“From Microfinance to Inclusive Finance
The EIF experience”

fi-compass conference
Rome, 1 Dec 2016
Contents

- Microfinance in the EU: objectives and challenges

- EIF – Microfinance activity overview

- EREM CBSI – A new facility for SME lending
Microfinance: objectives and challenges
Some figures

- 92% of enterprises in the EU are micro-enterprises
- 99% of the start-ups created in the EU every year are micro-enterprises and small enterprises
- 33% of these start-ups are launched by unemployed persons

This means:

- Microfinance is an important market segment and has a social as well as financial component ("growth creating engine")

Remember our starting point:
Challenges of the European Microfinance Market

- Market is highly heterogeneous & less developed than microfinance market outside Europe

- Broad range of microfinance institutions (e.g. small non-profit organisations or governments-owned development agencies, large commercial banks)

- Broad range of microfinance services (heavily subsidised vs. fully risk-priced)

- Country-specific features, depending on legal framework, economic realities, social inclusion programmes etc.

- Eastern vs. Western Europe microfinance market

Ensuring a maximum outreach through a flexible investment approach
EIF

Microfinance activity overview
Role of EIF as Catalyst of the European Microfinance Market

- Dedicated Microfinance Team
- Microfinance expertise and established track record
- Financing capacity
- Diverse product offering
- Geographic outreach
- Wide outreach to broad range of financial intermediaries
- Thorough value added and social performance assessment
“...EIF is specialized in developing financial solutions for the development of the European Microfinance sector...”

Progress microfinance: fund management

Instruments to support the EU microfinance industry

- EPMF is a EUR 180 m investment fund + a EUR 25 m guarantee compartment
- It is implemented by financing, guaranteeing and investing in institutions that have the capacity to distribute and originate microloans

EUR 80 million

EUR 25 million

Guarantee compartment

EPMF
FCP – SIF
constituted in Luxembourg

EUR 100 million

Fund Manager

Microcredit providers – EUR 500 m target by 2020

microborrower

microborrower

microborrower
EaSI Programme

“A new programme to support micro-enterprises and social entrepreneurship”

<table>
<thead>
<tr>
<th>Microfinance</th>
<th>Social Entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective:</strong></td>
<td><strong>Objective:</strong></td>
</tr>
<tr>
<td>• Increase access to microfinance for <em>vulnerable persons, micro-enterprises</em> in both start-up and development phase</td>
<td>• Support the development of the <em>social investment market</em></td>
</tr>
<tr>
<td>• Build up the <em>institutional capacity of micro-credit providers</em></td>
<td>• Facilitate <em>access to finance</em> for social enterprises</td>
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</tbody>
</table>
### EaSI products

EUR 193m EC + potential additional funding from EIB group

EU28, Iceland, Turkey, FYROM, Montenegro, Serbia, Albania (+ potentially others)

#### Guarantee

- Guarantee rate **up to 80% of** the microloan – Cap rate **up to 30%** based on E(Losses) of the portfolio
- Guarantee premium does not apply
- **Maximum Loan Amount**: up to EUR 25,000 for MC and EUR 500,000 for SE
- **Up to 5 years availability period** for building up the portfolio
- **No capital charge** (0% RWA) for counterparty risk on the covered part of the micro-loan, given the **EIF’s status as Multilateral Development Bank**

#### Cash products*

<table>
<thead>
<tr>
<th><strong>Senior Loan</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure Limit:</td>
<td><strong>max 100% of</strong> Equity</td>
</tr>
<tr>
<td>Maturity:</td>
<td>long-term</td>
</tr>
<tr>
<td>Currency:</td>
<td>EUR or local currency</td>
</tr>
<tr>
<td>Pricing:</td>
<td>market rates, fixed or floating</td>
</tr>
<tr>
<td>Security:</td>
<td>None</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Sub Loan / Quasi-equity</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of FI</td>
<td>green field / start up</td>
</tr>
<tr>
<td>Purpose</td>
<td>capacity building</td>
</tr>
<tr>
<td>Structure</td>
<td>direct / indirect investments</td>
</tr>
</tbody>
</table>

* Available from Q1-2017
EIF’s Microfinance outreach
Social impact results*

122 contracts

71 portfolio guarantees
51 loans
(senior loans, subordinated loans and risk sharing facilities)

