

"EU role in the promotion of microfinance"

Seminario Fondazione Giordano dell'Amore

Milano, 23 giugno 2011



microfinanza

Acronyms of Institutions and Programmes

EIB	European Investment Bank
EIF	European Investment Fund
CIP	Competitiveness and Innovation Framework Programme
EPPA	European Parliament Preparatory Action
FoF	Fund of Funds
EPMF	European Progress Microfinance Facility
AML	Anti-Money Laundering
CFT	Combating the Financing of Terrorism

EIB / EIF Microfinance Activity



- CIP
- EPPA
- Jasmine
- Jeremie
- Progress



- FoF activity in ACP countries
- Direct investment activities in MENA region

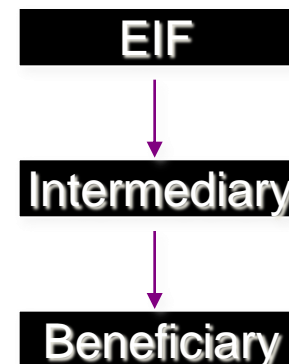
European Progress Microfinance Facility

- EPMF Funding
- European Commission funding : Eur100 m over 4 years (of which Eur 75m for cash products)
- EIB funding : up to Eur 100 m
- Additional potential future funding : up to Eur 50m
- Expected leverage: up to 5 times the EU contribution to the final borrowers (combination of fund and product leverage)
- EPMF Products
- Senior Debt
- Subordinated Debt/ Direct (and indirect) Equity
- Risk Sharing Loans
- Guarantees

European Progress Microfinance Facility

Intermediaries will be selected by EIF having regard to the following selection criteria, in no particular order of priority:

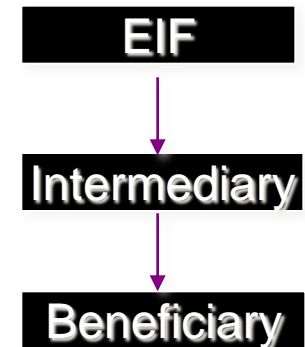
- Financial standing and financing capacity, evaluated on the basis of the Management Company's internal counterpart rating methodology;
- Operational capability of the Intermediary and its ability to assess and manage risks, including AML/CFT risk;
- Ability to provide the necessary data in order to conduct proper analysis and assessment of the Intermediary's track record, if applicable, and future activity;
- Ability to comply with the terms and conditions of the EPMF's operational framework, particularly to provide or support financing to final beneficiaries and geographical reach;
- Ability to provide the specific reporting requirements and willingness to accept the additionality requirement.



European Progress Microfinance Facility

Social criteria will apply to Final Beneficiaries and not Intermediaries. Final beneficiaries targeted by EPMF (“Final Beneficiaries”) are, in line with the Decision establishing the Facility:

- 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 people who are in a disadvantaged position with regard to access to the conventional credit market and want to start or further develop their own micro-enterprise, including self-employment;
- Micro-enterprises, especially in the social economy, as well as micro-enterprises which employ persons referred to in point above.
- Ability to provide the specific reporting requirements and willingness to accept the additionality requirement.



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Cash Products

EPMF – Characteristics of Cash Products

Financing Instruments	<ul style="list-style-type: none">• Senior and Subordinated Loans• Funded Risk Sharing Loans• Equity Investments
Indicative Maturity of Instruments	<ul style="list-style-type: none">• For Loan Products, 5 - 6 years• For Equity Investments an exit strategy will have to be identified ex-ante with the counterparty, but investment horizon will hover around 6 – 8 years
Interest Rates	<ul style="list-style-type: none">• Fixed and Floating (based on EURIBOR or local interest rate Swap curves)• For Equity dividends may or may not be required
Currencies	<ul style="list-style-type: none">• All EU-27 member state currencies subject to specific limits
Methodology for counterparty assessment	Rating and investment analysis methodologies developed internally

EPMF - Investment Limits

□ Maximum concentration limits by products in EPMF

- Maximum 25% for Subordinated loans
- Maximum 15% for Equity / Investment vehicles
- Maximum 25% for Risk Sharing Loans
- At least 35% Senior loans to counterparts rated Ba2 and better

□ Transaction specific limits for EPMF

- Maximum size for debt transaction is approx EUR 9m
- Maximum size for equity transaction approx EUR 1.8m
- Maximum of 10% of the maximum fund size in a single country
- Maximum of 20% of the maximum fund size to intermediary group

