

Conclusions

Framework operation #3 Microfinance and Social Enterprises

INVEU-ICR-0039-2022 – Social Investment and skills Window

Short description of the financing or investment operation and its objectives

Name of financial intermediaries	Commercial banks as well a non-bank financial institutions, ethical banks and credit cooperatives
Name of the final recipients	Micro-borrowers, micro-enterprises, social enterprises
Countries of implementation	Multi-country across Member States
Implementing partner	EIF

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

Global Assessment and rationale for approval

The Investment Committee of the InvestEU Fund approved the use of the InvestEU guarantee on 7 July 2022 for the above mentioned operation.

The Investment Committee welcomed the fact that this operation is addressing **market imperfections**, which persist in the microfinance market, creating a mismatch of supplied volume/number of microloans vs the estimated demand of different target groups of microfinance. Access to suitable financing represents a central bottleneck for the wider microloan provision, resulting in an insufficient social outreach of microcredit providers.

Further, social enterprise finance is still a nascent market in Europe, and part of an emerging market ecosystem that is not fully developed. Public funding in this area is still lacking, especially at national levels. Stakeholders in the social entrepreneurship market indicate there is an unmet demand for mainly debt financing, as financial institutions consider social enterprises as being "not-investment ready".

In terms of **additionality**, it is also recognised by the IC that guarantees provided will be key to enable various categories of intermediaries to lend to the microfinance and social enterprise market, such as:

- Commercial banks, that will use the IEU guarantee to expand to this market
- Small banks with an ethical focus, which depend on such type of support to operate in this market

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- Non-bank lenders (e.g. microfinance institutions or cooperative institutions), often belonging to the non-profit sector and with a focus on non-bankable clients, which face challenges in funding themselves, and for which the IEU guarantee is instrumental.

The operation will support origination of transactions with higher risk profile than standard credit risk:

- Targeting final recipients of lower creditworthiness, which would have remained underserved otherwise, or supporting formerly excluded segments of the market
- Providing enhanced access to finance measures to the benefit of final recipients: (i) reduction / absence of collateral requirements, (ii) reduction in down-payment, (iii) increase in financing volumes, (iv) longer maturities, (v) bespoke financing arrangements, (vi) lower cost of financing.

In addition, and in terms of adding quality to the operations, EIF will play a role in setting standards relevant for the market: by ensuring that the microfinance intermediaries adhere to the European Code of Good Conduct for Microcredit and also by promoting the use of a common definition of social enterprises across Europe, which still experiences very fragmented frameworks in this respect. Also the EIF is expected to provide guidance and assistance to interested financial intermediary especially during the implementation phase.