24 in EU countries

Actual:
EUR 440m of micro-credits already supported

49,800 micro-enterprises already supported

45% unemployed

86,950 Jobs preserved

18% with no or only primary education

88% start-ups**

37% female micro-entrepreneurs

* Under the EU programmes "PROGRESS" and "EaSI". Figures as at Mar-16, except social/impact outreach distribution updated at Sep-15
** Established no earlier than 3 years
EFSI impact
EaSI Guarantee frontloading

- High value added of Frontloading
  - Enables faster rollout in spite of annual budgetary contribution cycle
  - In lieu of EU Contribution Committed 2016-2020
  - Micro and social enterprises will have faster access to finance

- Modus operandi
  - First, EU Contribution Committed 2014-2015 to be used
  - Second, additional commitment capacity provided by unfunded credit protection from EIB to EIF. EIB would be counter-guaranteed by EU under EFSI

- Annual budgetary appropriations beginning from 2016 will steadily amortize EFSI guarantee
Frontloading concept

EaSI G without frontloading (*):

EaSI G with frontloading (*):

(*) volumes in line with the indicative EU Contribution defined in the Delegation Agreement and based on a total envelope of EUR 96m

EU budgetary commitment for 2016-2020 could be available in 2016
EREM CBSI

A new facility for SME lending
Objectives of the instrument

Name of the facility

EREM CBSI (EIB Risk Enhancement Mandate – Cooperative Banks and Small Financial Intermediaries)

Objectives

This new funded instrument is intended for small financial institutions and cooperative banks that do not have access to the EIB support programs for SMEs. Financial Intermediaries will lend these resources to SMEs by ensuring a certain leverage.
## EREM CBSI
### Product features

<table>
<thead>
<tr>
<th>Product</th>
<th>Senior Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum amount available</strong></td>
<td>- EUR 12,500,000</td>
</tr>
<tr>
<td></td>
<td>- In any case no more than 50% of FI total equity</td>
</tr>
<tr>
<td><strong>Maturity</strong></td>
<td>- Long term - up to a maximum of 10 years</td>
</tr>
<tr>
<td></td>
<td>- Grace period negotiable up to 2 years</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>- Loans to SMEs</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>- The financial intermediary has to originate a portfolio which is at least twice the loan received (50% of the portfolio financed with own funds)</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>- Unsecured</td>
</tr>
</tbody>
</table>
EREM CBSI
Product structure

EIF lends 50% of the funds

FI matches the funds for at least 50%

SME
## EREM CBSI
### Final recipient transactions

<table>
<thead>
<tr>
<th>Product</th>
<th>Loans to SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan amount</strong></td>
<td>- From EUR 25,000 to EUR 500,000&lt;br&gt;- Below EUR 25,000 if covered by EaSI micro guarantee&lt;br&gt;- A single loan cannot be above 5% of the total loan amount committed by EIF to the FI</td>
</tr>
<tr>
<td><strong>Final recipients</strong></td>
<td>- SMEs with less than 500 employees</td>
</tr>
<tr>
<td><strong>Sector of activity</strong></td>
<td>- All sector covered including agriculture&lt;br&gt;- Exception of the exclusion list (alcohol, gambling...)</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>- Medium/long term investments, working capital, overdraft, leasing</td>
</tr>
<tr>
<td><strong>Maturity</strong></td>
<td>- Minimum two years</td>
</tr>
</tbody>
</table>
EIF’s Inclusive Finance outreach

**Impact results**

**2016**

- **Actual:**
  - EUR 440m micro-credits already supported
  - 49,800 micro-enterprises already supported

**2018**

- **Expected:**
  - EUR 650m of micro-credits
  - EUR 500m Loans to SMEs
  - 70,000 Micro-enterprises
  - 10,000 SMEs

**2020**

- **Expected:**
  - EUR 1bn of micro-credits
  - EUR 1bn loans to SMEs
  - 100,000 Micro-enterprises
  - 20,000 SMEs

- Under the EU programmes "PROGRESS" and "EaSI" and EIB group EREM CBSI.
- Actual figures as at Mar-16
Conclusions

- Microfinance is crucial for the development of a cohesive and inclusive Europe

- EPMF and EaSI Financial Instruments have shown to be appropriate for the EU diversified microfinance market

- The new EREM CBSI provides important resources for the expansion of the inclusive finance sector
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