIB's intermediated lending activities and the EIF's guarantee products, both of which have cooperative banks as clients.

4.4 Complementarity between EIF microfinance programmes and other EU, national and regional microfinance programmes

This section analyses how European programmes have been able to operate in complementarity in order to optimise the use of funds and minimise duplications and overlaps.

4.4.1 Complementarity between Progress MF and Jasmine

During the implementation period of Progress MF and Jasmine, most coordination within EIF's departments was informal. In comparison, EaSI has set up a more formal flow of information.[49] Over the 2009-2014 period, the EIF was able to improve and foster the coordination and synergies between its microfinance programmes and other microfinance-related programmes. During this period, the EIF:

- Developed market knowledge on the microfinance programmes existing in the EU at national and regional level (which has increased since the *ex-ante* assessments conducted for Financial Instruments for the 2014-2020 programming period);
- Proposed both technical assistance services and microfinance products to financial intermediaries (adopting a "financial intermediary approach" rather than a "transaction approach");
- Provided capacity building services which enabled the exchange of best practices, fostered the use of various microfinance programmes by the financial intermediaries and, overall, increased the knowledge and expertise of the least experienced financial intermediaries.

Training courses provided through Jasmine were for example often a stepping stone for the financial intermediaries to be informed and then apply for financing under Progress MF (Report 2). Therefore the EIF staffs consider Jasmine to be an important asset to prepare the set-up and implementation of Progress MF. However, opportunities may have been missed when considering that, as already mentioned, some financial intermediaries did not know they could apply several times to Progress MF or Jasmine.

Furthermore, Report 4 states that the financial intermediaries that failed to receive financing were not always guided towards the support services provided under Jasmine. However, the EIF explained how it could only invite these financial intermediaries to apply to Jasmine, in order to avoid conflicts of interest.

4.4.2 Complementarity between Progress MF and Jeremie

Report 2 surveyed fifteen financial intermediary recipients[50] of Progress MF-backed products. Two of them offered combined Progress MF and Jeremie products to their clients over the period 2010-2013. There was also some complementarity between Progress MF and the use of funds from the European Regional Development Fund (ERDF) under Jeremie. For example, in Poland, several financial

[49] A more detailed illustration of the procedures and set-up planned for the implementation of EaSI are available upon request.

[50] Report 2 acknowledges that, due to its logistical bias, the collected survey data is not representative of the entire population of micro-borrowers receiving EPMF-backed credits.

intermediaries have offered ERDF-backed loans along with microfinance products supported by Progress MF (Report 2).

4.4.3 Coordination within the EIB Group

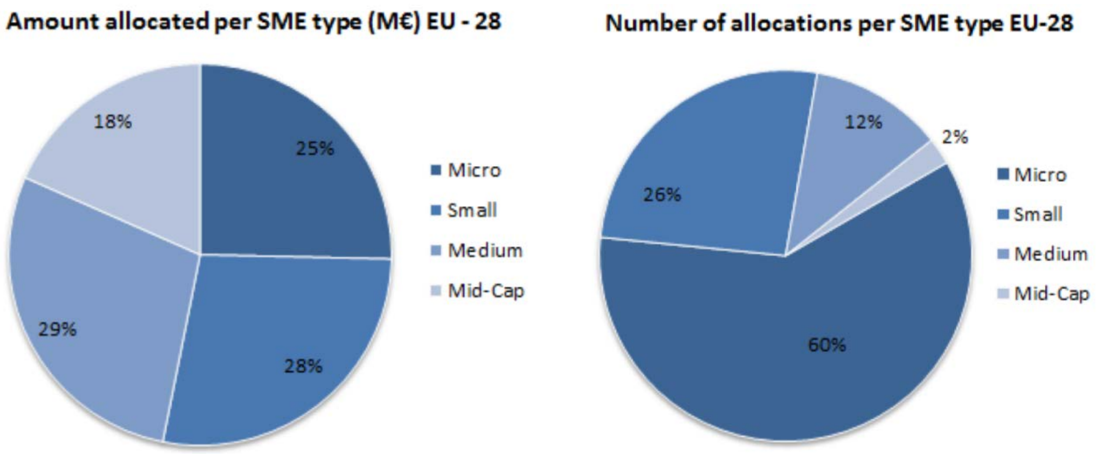
In the EIB Group, the EIF has products solely dedicated to microfinance within the EU.[51] The EIB provides the senior tranche for Progress MF. It also provides support to micro-enterprises through intermediated lending, including via dedicated intermediated loans to microfinance, and through investment in funds dedicated to microfinance. (See Box 6). These activities contribute to social entrepreneurship and, more specifically, youth entrepreneurship. As vulnerable groups are not the target of such lending, reporting similar to Progress MF is not available for analysis.

Box 6: The EIB's microfinance activities[52]

In 2014, the EIB approved 134,000 allocations to SMEs in the EU-28, among which 60% were targeted to micro-enterprises. This support to micro-enterprises represents 25% (EUR 3.9 bn) of the volume of EU SME intermediated lending. In four Member States (Denmark, Netherlands, Finland and Latvia), over half of the EIB allocations were to microfinance beneficiaries.

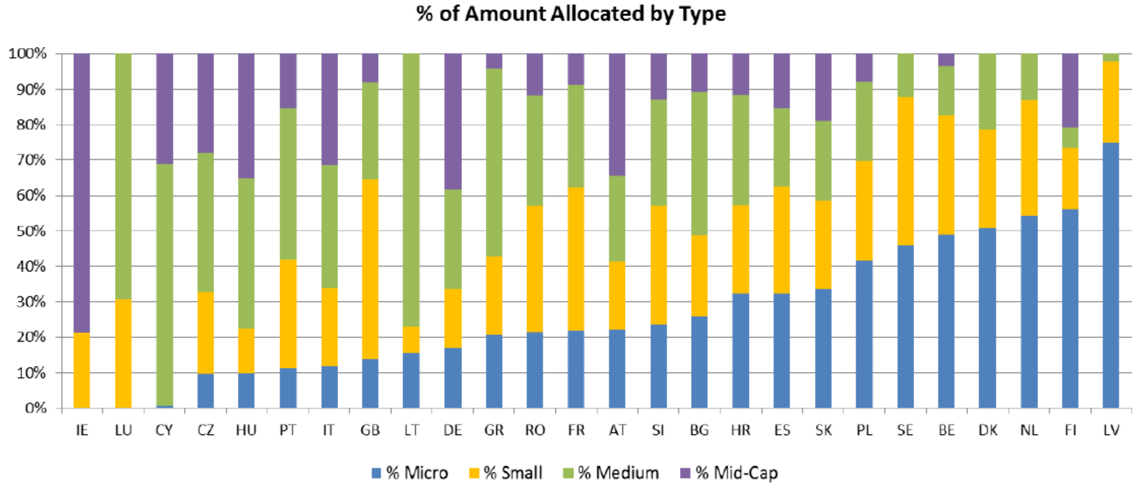
See Annex 1 for examples of EIB dedicated intermediated loans for microfinance and an investment in a fund.

