

# EUROPEAN PROGRESS MICROFINANCE FACILITY FOR EMPLOYMENT AND SOCIAL INCLUSION

## PROJECT POLICY AND OPERATIONAL GUIDELINES ("Operational Guidelines")

### MICRO-CREDIT GUARANTEES

(to be published)

#### OBJECTIVES OF THE MICRO-CREDIT GUARANTEES

By Decision No 283/2010/EU of 25 March 2010 (the "**Decision**"), the European Parliament and the Council established a European Progress Microfinance Facility for employment and social inclusion (the "**Facility**").

The aim of the Facility is to increase access to and availability of microfinance especially for certain at-risk groups, such as unemployed or vulnerable persons or persons at risk of unemployment or social exclusion, and to further support the development of entrepreneurship, micro-enterprises, especially in the social economy, which employ persons belonging to such at-risk groups.

The Decision foresees different types of actions, by which the Facility may be implemented. The Facility shall, *inter alia*, be implemented by guarantees and counter-guarantees issued by EIF to financial intermediaries (the "**Intermediary/ies**") with the aim to encouraging Intermediaries to provide financing to those that are part of an at-risk group and are normally excluded from the conventional credit market (the "**Action**").

The guarantees and counter-guarantees issued by EIF shall cover portfolios of newly granted Micro-credit Instruments provided for the ultimate benefit of micro-enterprises, including self-employed persons, which qualify as Final Beneficiaries under the Facility (the "**Micro-credit Guarantees**").

The Micro-credit Guarantees are financed by the budget of the European Union and are issued by EIF in its own name, but on account and risk of the European Union.

#### THE INTERMEDIARIES

Intermediaries: Public and private bodies established on national, regional or local levels in the Member States which provide Micro-credit Instruments to persons and Micro-enterprises established in the Member States, such as financial institutions, microfinance institutions, guarantee institutions or any other institution authorised to provide microfinance instruments.

Selection process: Intermediaries shall be selected in compliance with EIF's policies, rules and procedures and in conformity with best business and market practices in a fair manner, avoiding any conflict of interest. On the basis of a call for expression of interest<sup>1</sup>, proposals will be examined by EIF, on a continuous basis, using professional analysis and judgment taking into account these Operational Guidelines and any other relevant documents.

Proposals will be considered for approval by EIF and the Commission after satisfactory evaluation and pre-selection by EIF, on the basis of these

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<sup>1</sup> To ensure transparency the call for expression of interest shall be published in the Official Journal and shall remain open until 31 December 2013 or any later date as a result of any subsequent prolongation, subject always, however, to the availability of budgetary funds.

Operational Guidelines and within the constraints of the available European Union budget allocations.

- Selection criteria: Intermediaries shall be selected having regard to the following selection criteria, in no particular order of priority:
- financial standing and financing capacity;
  - operational capability of the Intermediary and its ability to assess and manage risk;
  - ability to provide the necessary data in order for EIF to properly conduct its analysis and assessment of the Intermediary's track record and future activity;
  - ability to comply with the terms and conditions of the Action, particularly to provide or to support financing to Final Beneficiaries within a pre-defined timeframe (absorption capacity);
  - expected impact of the Action, *inter alia* in terms of new financing volumes to be generated, number of Final Beneficiaries, type of target group supported, geographical reach;
  - ability to provide the reporting specific requirements and willingness to accept the Additionality requirement (as defined below).
- State aid: The Micro-credit Instruments benefiting from a Micro-credit Guarantee shall be subject to State aid rules. Intermediaries shall comply with applicable State aid rules.

## FINAL BENEFICIARIES

- Final Beneficiaries:
- (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) above.

Micro-enterprises: A micro-enterprise as defined in the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)<sup>2</sup> (the "Recommendation"), it being understood that any subsequent modification of the Recommendation shall be applied in respect of the Micro-credit Guarantees issued after the date of such modification becoming effective and furthermore that any legally binding commitments, entered into before such modification becoming effective, shall remain unaffected.

In accordance with the Recommendation, a micro-enterprise is, *inter alia*, defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. For the purpose of the Micro-credit Guarantees, (i) the reference year to be considered for the annual turnover and/or annual balance sheet shall be the last fiscal year, and (ii) the micro-enterprise shall be established or to be established in the Member States, including self-

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<sup>2</sup> OJ L 124, 20.5.2003, p.36.

- employed people, and persons that wish to start or develop a micro-enterprise.
- Excluded Sectors: Final Beneficiaries with a substantial focus on the following sectors shall not be supported:
- arms production and trading;
  - human cloning;
  - tobacco;
  - gambling.

## **PORTFOLIO**

Portfolios: A portfolio covered by the Micro-credit Guarantee shall include newly entered into Micro-credit Instruments provided for the ultimate benefit of Micro-enterprises. The eligibility criteria for inclusion in the Portfolio shall be determined individually by EIF with the aim of reaching a large number of Final Beneficiaries and achieving sufficient Portfolio diversification and homogeneity in order to allow a reasonable estimation of the Portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant country or region.

Micro-credit: A loan of a nominal amount of less than EUR 25 000.

Micro-credit Instrument:

A Micro-credit to a Final Beneficiary or a guarantee on Micro-credit provided by an Intermediary for the benefit of Final Beneficiaries.

Each Final Beneficiary may benefit from more than one Micro-credit Instrument funded by the Action under the Facility, subject to the aggregate ceiling of less than EUR 25 000.

Purpose of financing: The set up and/or development of a Micro-enterprise, such as investment, working capital, including the acquisition of licences and other start-up costs for Micro-enterprises (established or to be established).

Micro-credit Instrument Maturity:

Micro-credit Instruments shall have a fixed maturity or term of minimum 3 months.

