



## European Progress Microfinance Facility for employment and social inclusion

### - MICROCREDIT DIRECT GUARANTEES - FORM OF APPLICATION FOR LENDING INSTITUTIONS (PRIVATE OR PUBLIC)

#### Introduction

Decision 283/2010/EU of the European Parliament and of the Council of 25 March 2010 establishes a European Progress Microfinance Facility for Employment and Social Inclusion ("EPMF").

The European Investment Fund ("EIF") has been mandated by the European Union to implement the EPMF through a micro-credit guarantee instrument ("Micro-credit Guarantees") provided to intermediaries in its own name, but on account and risk of the European Union. Details on the implementation of Micro-credit Guarantees by EIF under EPMF will be published in the Official Journal of the European Communities.

For the duration of EPMF, EIF and the European Union, as represented by the European Commission, will select on a continuous basis eligible institutions to become Intermediaries under EPMF.

This notice is addressed and restricted to eligible intermediaries under the EPMF, which must be established and operating in an EU Member State. Eligible intermediaries include public and private financial institutions, microfinance institutions, guarantee institutions, or any other institution authorised to provide micro-credit loans and guarantees on micro-credit loans to micro-enterprises (As defined in European Commission Recommendation 2003/361/EC), including to self-employed persons having the capacity to operate at national, regional or local level.

Please see <http://www.eif.org/progress/index.htm> for more details.

## Application Procedure

Interested institutions should submit an application to EIF to be considered as a possible Intermediary under EPMF. The application should follow the Minimum Information Requirements and should place particular emphasis on:

- Expected added value of the funds committed under EPMF for micro-enterprises, including self-employed persons
- Details of any public resources available for the institution lending activity
- Envisaged actions for the implementation and management of EPMF, particularly with regard to its launch (timing, changes to the underlying legal documentation, etc.)
- Estimated lending volumes
- Envisaged procedures for the data collection and processing for the reporting requirements

Interested institutions should send their application in English to EIF. One copy should be sent to the following address:

European Investment Fund  
European Progress Microfinance Facility  
Guarantees & Securitisation Team  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

An electronic version of the application should be sent to: [progress@eif.org](mailto:progress@eif.org)

## Selection Procedure

Intermediaries will be selected in compliance with EIF's policies, rules, and procedures and in conformity with best business and market practise, avoiding any conflict of interests.

Applications will be considered by EIF for pre-selection, in chronological order of receipt, using professional analysis and judgement.

After a preliminary assessment on whether the application contains sufficient information and after having obtained any additional information needed, EIF will evaluate the proposals according to the criteria set out in the Project Policy and Operational Guidelines for Micro-credit Guarantees and any other relevant document.

Satisfactory applications will be followed up with on-site due diligence visits. In addition to financial and operational matters, the due diligence meeting will cover points such as the institution's ability to duly inform micro-enterprises and self-employed persons about the EU support, proposals on how to best market such support, and ability to cooperate with organisations providing further support to final beneficiaries.

Subject to the satisfactory outcome of a due diligence, the EIF shall propose the acceptance of the application to the European Commission. EIF has no obligation to enter into an agreement with a pre-selected institution. The participation of any institution will depend, *inter alia*, on the outcome of the negotiations with the institution and on the budget allocations finally made available by the European Union for EPMF.

The final decision regarding the proposal is taken by the European Commission on behalf of the European Union.

## **Annex I:**

### Project Policy and Operational Guidelines for Micro-credit Guarantees

#### **Minimum Information Requirements:**

The points below list the headings for the minimum information needed. Please add relevant information that might have an impact on your application

N.B.: All information required below concerning the activity of the applicant institution and its products must be provided, specifically and in detail, for:

1. Loans with a maximum amount less than EUR 25,000;
2. Final loan maturity of at least 3 months; and
3. Micro-enterprises, including self-employed persons, according to the EU Definition (Commission Recommendation 2003/361/EC).

#### **1. INTERMEDIARY'S ACTIVITY**

1.1. General: description of your institution (date of establishment, number of employees, shareholders, etc.), legal status, regulatory framework and applicable regulations, rating (if applicable; please add reports of rating agencies to the Application, if available)

1.2. State Aid compliance: documentation evidencing the qualification (private / public scheme) of the product to be covered under the Micro-credit Guarantee with regard to State Aid (notification procedures, aid intensity, etc.)

1.3. Lending products offered to micro-enterprises and self-employed persons: purpose, maturity of loan, rate of financing (as % of financing needs), maximum amount, etc.

1.4. Geographical area of operation, position in the market: demand for micro-credits by the target groups, cover in your area, main competitors

1.5. Branch network: number and size of branches (if applicable)

1.6. Mentoring/training services provided (if applicable please explain what is offered, by whom, at which cost for the client, etc.)

1.7. Prior relationship with the EIF

1.8. Cooperation with other financial institutions or NGOs (e.g. networking, participation in any national or regional microfinance initiatives, etc.)

## **2. FINANCIAL STANDING**

2.1. Annual reports for the last three years (to be annexed to the Application)

2.2. Sources of financing

2.3. Grants and other contributions including State resources available for the lending activity

## **3. OPERATING PRINCIPLES**

3.1. Credit policy: internal procedures and guidelines

3.1.1. Eligibility criteria: sectors, borrowers (i.e. micro enterprises, start-ups, unemployed people, at risk or vulnerable groups, etc.)

3.1.2. Percentage of project cost financed, maximum loan amount, minimum and maximum loan maturity, repayment frequency, collateral requirements (including personal guarantees, etc.)