Figures 6: EIB - Profile of 2014 SME allocations by type of final beneficiary



51 The EIB also engages in microfinance activities outside of Europe. See Annex 1 for details on the EIB lending to entities with less than 10 employees and for amounts under EUR 25,000.

52 Note: The EIB lending activities are mentioned as background information given the high percentage of microfinance lending. The EIB lending activities are outside the scope of this evaluation.



Source: SME Report 2014 and presentation by Romualdo Massa Bernucci at SME Centre of Expertise (4 March 2015)

EIB loans are generally intermediated by larger banks, while EIF's intermediaries are mainly non-banks or small local banks. EIF non-bank counterparties are generally focused on microfinance (including social outreach to vulnerable groups). Another specificity of the EIF consists in the provision of risk-coverage at micro-borrower level, which is not offered by the EIB. The EIB's socially dedicated loans have been primarily related to youth employment, an objective which the EIF also targets as per its microfinance mandate.

More formal cooperation between the EIF and the EIB in microfinance would (i) facilitate the EIB to benefit from the EIF's lessons learnt in implementing Jasmine and Progress MF during the 2007-2013 programming period, (ii) ensure an integrated EIB Group approach and (iii) streamline both the co-ordination and communication with DG EMPL.

Such coordination between the EIF and the EIB has so far been informal on individual transactions or specific topics such as technical assistance.[53] The Microfinance Centre of Expertise once attempted to create a strategic document that covered EIB Group microfinance activities but which was never finalised due to other priorities.

The EIB's microfinance activities are outside the scope of this exercise. Nevertheless, because of the EIB's large allocations to micro-entrepreneurs, it can be expected that the EIB Group's overall impact is under-reported.[54]

4.4.4 Coordination with the EC

The EIF, the EIB and the EC perceive that the coordination between the EIF and the EC is well-structured across all the EIF's microfinance programmes. This is mentioned in Reports 2, 3, 4 and 5 and was confirmed during interviews with EIB Group staff.

The EIF also participated in the design of the European Code of Good Conduct for Microcredit Provision, which is now in force. The Code was piloted by the EC in response to the European

[53] Exemplified by: the involvement of the EIF in the preparation of all relevant MC notes and high-level decisions concerning EaSI TA implementation under fi-compass; the participation of the EIF (and DG EMPL) in the procurement of external service providers for capacity building under EaSI TA; the current tri-partite discussion between EIF, DG EMPL and EIB as regards the requirement for EaSI beneficiaries to comply with the European Code of Good Conduct for microcredit provision.

[54] For example, the EIB-financed Youth Employment and Education Intermediated Loan in Spain approved in October 2013 has a component dedicated to SME loans for young entrepreneurs (i.e. persons less than 30 years old).

initiative for the development of microcredit in support of growth and employment[55], and seeks to promote best practices in the field of microcredit. A compulsory requirement under EaSI, the Code is expected to become the point of reference for quality standards in the European microfinance sector (Report 3).

The EIF made efforts to reach out to the EC from the very beginning regarding its microfinance mandates. In Jeremie for instance, it made systematic presentations to all DG REGIO geographical desks at the beginning of the initiative which enabled them to promote Jeremie to the local Managing Authorities. During this process, lessons were learnt: from a negative experience in Spain, during which the EIF promoted Jeremie without the involvement of the EC (Report 5); and in relation to ensuring smooth coordination with the three DGs of the European Commission involved in the implementation of the EIF's microfinance activities (DG EMPL, DG REGIO and DG ECFIN).

4.4.5 Complementarity with other EU, national and regional programmes

EIF products, which typically have a broad geographical reach, are acknowledged as complementary to products offered by national and regional microfinance programmes. Since these EIF products are available all over the EU, they have the potential to fill the gap of the existing national or regional programmes (Reports 2 and 3).

Reports 2 and 5 perceived complementarity with other EU, national and regional programmes as challenging. Although no overlap between national/regional and EIF's microfinance programmes is mentioned in the six evaluation reports or studies, another report (namely the AFMAs – Access to Finance Market Assessments – conducted by the EIF in 2013-2015[56]) identified such overlaps. However, the EIF provided examples of interactions with the European Commission in order to coordinate its microfinance products with the mentoring and tutoring programmes financed under the ESF, and delivered by local associations or specific agencies to businesses or start-ups.[57]

More than half of the financial intermediaries that have benefitted from Progress MF have also taken part in national and regional microfinance initiatives (Report 2). For instance, one of the financial intermediaries interviewed considers that the guarantee obtained *via* Progress MF was particularly complementary with its national tax relief system. In other cases, the involvement of the EIF in the financing of the financial intermediary (and more particularly the non-bank financial intermediaries) supported the credibility of the institution; which regional or national initiatives may not have provided.

The EIF encountered difficulties in coordinating with national and regional Managing Authorities (Report 5). This produced mixed results as some cooperation between the EIF and Managing Authorities was less successful than others; however, EIF staff deployment on the ground - rather than consultants acting on behalf of the EIF - helped improve coordination.

4.4.6 Complementarity between the "social entrepreneurship window" and the "Social Impact Accelerator"

At the EIF level, the new social entrepreneurship window of EaSI offers potential for synergies with the Social Impact Accelerator (SIA). The SIA is managed by the EIF and aims to (i) promote social impact investing as well as (ii) provide equity financing to social enterprises across Europe. Since the product currently envisaged for the "social entrepreneurship window" under EaSI is a guarantee instrument, it is complementary to the equity financing provided by the SIA. Nevertheless, no formal synergy is currently being investigated by the EIF in relation to these two initiatives.

The new window will also try to draw on the existing programmes and products developed by the financial intermediaries to finance social entrepreneurs. There are however only informal discussions currently being held with the EIB for ensuring complementarity and coordination between this future

[55] COM (2007) 708 final.
[56] EIF (2013-2015). Access to Finance Market Assessments in EU countries.
[57] Coordination exemplified by correspondences between the EIF and DG Employment on ESF intermediaries in Austria and Bulgaria.

initiative under EaSI and Jasmine, and with the existing national/regional microfinance programmes (bearing in mind that many financial intermediaries in the EU already have specific microfinance products addressing social entrepreneurs).