PROGRESS FCP - Advantages at financial intermediary level

	Western Europe	Eastern Europe
Non-bank MFIs	Reach sustainability	Develop economies of scale
Bank MFIs (microbanks)	Enlarge customer base with selected at-risk groups	Enlarge customer base with at-risk groups
Banks	Develop pilots	Enlarge customer base with selected at-risk group / Develop pilots
Development Agencies	Adopt sustainable measures to tackle unemployment	Adopt sustainable measures to tackle unemployment
	Enlarge institutional objectives	Enlarge institutional objectives

European Progress Microfinance Facility

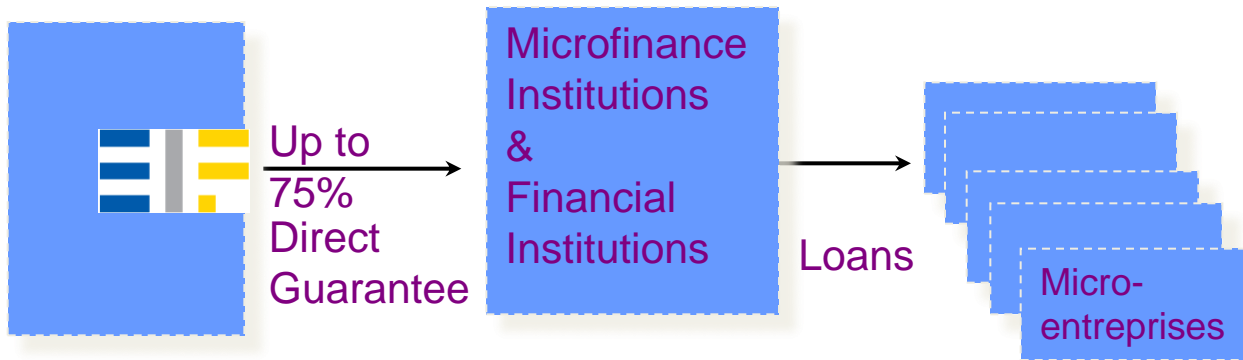
Guarantee Product

EPMF – Advantages for Intermediaries

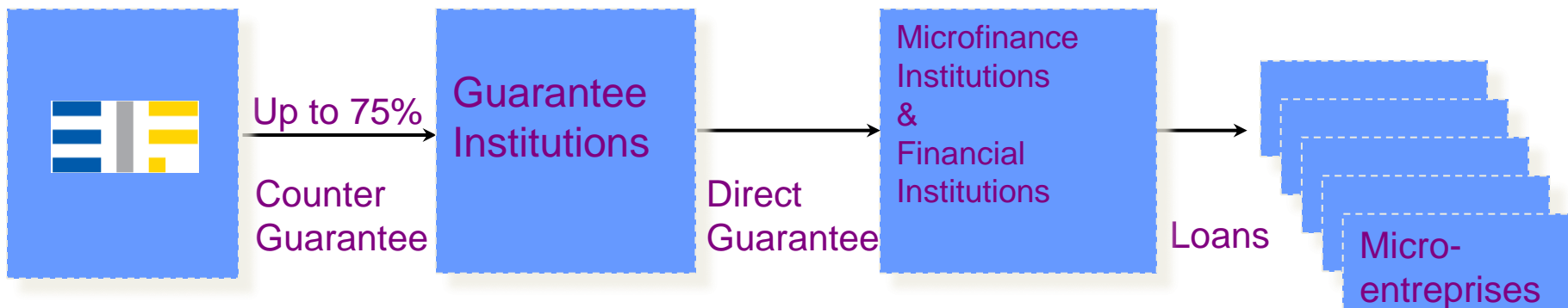
- ❑ EPMF may not replace equivalent guarantees received by the Intermediaries for the same purpose under existing European and national financial instruments
- ❑ Other than a Commitment Fee, if any, no guarantee fee shall be charged
- ❑ Guarantee rate up to 75% of underlying Micro-credit loans/guarantees
- ❑ Opportunity to expand micro lending activities:
 - Increase loan volumes
 - Increase guarantee volumes
 - Possibility to gain new customers
 - Enlarge customer base with at-risk groups