3.1.3. Risk assessment procedures (internal rating/scoring system): information requested from the borrower about the project to be financed (please also attach a loan application form)

3.1.4. Loan approval procedures including delegation system

3.1.5. Monitoring (monitoring of payment dates, frequency of contact with the client, early warning system)

3.1.6. Recovery procedures (what steps are taken, when and by whom, length of recovery procedures, are the procedures dealt with in-house or outsourced?)

3.2. Risk management: methods utilised for loss forecasting, provisioning, and credit risk management on portfolio level

4. **LOAN VOLUMES** (over the past 5 years, if available) under the relevant micro-lending programme and comparable programmes to a similar target group (by product, purpose, maturity)

4.1. Annual number and volume of new loans granted

4.2. Total number and volume of loans outstanding at year-end

## **5. INTEREST RATES AND REMUNERATION**

5.1. Pricing policy with regard to micro-loans (by product, purpose, maturity, risk categories, up-front fees, etc.)

5.2. Cost of funding, administrative costs, and risk related margin

## 6. TRACK-RECORD

(for the past 5 years, if available), always with regard to the product to be covered under EPMF and/or comparable programmes to the same target group (if available: by product, purpose, maturity).

### 6.1. Detailed analysis of defaults incurred (vintage analysis)

#### Cumulative defaults, with break-down by loan vintage (i.e. by year of origination of the loans)

For micro loans only and each annual vintage (e.g. loans granted in 2006, 2007, etc.), the following should be shown:

- total initial principal amount of the loans granted in each year of origination ("Originated loan volume (EUR)");
- total number of loans granted in each year of origination ("Originated loans (number)");
- defaulted amount for each year following origination date, i.e. total outstanding principal amount at the time of default for the loans belonging to the same vintage (i.e. originated during the same year) that defaulted in each year after their origination date;

as presented in the table below:

#### VINTAGE ANALYSIS TABLE:

Loan vintage details			(Defaults occurred in year 1, 2, 3, ...) (EUR)						Cumulative defaults (sum)(EUR)
Year of origination	Originated loan volume (EUR)	Originated loans (number)	1	2	3	4	5	6	
2006									
2007									
2008									
2009									
2010									
2011									

#### Explanation:

- Micro loans granted over the past periods that meet a set of objective selection criteria shall be selected. The sample must not be made up of "cherry-picked" micro loans, and therefore it shall include all the loans that meet the agreed selection criteria. The selection criteria shall be similar to those applicable to the portfolio of new micro loans to be guaranteed under the facility, e.g. in terms of maturity, type of debtors, geographical distribution, etc.
- Vintages are created by reference to all selected micro loans originated during the same year
- Default: the default definition used must be in line with the bank's internal procedures (e.g. a loan is classified as defaulted if the bank is entitled to serve a notice or take other steps for the purpose of accelerating payment of any amount outstanding under that loan, for example the loan becomes more than X days past due (other default criteria can also be used)). The default definition used must be specified, e.g. borrower missed x payments, etc.
- Defaulted amounts: The aggregate of the outstanding principal amount [outstanding principal amount = principal component of the instalments fallen due but unpaid + principal component of all future instalments] of all loans that defaulted in each year following their origination date is tracked separately for each vintage. The vintage analysis table is thus produced by recording in each cell - for each vintage line - the total outstanding amount at the time of default for loans that have defaulted in the year of the relevant column (1, 2, 3, ...). For instance, if the Time to

default [Time to default = Default date - signing date of the loan agreement, expressed in number of months] is comprised between 0-12 months, i.e. loans have defaulted within the first year of their life, the respective defaulted amount is to be shown in the column corresponding to year 1; if the time to default is comprised between 13-24 months, the respective defaulted amount is to be shown in the column corresponding to year 2, etc.

5. Cumulative defaults: the last column of the table contains the sum of all the defaults shown in the previous columns. It indicates the cumulative defaults occurred for a given vintage during the observation period. Such amount divided by the corresponding originated volume gives the cumulative default rate for the vintage

In case it would not be possible to provide data on cumulative defaults, please provide data on amounts written off (as well as on loans where no further repayments are expected from the borrower), following the same format presented above, see Vintage Analysis Table (e.g. "defaulted amounts" becomes "written-off amounts" and "time of default" becomes "time of write-off").

6.2. Average recovery rate: the average amount recovered on the defaulted micro loans for at least the past 5 years, if available

6.3. Average time lags between the granting of the loan, the payment default by the borrower and the loan being written off (end of recovery period)

## 7. PROPOSED MEASURES TO INCREASE ACCESS TO AND AVAILABILITY OF MICROFINANCE UNDER EPMF:

7.1. Proposed product to be covered under EPMF:

Is this a new product? How does it differ from micro-loan products already on offer?

- Increased access to and availability of microfinance proposed in terms of:
- the overall effect on the volume of financing provided to the eligible Final Beneficiaries;
- the effect on the volume of financing provided specifically to at-risk groups;
- the effect on the financing by the Intermediary in terms of geographical reach
- Envisaged loan volumes with a Micro-credit Guarantee over a period of 2 years; please provide the basis for such estimate
- Implementation strategy: internally (necessary procedures, systems, etc.) and externally (liaising with partners, marketing, etc.). Please also provide an estimate of the expected timing for implementation

7.2. Marketing and Promotion of EU support:

Please provide information on how you would:

- inform micro-enterprises and self-employed persons about the EU support provided for the product to be covered under EPMF
- provide cooperation with organisations engaged in representing the interests of the Final Beneficiaries and with organisations, in particular those supported by the European Social Fund, who provide mentoring and training programmes to the Final Beneficiaries

## 8. Information Technology Systems

## 8.1. Ability to comply with the reporting requirements linked to Micro-credit Guarantees