4.5 SWOT ANALYSIS

On the basis of the performance of the EIF against its objectives, as well as the review of the processes used by the Fund in the context of its microfinance activities, a SWOT (strengths, weaknesses, opportunities and threats) analysis was carried out. This analysis is presented in Table 3, and feeds into the stocktaking exercise's main observations and key points for further consideration; both of which are detailed in the following section.

Table 3: SWOT analysis of the EIF's microfinance activities

Strengths	Weaknesses
• EIF credibility as a guarantor due to high rating • Strong organisational structure with centrally-managed approach and a single "microfinance team" • Proactive approach for developing the microfinance market • Track-record in supporting bank and non-bank financial intermediaries • Transparent and straightforward procedures for financial intermediaries • Financial instruments and mandate management experience • Solid cooperation with the EC and the EIB • Evidence of coordination and exchanges of experience between the EIF and the EIB • Ability of the EIF's standardised microfinance products to meet the various needs of the financial intermediaries • Complementarity between Progress MF and Jasmine	• Lack of an overarching EIB Group microfinance strategy • Coordination between EIB and Progress MF staff has remained informal (done by the individuals, but not in both organisations' objectives) • Limited flexibility of some EIF requirements (such as interest rates, guarantee caps and recovery rates) • Complex and time-consuming administrative procedures, especially from the viewpoint of smaller intermediaries (driven by mandate requirements). • Limited requirements and incentives to reach out to vulnerable groups by Progress MF • Insufficient guidance on how social performance is calculated in the EIF's value-added scorecard • Limited mobilisation of risk-sharing and equity instruments (as per EIF, due to strict limitations imposed on such products)
Opportunities	**Threats**
• Leverage on competencies of other EIB Group departments • Share good practice and knowledge between teams involved in different technical assistance initiatives at the EIB • Potential for reporting on greater impact by including the EIB's microfinance activities • Increased demand for risk-sharing and equity instruments • Increase the knowledge and experience of non-bank institutions in using financial instruments • Develop the social economy market and its social entrepreneurs • Synergies between the "social entrepreneurship window" under EaSI and the Social Impact Accelerator • Increase complementarity with other EU, national and regional programmes	• Trade-off between financial (leverage, volume and number of transactions) and social objectives • Risk of duplication between EIF and EIB loans in case of insufficient coordination. • Risk of not maintaining sufficient synergies between EaSI and EaSI TA in terms of uptake of lessons learnt and outreach to vulnerable or inexperienced financial intermediaries (EIF-EIB coordination process has so far remained informal) • Underestimation of EIF's contribution to the microfinance market due to challenges in reporting on social impact • Increased liquidity from the European Central Bank (ECB) deterring financial intermediaries from seeking EIF support

5. Conclusions

5.1 Main observations

1. A product offering meeting the needs of the financial intermediaries

The reports included in this stocktaking exercise deem that the standardised products offered by the EIF have met the needs of the financial intermediaries, especially non-bank financial intermediaries. This is largely attributed to the efforts made by the EIF to: understand the sector's needs; adjust its product offering accordingly; provide information and advice to financial intermediaries; and strengthen its selection process for financial intermediaries over the period 2009 to 2014 (building on experience garnered from Jeremie).

The EIF has supported financial intermediaries in targeting new client segments with traditional loan products. In parallel, the EIF's product offering and selection procedures have evolved over time, adapting to the needs and characteristics of financial intermediaries. However, some financial intermediaries believe that the EIF needs to be even more flexible in its product offering and selection procedures. For instance, in the case of Jasmine, financial intermediaries called for institutional assessments and training courses to be unbundled into optional products, rather than packages.

As detailed on Page 20, the three main factors affecting the interest rate applied by financial intermediaries are the funding cost, the credit risk of the final beneficiary, and the operating cost. In the case of the latter, and although not covered in the reports analysed, it has been noted that the current product offering does not focus on reducing the operating costs of financial intermediaries. Nevertheless, the EIF supports the growth of many small non-banks through the provision of long-term funding, which leads to reduced operational costs as they benefit from economies of scale.

2. Room for improving the management of resources and activities

Progress MF and Jasmine were viewed in the reports as having transparent and straightforward application, selection, delivery and reporting processes. Nevertheless this stocktaking exercise highlighted areas for improvement, such as:

- The administrative procedures, which were viewed as particularly complex and time-consuming, especially in the case of small financial intermediaries;
- The coordination between the EIF and the EIB, which has so far been done on an informal basis;
- The EIB Group's social impact may be understated due to the challenges faced by financial intermediaries in collecting data for social reporting (see below).

3. Meeting sector needs but challenged in reporting social impact

The EIF's activities have been effective in supporting the microfinance sector, as the Fund has combined its understanding of the European market with its improved microfinance skillset, as well as its proactive approach towards awareness raising activities. As a result, the EIF has increased the capacity, professionalism and performance of sector stakeholders.

More specifically, the EIF has met the needs of financial intermediaries by improving their credibility, liquidity, bankability and self-sustainability. Furthermore, the Fund has helped some financial intermediaries' kick-start their operations.

Lastly, social reporting for Progress MF provided insufficient evidence on actual outreach to handicapped, youth and minority groups, as well as significant variation amongst individual intermediaries in the percentage of allocations to female borrowers. The requirements and incentives for financial intermediaries to improve their outreach to vulnerable groups were stated as objectives but were not decisive criteria in the EIF's value-added scorecard. Furthermore, according to the EIF, monitoring outreach to such vulnerable groups has proven challenging as: requesting such information in some Member States is illegal; and credit applicants are reluctant to disclose such information, either because they do not consider themselves disadvantaged or because they fear discrimination.

The assessment of the financial intermediaries' social outreach and performance could be formalised in the investment process through the development and implementation of rating tools, which in turn could contribute to reducing the existing informational gap while contributing to evidencing the social impact of EIF's microfinance programs.

5.2 Key points for consideration

On the basis of these main observations, and in view of the EIF's microfinance activities for the 2014-2020 programming period, this stocktaking exercise highlights the following five key points for consideration, which should be reflected upon by the EIF.

1. An EIB Group microfinance strategy

The EIF began its microfinance activities in 2009, and, ever since, has worked under individual mandates. This approach has enabled the EIF to act in different domains, filling market gaps and building a deep understanding of the microfinance spectrum. Looking forward, however, the EIF's microfinance activities could be further supported and complemented by a more structured EIB Group microfinance strategy that ought to facilitate:

- The monitoring of both financial objectives (for example leverage, volume and number of transactions) and social objectives (such as expected outcomes in terms of businesses and jobs created, and outreach to vulnerable groups);
- Improved data collection, communication and marketing of the EIB Group activities relating to the provision of microfinance;
- Coherence between the EIB and the EIF in terms of information requested from financial intermediaries;
- Sharing of microfinance experience between the EIF and the EIB, in particular in the areas of social reporting and funds;
- A more integrated approach in the delivery of EaSI investment activities by the EIF microfinance team and the delivery of capacity building services to the microfinance sector by the EIB, as Jasmine has recently been transferred to the EIB's single technical assistance platform; and
- Streamlining both the co-ordination and communication with DG EMPL.