EPMF – Guarantee Products

- Micro-credit Direct Guarantees



- Micro-credit Counter Guarantees

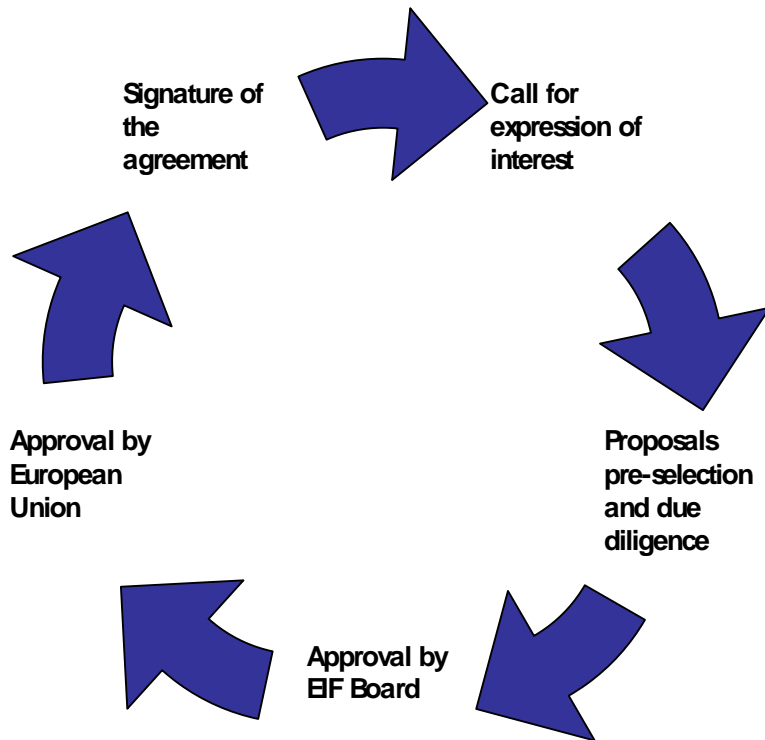


EPMF – The Micro-Credit Guarantee

- Micro-credit Guarantee main features

Term	covers defaults occurred within 3 years from signature of the guaranteed loan agreement
Guarantee Rate	up to 75% of Micro-credit loan/guarantee
Cap rate	up to 20%, based on expected cumulative losses
Guarantee Fee	Other than a Commitment Fee, if any, no guarantee fee shall be charged
Commitment Fee	charged to the Intermediary if the portfolio does not reach at least 90% of the Agreed Volume within the Availability Period
Agreed Volume	target volume the Intermediary shall build within the Availability Period
Availability Period	up to 24 months

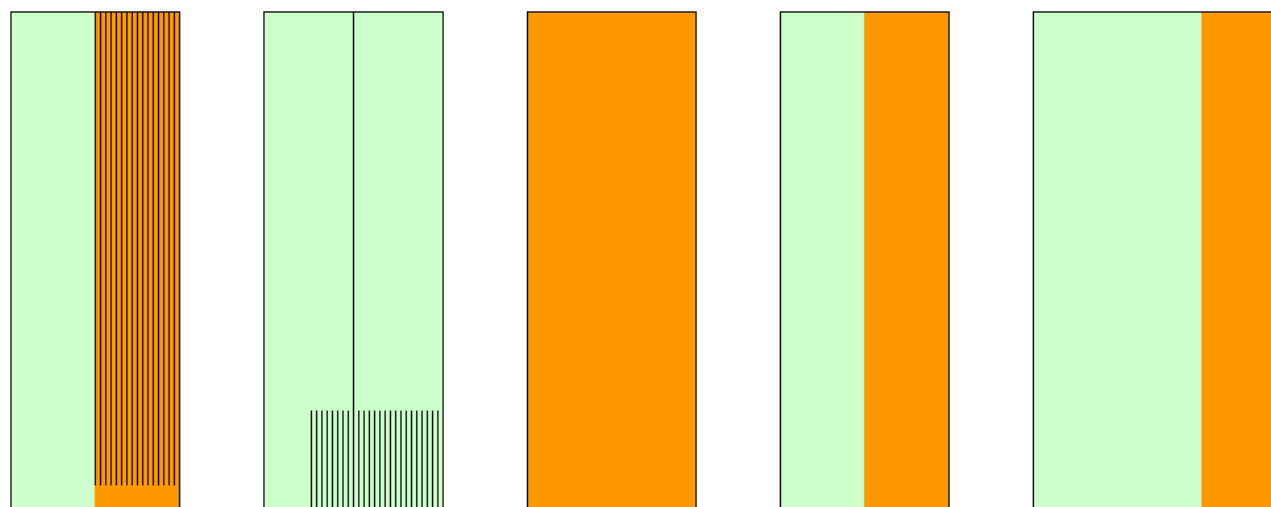
EPMF – Selection Process



- Call for expression of interest and application form published on EIF website (www.eif.org)
- Proposals examined by the EIF in chronological order of receipt, using best business practises and avoiding any conflict of interest. Satisfactory applications followed up with due diligence visits
- Approval by EIF Board and by the European Union
- Signature of the agreement