2. Exploring incentives to improve social outreach and impact

Improving social outreach (including to vulnerable groups) is a key objective, but it has not been given sufficient weight at pre-appraisal, and has proven to be difficult to monitor. Improved data quality and reporting by financial intermediaries would enable the Fund to better monitor the social outreach of its microfinance programmes. This could be done by:

- Exploring incentives for financial intermediaries to improve their social outreach and impact. For instance, in specific cases, Progress MF has offered interest rate discounts to incentivise the achievement of social targets;
- Developing a social performance management tool that could co-exist with its existing rating methodology. This could further develop its guidance on how social performance should be calculated at due diligence and pre-approval stages (by adjusting its value-added scorecard). This would facilitate assessments of the social performance of financial intermediaries, and help explain why they have attained such a level of performance;
- The EIF's active scrutiny of monitoring reports would increase the accountability of intermediaries in pursuing social impact targets, and provide a deeper understanding of the key success factors of intermediaries;
- Considering the possibility of combining already-existing volume targets with social outreach targets into the individual objectives of EIF staff, as a considerable time will be needed for carrying out activities to improve social performance (especially for non-bank financial intermediaries).

3. Seeking ways to reduce the operational costs of financial intermediaries

Operating cost margins of banks and non-bank financial intermediaries differ largely because of their varying economies of scale. EIF products currently do not address the operating costs of small financial intermediaries and so technological advances and services might be considered for reducing such costs; this may be done within the context of future EIF microfinance initiatives.

4. EIB-Group coordination

The transfer of Jasmine from the EIF to the EIB's Advisory Services Department brings about potential benefits (exchange of best practices at EIB Group-level) as well as challenges (continued coordination between technical assistance and lending activities). While informal co-operation is proactively pursued by the relevant teams, creating more formal cooperation processes (reflected in both the EIB's and the EIF's stated objectives) will secure capacity building synergies between the EIF and the EIB.

5. Follow-up on evaluation studies

The evaluation reports and studies conducted in recent years on EIF microfinance mandates provide a wealth of information and many recommendations. Although these recommendations have been drafted with the EC in mind, those that are under the control of the EIF and merit follow up should be on-boarded. Thus, there should be a designated person within the EIF responsible for centralising these recommendations and following up on them accordingly (preferably well-ahead of the EC's issuance of new microfinance mandates).

ANNEXES

Annex 1. THE EIB: MICROFINANCE ACTIVITY: EXAMPLES

Box 7: EIB contribution to the European Fund for Southeast Europe (EFSE)

The EIB has invested EUR 38 m in EFSE III (out of a fund size of EUR 851 m). The investment signed in May 2013 (to senior A tranche of EFSE), provides financing to micro and small scale enterprises, rural and housing loans through qualified financial intermediaries. EFSE aims to complement financial support provided by the local financial sector and by the development finance institutions active in the region through the provision of additional finance to micro and small enterprises.

EFSE offers long-term funding instruments to qualified partner lending institutions to better serve the financing needs of micro and small enterprises and low-income private households. EFSE also has a Development Facility endowed with grants to enable technical assistance, consulting and training measures to strengthen financial institutions in the region.

Box 8: 'Jobs for Youth' - An example of dedicated initiative through EIB intermediated lending

Following a European Council request, the EIB launched in 2013 the 'Skills and Jobs - Investing in Youth' programme, aiming to contribute to the EU-wide effort to support youth employment. The programme's goal is twofold:

i) Boost 'Jobs for Youth' across the EU by improving access to finance for SMEs and
ii) Enhance employability via 'Investment in Skills', targeting projects focused on education, vocational training and student finance.

Example of an intermediated loan under the 'Jobs for Youth' initiative: Youth Employment and Education Intermediated Loan (CA/468/13).

Annex 2. OUTREACH OF VULNERABLE GROUPS BY PROGRESS MF

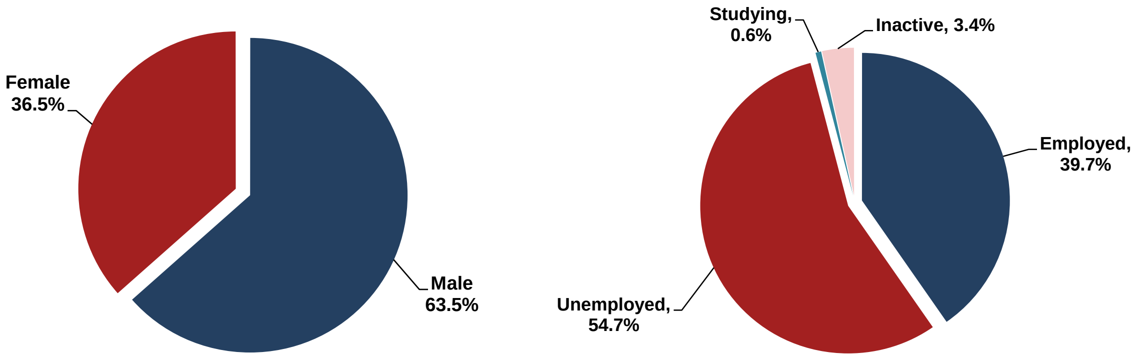
The stocktaking exercise found evidence that of the ability of Progress MF to reach start-ups as well as to support the build-up of these start-ups: 14.2% of the existing micro-enterprises supported by Progress MF had less than one year before their inclusion under the programme, and 61.2% of them had less than three years.

As for individual micro-borrowers, the outreach of employees in minority groups and of disabled/disadvantaged employees is limited. The outreach to disadvantaged persons (i.e. individuals belonging to minority groups or disabled persons) is considered as low by the EIF.[58]

When considering the future, EaSI will target as final beneficiaries: (i) micro-enterprises/individuals of vulnerable groups with no or limited access to bank financing; and (ii) individuals and micro-enterprises working as social entrepreneurs. These two types of final beneficiaries may already be targeted by the same financial intermediaries in the EU. The EIF will apply the EC's definition for social enterprise.[59]

Outreach at the level of individual micro-borrowers (natural persons, mostly self-employed)

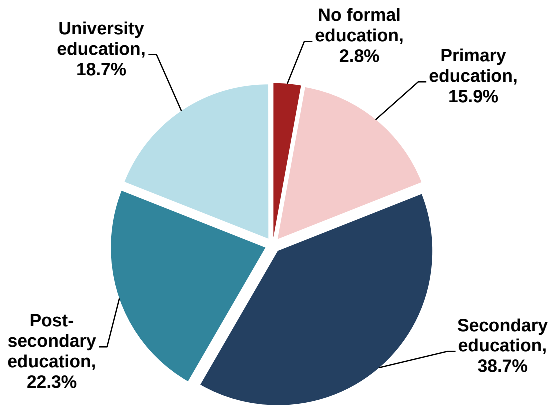
Figure 7: Progress MF at the individual micro-borrower level

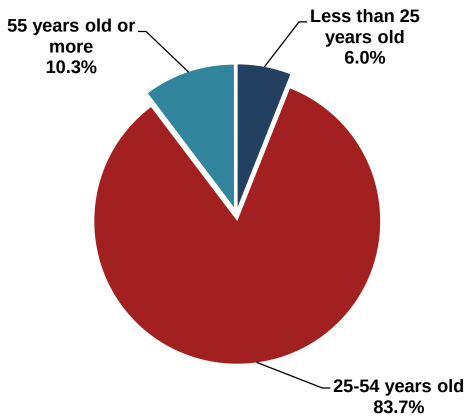


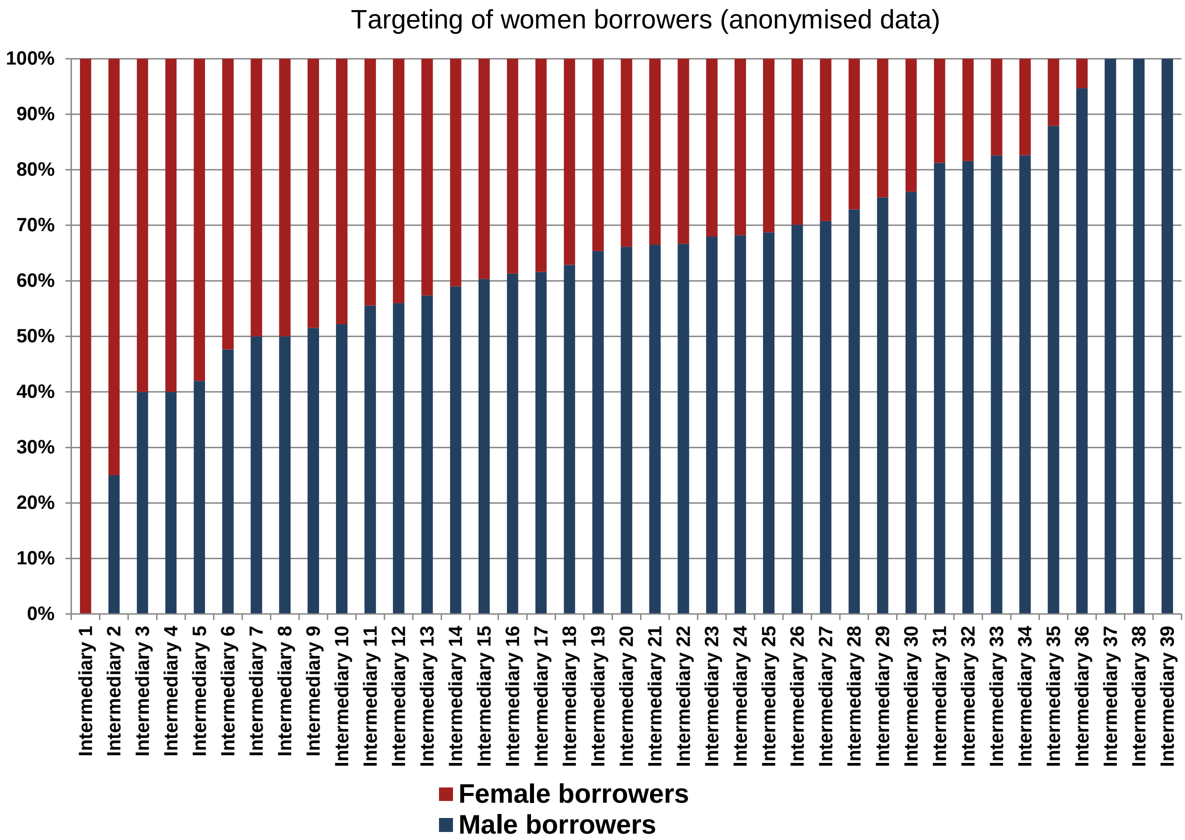
Source: PwC's analysis of EIF data

[58] The figures relative to the outreach to disadvantaged persons may also be explained by (i) the omission of information from the individuals receiving financing *via* Progress MF (74.4% did not provide any indication of minority status or disability), (ii) the fact that collecting information on minority status is not permitted under certain legal framework (such as France), and (iii) the difference in self-perception across minority groups to report themselves as minorities and others to refrain from it.

[59] As per the European Commission (COM(2011) 682 final), a "social enterprise" is an "*operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities"*. The European Commission refers to this definition when establishing the "social entrepreneurship window" under EaSI (European Commission, DG EMPL, Testing the market - Management of a dedicated investment vehicle for social entrepreneurship finance).