EPMF – Comparison among opportunities

Prestito con rischio condiviso¹ Garanzia² Prestito Senior³ Prestito Subordinato⁴ Partecipazione⁵



■ Fondi propri della Banca/MFI
■ Fondi del FEI
▨ Rischio coperto

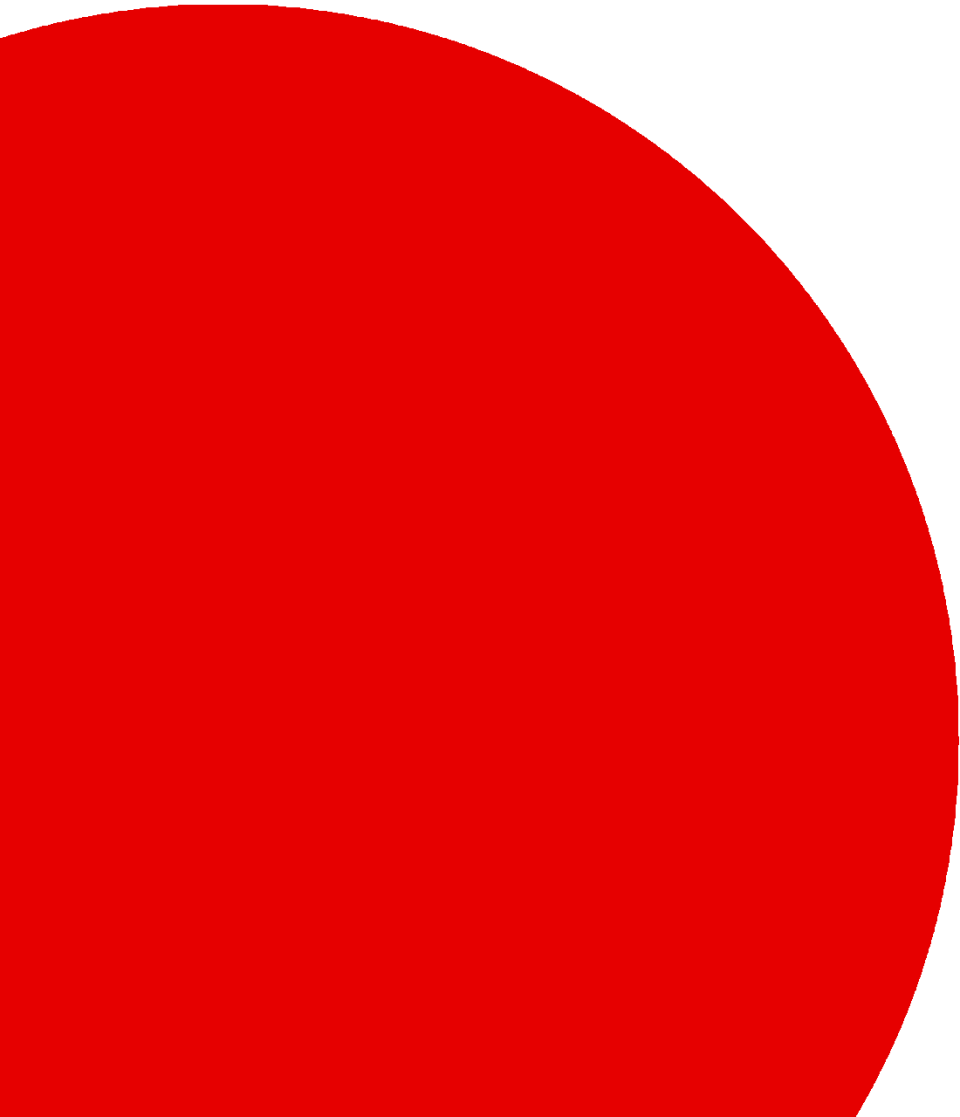
¹ I fondi del FEI devono essere uniti con il capitale della Banca/MFI (al meno 1 a 1) e il FEI coprirà le perdite (fino al 50%) eccetto la prima perdita (appros 2 - 5%)

² La Garanzia coprirà il capitale della Banca/MFI fino al 75% del singolo prestito con un tetto pari al 20% del portafoglio di prestiti

³ L'intero portafoglio può essere formato da un Prestito Senior del FEI

⁴ I fondi del FEI devono essere uniti con il capitale della Banca/MFI (al meno 1 a 1)

⁵ I fondi del FEI devono essere uniti con il capitale della Banca/MFI (al meno 1 a 2)



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