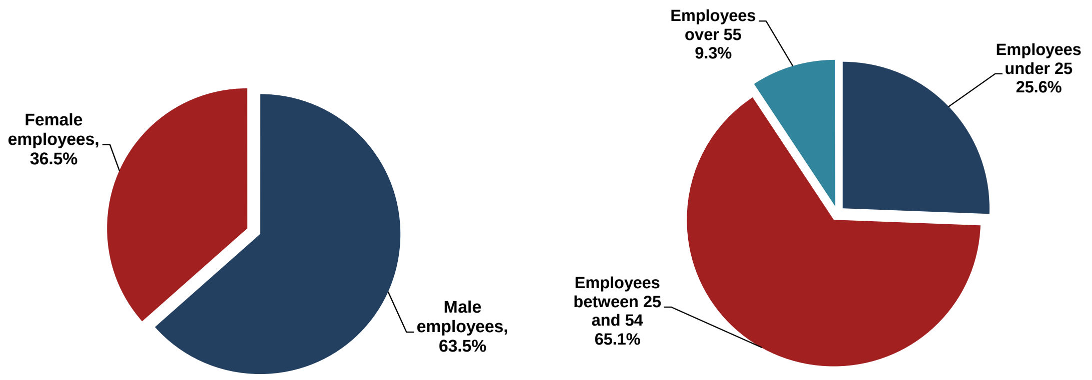




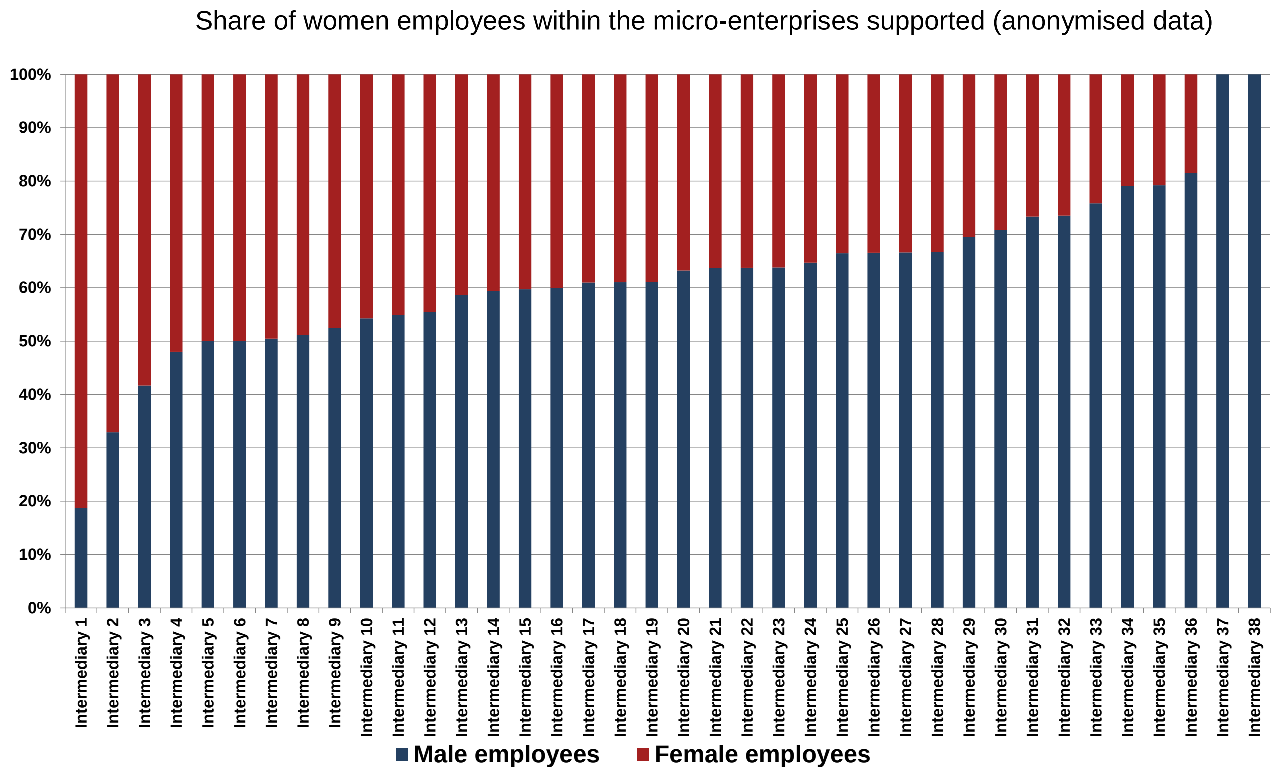


Source: PwC's analysis of EIF data

Figure 8: Results of Progress MF at the level of the employees within the micro-enterprises supported



Source: PwC's analysis of EIF data



Source: PwC's analysis of EIF data

Box 9: Case study - The case of two financial intermediaries in Bulgaria and their ability to support vulnerable groups after receiving financing under Progress MF.

In Bulgaria, the crisis affected access to finance for two financial intermediaries. In this context, the EIF financing under Progress MF was able to secure the continuation of the activities for both institutions. More specifically, they were able to keep all their branches open and expand their network, attract investors that had previously retracted, and increase the provision of micro-credits.

Both institutions have a strong social profile, but their social impact achieved was limited. The financing received under Progress MF did not reinforce these financial intermediaries' social targeting. This may be explained by the following reasons:

- The EIF did not set specific requirements for the institutions to target specific social groups;
- The financial intermediaries recorded the profile of the micro-enterprises and of the business owners at the time of application. They however did not request from the final beneficiaries follow-up of the social reporting. None of the financial intermediaries could provide a quantification of the social impact of their participation in Jasmine;
- The financial intermediaries requested collateral from the final beneficiaries;
- The financial intermediaries mostly supported existing micro-enterprises rather than business creators; one reported difficulties in approaching the Roma community through its local offices. The other mostly supported existing companies or people that already had informal activity but were not officially registered.

Source: PwC, 2015

Annex 3. INTERVIEWS WITH THE EIB AND THE EIF

Interviews were conducted to complement the information available in the desk study and the literature review. These interviews helped the team triangulate the findings and provide a more comprehensive assessment of how EIF microfinance activities were implemented in practice over the 2007-2013 programming period.

Concerning the EIB Group, both EIF and EIB staff were interviewed to gain first-hand information on those factors shaping the set-up and implementation of the EIF's microfinance activities and lessons to be learnt from past experiences, as well as future challenges. The list of the EIB Group's staff interviewed is presented in the table below. A specific questionnaire for the interviews with the EIB Group staff was developed.

Annex 4. BIBLIOGRAPHY

The table below lists the six key evaluation reports/studies that have been used throughout the analysis. They are referred to according to the numbering presented below throughout the stocktaking exercise.

Table 4: Key evaluation reports/studies analysed in the literature review

	Title of evaluation report or study	Programme
Report 1	Ex-Ante Evaluation of the Progress Microfinance, DG EMPL, July 2009.	Progress MF
Report 2	Interim Evaluation of Progress Microfinance Facility: Interim Report, Ramboll for DG EMPL, December 2013. Interim Evaluation of Progress Microfinance Facility: Draft Final Report, Ramboll for DG EMPL, August 2014.[60]	
Report 3	Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument, Unterberg et al. for DG EMPL, January 2014.	EaSI
Report 4	Evaluation of the Jasmine technical assistance Pilot Phase, ICF GHK for DG REGIO, November 2013.	Jasmine
Report 5	Ex-Post Evaluation of Jeremie “Evaluation Phase” as it relates to the EIF, EIB-EV, 2011.	Jeremie
Report 6	Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, the EC and the EIB, March 2013.	

Source: EIB-EV, PwC, 2015

The complete bibliography is listed below.

Banerjee, R (December 2014). SMEs financial constraints and growth In BIS Working Papers No 475.

CGAP (2014). SmartAid Index 2013: European Investment Fund (EIF) of the European Investment Bank Group.

EIB (March 2015). SME Centre of Expertise – Presentation, made by Romualdo Massa Bernucci.

EIB (November 2014). Stocktaking exercise: EIF microfinance activities – Final Approach Paper.

EIB (October 2014). Stocktaking exercise: EIF microfinance activities – Launch Paper.

EIB (2011). EV’s evaluation of the Jeremie "Evaluation Phase".

EIB – European Commission (March 2013). Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, Final Report.

EIF (May 30, 2006) Jeremie Memorandum of Understanding signed between European Commission and EIF.

EIF (2015). Progress Microfinance – Annual Implementation Report 2014.

EIF (March 2015). European Progress Microfinance Fund (“EPMF”) – Presentation to IC, 23/03/2015. Information as at 31/04/2014.

EIF (March 2015). European Progress Microfinance Fund (“EPMF”) – Presentation to IC – Handout.

[60] The final report was not taken into account in this stocktaking exercise, as it was only published on 5 May 2015. Available at: http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7760&type=2&furtherPubs=yes

EIF (March 2015). EPMF Visibility Requirements.

EIF (September 2014). Board of Directors – Corporate and institutional Matters – EIF Guidelines for Equity Investments.

EIF (June 2014). Microfinance Portfolio Review. Activity Figures. As of 30 June 2014.

EIF (June 2014). European Small Business Finance Outlook in EIF Working Papers, EIF Research and market Analysis, No 2014/24.

EIF (June 2014). An overview of SMEs financing 101.

EIF (March 2014). Final Report of the Action Jasmine Contribution Agreement 2013.

EIF (2013). Credit Risk Policy Guidelines for Microfinance Investments.

EIF (March 2013). Final Report of the Action Jasmine Contribution Agreement 2012.

EIF (January 2013). Corporate operational plan 2013-2015.

EIF (January 2012). Progress for Microfinance in Europe in Working Paper 2012/13 EIF Research and market Analysis.

EIF (July 2011). Audit Report on Microfinance new activity audit.

EIF (November 2009). Microfinance in Europe in Working Paper 2009/001 EIF Research and Market Analysis.

EIF (March 2006). Credit Risk Policy Guidelines - Guarantees.

EIF – European Commission – EMN (September 2014). Overview of the Micro-credit Sector in the European Union.

EIF – European Commission – EMN (December 2012). Overview of the Micro-credit Sector in the European Union.

European Commission, (August 2014). Interim Evaluation of Progress Microfinance Facility - Draft Final Report.

European Commission (January 2014). Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument.

European Commission (2013). Testing the market – Management of a dedicated investment vehicle for social entrepreneurship finance.

European Commission (November 2013). EaSI – New umbrella programme for employment and social policy.

European Commission (November 2013). Final Report of Evaluation of the Jasmine technical assistance Pilot Phase.

European Commission (September 2013). Summary of data of the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds.

European Commission (November 2012). Summary report on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds.

European Commission (2012). Report from the Commission to the European Parliament, the Council, the European economic and Social Committee and the Committee of the Regions – Implementation of the European Progress Microfinance Facility.

European Commission (2011). Testing the market – Management of a dedicated investment vehicle for microfinance.

European Commission (July 2009). Ex-Ante Evaluation of the Progress Microfinance.

European Commission Communication, COM(2011) 682 final. "Social Business Initiative - Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation", Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, 25.10.2011.

European Commission Communication, COM(2010) 2020 final. "Europe 2020 - A strategy for smart, sustainable and inclusive growth", Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, 03.03.2010.

European Commission Communication, COM(2007) 708 final. “A European initiative for the development of micro-credit in support to growth and employment”, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, 13.11.2007.

European Commission Communication, COM(2006) 349 final. “Implementing the Community Lisbon Programme: Financing SME Growth - Adding European Value”, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, 29.06.2006.

European Court of Auditors, Special Report: Is EU financial support adequately addressing the needs of micro-entrepreneurs? (14 July 2015)

Jayo, B. Rico, S. Lacalle, M (July 2008). EMN Working Paper No. 5: Overview of the Micro-credit Sector in the European Union 2006-2007.

Official Journal of the European Union (December 2013). Regulation (EU) No. 1296/2013, of the European Parliament and of the Council of 11 December 2013, on a European Union Programme for Employment and Social Innovation (EaSI) and amending Decision No. 283/2010/EU establishing the European Progress Microfinance Facility for Employment and Social Inclusion, OJ L347, 20.12.2013.

Vigano, L. Bonomo, L. Vitali, P (November 2014). Microfinance in Europe; Giordano Dell’Amore Foundation, Working Paper.

Annex 5. GLOSSARY

Business micro-loan	Loan under EUR 25,000 to support the development of self-employment and micro-enterprises.
Co-financing	Structural Fund resources are required to be co-financed by other public or private resources for Managing Authorities to be able to disburse these Structural Funds. The Operational Programme sets out how the Structural Fund and its co-financing should be invested, either as grant or through Financial Engineering Instruments (for the 2007-2013 programming period) or Financial Instruments (for the 2014-2020 programming period). Both the Structural Funds and the co-financing must be administered and spent in line with the applicable European Union regulations.
Cohesion Policy	Framework for promoting economic growth, prosperity, and social integration across the 28 EU Member States. It aims to reduce economic and territorial disparities across the EU. It is the EU's main investment tool for delivering the Europe 2020 Strategy goals ("a strategy for smart, sustainable and inclusive growth"): creating growth and jobs, tackling climate change and energy dependence, and reducing poverty and social exclusion.
Co-investment	Refers to public or private sector resources additional to Structural Funds contributions, which, when added to the Structural Fund resources creates a leverage effect. Part of co-investment which constitutes national co-financing within the Operational Programmes is subject to Structural Funds regulations. Part of co-investment which is additional to the Operational Programmes contributions is not subject to European Union Structural Fund regulations.
Common Provisions Regulation (CPR)	Regulation (EU) n°1303/2013 relative to the CFS Funds over the 2014-2020 programming period and repealing the Council Regulation (EC) n°1083/2006.
Common Strategic Framework (CSF)	Framework which translates the objectives and targets of the Europe 2020 Strategy for smart, sustainable and inclusive growth into key actions.
Common Strategic Framework Funds (CSF Funds) **ESI Funds**	Five Funds under the 2014-2020 programming period: the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the European Regional Development Fund (ERDF), and the European Social Fund (ESF). They are also called ESI Funds: European Structural and Investment Funds.
Equity	Equity investment means the provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits.
Final beneficiaries	They are either persons who have lost or are at risk of losing their job or who have difficulties entering or re-entering the labour market, as well as persons who are facing the threat of social exclusion or vulnerable persons who are in a disadvantaged position with regard to access to the conventional credit market and who want to start or further develop their own micro-enterprise; or micro-enterprises in the social economy. Four types of final beneficiaries exist for microfinance: • Micro, Small and Medium-Sized Enterprises (SMEs) with more than one employee and less than 10 employees; • Micro-SMEs consisting of one person (i.e. self-employed micro-SMEs); • Individuals that engage in an economic activity but not within the context of a legal entity; and • Individuals that are socially excluded.
Financial Engineering Instrument (FEI)	Financial Engineering Instruments in the 2007-2013 programming period as established under Article 44 of Council Regulation (EC) n°1083/2006 and as amended. As part of an Operational Programme, the Structural Funds may finance the following: a) Financial Engineering Instruments for enterprises, primarily Small and Medium-sized ones, such as Venture Capital funds, Guarantee funds and Loan funds; b) Urban Development Funds, that is, funds investing in Public-Private Partnerships and other projects included in an Integrated Plan for Sustainable Urban Development; and c) Funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of

	renewable energy in buildings, including in existing housing.
Financial Instrument (FI)	Financial Instruments in the 2014-2020 programming period as established under Article 37 of Regulation (EU) n°1303/2013 (Common Provisions Regulation).
Financial Intermediary(ies)	Body(ies) acting as an intermediary between the supply and the demand of financial products. They are bank or non-bank micro-credit providers. They can include public and private financial institutions, Microfinance Institutions, guarantee institutions, or any other institution authorised to provide to provide micro- loans and guarantees on micro-credits to micro-enterprises, including to self-employed persons having the capacity to operate at national, regional or local level.
Funding Agreement	Level I - Between the Member State or the Managing Authority and the Holding Fund, where Financial (Engineering) Instruments are organised through Holding Funds. Level II - Between the Member State or the Managing Authority (or the Holding Fund where applicable) and the individual Financial (Engineering) Instruments. Level II Funding Agreements are also referred to as an Operational Agreements. Funding Agreements must ensure the correct implementation of the strategy, including goals to be achieved, target sectors and final recipients to be supported, as set out in the Operational Programme, through a coherent investment strategy, range of products, likely project types and targets to be achieved through the Financial (Engineering) Instruments. Moreover the Funding Agreements must also contain a corpus of rules, obligations and procedures, to be observed by the parties concerned, regarding the financial contributions made by the Operational Programme.
Fund Manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Financial (Engineering) Instruments (being equity funds, loan funds and/or guarantee funds), in accordance with the stated goals and provisions as set out in the Funding Agreement.
Gap Analysis (GA)	A market assessment undertaken to identify the potential for Financial (Engineering) Instruments to address market failure in various area, such as: SME financing, energy efficiency and/or urban development.
Grant	A non-repayable investment.
Guarantee	A guarantee offers commitment by a third party called the “guarantor” to pay the debt of a borrower when the latter cannot pay it himself. The guarantor is liable to cover any shortfall or default on the borrower's debt under the terms and conditions as stipulated in the agreement between the guarantor, the lender and/or the borrower.
Holding Fund (HF) **Fund-of Funds (FoF)**	Holding Fund is as described in the EU Regulations for the 2007-2013 programming period. They are funds set up to invest in Venture Capital funds, guarantee funds, loan funds, Urban Development Funds, or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing. Holding Funds are called Funds-of-Funds over the 2014-2020 programming period.
HF Manager **FoF Manager**	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Holding Fund (Fund-of-Funds) in accordance with the stated goals and provisions as set out in the Funding Agreement.
Jasmine	Joint Action to Support Microfinance Institutions, was an EU programme managed by EIF in the 2007-2013 programming period (now by the EIB) to help non-bank Microfinance Institutions to scale up their operations and maximise the impact of microfinance products on micro-enterprises development and unemployment reduction within the European Union.
Jeremie	Joint European Resources for Micro to Medium Enterprises, was an initiative of the European Commission developed together with the European Investment Fund over the 2007-2013 programming period. It promoted the use of Financial Instruments to improve access to finance for SMEs via Structural Funds.
Jeremie networking platform	Networking and knowledge-sharing initiative focused on activities and progress made by Article 44a FEIs, involving regular meetings between those involved in Article 44a FEIs development and implementation.

Leverage effect	It is defined as the amount of finance to eligible final beneficiaries divided by the amount of the EU contribution. It should be seen as a ratio between the financial resources allocated to a Financial Instrument (input) and the finance provided to eligible final beneficiaries (output).
Loan	A loan means an agreement which obliges the lender to make available to the borrower a sum of money for the agreed amount and time. The borrower is obliged to repay the loan after a certain period. Usually the borrower is obliged to pay interest on the loan amount.
Managing Authority	Managing Authority, as defined in the EU regulations regarding Structural Funds (during the 2007-2013 programming period) and ESI Funds (during the 2014-2020 programming period). They are bodies at national, regional or another level which define an Operational Programme and monitor its implementation.
Micro-credit	It is defined by the European Commission as a loan under EUR 25,000 to support the development of self-employment and micro-enterprises. It has a double impact, i.e. an economic impact as it allows the creation of income generating activities and a social impact as it contributes to financial inclusion and therefore social inclusion of individuals. It is usually granted either by institutions specialising in micro-credit or by other financial intermediaries, including banks.
Micro-enterprise	Are enterprises that employ fewer than 10 employees and whose annual turnover and/or balance sheet total do not exceed EUR 2 m.
Microfinance	Is defined as guarantees, micro-credit, equity and quasi-equity extended to persons and micro-enterprises.
Microfinance Institution (MFI)	It is an organisation that provides microfinance services. A Microfinance Institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.
Operational Programme (OP)	Programme means “Operational Programme” referred to in Part Three of the Common Provisions Regulation and in the EMFF Regulation, and “Rural Development Programme” referred to in the EAFRD Regulation. Document approved by the European Commission comprising a set of priorities which are implemented by Structural Funds (during the 2007-2013 programming period) or ESI Funds (during the 2014-2020 programming period). In that framework, it may be implemented by means of grants, repayable assistance and Financial (Engineering) Instruments depending on the design of the Operational Programme.
Personal micro-loan	Loan under EUR 25,000 for covering personal or consumption necessities, such as rent, personal emergencies, education and personal consumption needs (for example white goods)
Risk-Sharing Instrument(s)	A Risk-Sharing Instrument means a Financial Instrument which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.
Structural Funds (SF)	EU Structural Funds included the European Regional Development Fund (ERDF) and the European Social Fund (ESF) during the 2007-2013 programming period.
Technical assistance (TA)	In the context of this stocktaking exercise, this term is to be intended as comprising technical and financial advisory support required by the financial intermediaries to provide their funding/financial products and other services to the final beneficiaries.

European
Investment
Bank
The EU bank

Operations Evaluation • Operations Evaluation • Operations Evaluation

Contacts

Operations Evaluation
EValuation@eib.org

These reports are available from the Operations Evaluation website:
www.eib.org/evaluation

For general information:

Information Desk
+352 4379-22000
+352 4377-62000
info@eib.org

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
+352 437704
www.eib.org