Each Micro-credit shall have a fixed repayment schedule. For avoidance of doubt, credit lines such as overdrafts and short term revolving facilities shall not be eligible.

## **THE MICRO-CREDIT GUARANTEE**

Partial guarantee for a Portfolio of newly granted Micro-credit Instruments. The Micro-credit Guarantee shall cover each of the underlying Micro-credit Instruments at a fixed guarantee rate. The total liability under the Micro-credit Guarantee shall be limited to a pre-set maximum level expressed as a percentage of the guaranteed Portfolio.

Nature of the Micro-credit Guarantee:

First loss guarantee covering defaulted amounts under the Micro-credit Instruments incurred until the date of default at the applicable Guarantee Rate (as defined below). For the avoidance of doubt, the Micro-credit Guarantee shall cover, in case of Micro-credit, the defaulted amounts of principal and interest, and, in case of a guarantee on Micro-credit, the

	defaulted amounts covered and paid by the Intermediary in accordance with the terms of such guarantee.
Recovery Rate:	EIF shall establish ex-ante a recovery rate to be used for calculating the amount expected to be recovered from the defaults in the Portfolio. This rate shall be applied to individual defaults and shall reduce the amounts of the losses to be covered under the relevant Micro-credit Guarantee. For the avoidance of doubt, EIF shall not participate in further actual recoveries from defaults in the Portfolio.
Agreed Volume:	The target volume of the Portfolio the Intermediary shall endeavour to build up within the Availability Period, being the aggregate nominal amounts of the Micro-credit Instruments included in such Portfolio. For the avoidance of doubt, a volume of the Portfolio below the Agreed Volume shall not affect the legal validity of the Micro-credit Guarantee.
Term:	<p>The Micro-credit Guarantee shall cover defaults occurred within six (6) years from the date of entering into, but not beyond the maturity or term, as applicable, of the Micro-credit Instruments included in the Portfolio.</p> <p>For the avoidance of doubt, the underlying Micro-credit Instruments may have maturities longer than six (6) years.</p>
Guarantee Rate:	<p>Up to 75% of the underlying Micro-credit Instruments. The Guarantee Rate shall be determined individually for each Portfolio having regard to the risk sharing arrangements between the Intermediary and EIF and the objective of the Action.</p> <p>The Intermediary shall retain a minimum of 20% of the credit risk under each underlying Micro-credit Instrument on its books, for which it cannot benefit from another guarantee (for the avoidance of doubt, any collateral provided by the Final Beneficiary shall not constitute such guarantee).</p>
Guaranteed Portfolio:	The actual volume, up to the Agreed Volume, of the Portfolio multiplied by the Guarantee Rate.
Cap Rate:	Up to 20%. The Cap Rate, expressed as a percentage of the Guaranteed Portfolio, shall be fixed individually for each operational agreement having regard to the risk profile of the underlying Micro-credit Instruments.
Guarantee Cap:	The amount, at which EIF's obligation to pay under the Micro-credit Guarantee shall be capped and which shall be the maximum liability under the Micro-credit Guarantee, calculated as the Guaranteed Portfolio multiplied by the Cap Rate.
Guarantee Fee:	Other than a Commitment Fee, if any, no guarantee fee shall be charged to the Intermediary.
Commitment Fee:	A Commitment Fee shall be charged to the Intermediary in case the Portfolio does not reach the Agreed Volume within the Availability Period. Such Commitment Fee shall be calculated at the end of the Availability Period on the basis of the difference between the actual volume of the Portfolio and the Agreed Volume. The Commitment Fee shall encourage utilisation under the Action so as to reach the Agreed Volume to be covered under the Micro-credit Guarantee.
Availability Period:	Typically up to twenty-four (24) months from date of signature of the operational agreement, during which Micro-credit Instruments may be included in the Portfolio for cover. Micro-credit Instruments approved by the Intermediary before the expiry of the Availability Period may be included in

the Portfolio provided that they are entered into within four (4) months from the date of approval.

**Additionality:**

The Action addresses a market failure and provides an incentive to Intermediaries to increase access to, and availability of, Micro-credit Instruments either by starting providing such Micro-credit Instruments or by extending its current activities.

In order to achieve the expected impact, the funds from the Action committed in operational agreements signed between EIF and the Intermediaries may not replace equivalent guarantees received by the respective Intermediaries for the same purpose under existing European, national and regional financial instruments. The operational agreements between EIF and the Intermediary shall be established having regard to the following criteria and taking into account these Operational Guidelines as well as the standard EIF policies, rules and guidelines:

- the overall effect on the volume of financing provided to the eligible Final Beneficiaries; or
- the effect on the volume of financing provided to each of the different types of Final Beneficiaries, particularly to at-risk groups (as described above); or
- the effect on the volume of financing by the Intermediary in terms of geographical reach.

## **SPECIFIC REQUIREMENTS**

**Reporting:**

Each Intermediary shall provide EIF with periodic information as and when required in the operational agreement evidencing the relevant Micro-credit Guarantee.

Such information shall include, among others, the number of applications received and rejected, the number of agreements concluded with Final Beneficiaries, the distribution of financing by geography and sectors, as well as the total number and type of Final Beneficiaries.

The Intermediary shall also be involved in the collection of data for reporting on the social impact as required under the operational agreement.

**Monitoring and audit:**

Intermediaries, Sub-Intermediaries and Final Beneficiaries shall agree to allow, and to provide access for, EIF, agents of EIF, the European Court of Auditors, the Commission and/or the agents of the Commission, including OLAF, adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the funds of the European Union. To that effect, EIF, Intermediaries and Sub-Intermediaries shall include appropriate provisions in each agreement relating to the Facility, using the exact wording:

*“The counter party acknowledges that the European Investment Fund (the “EIF”), the agents of EIF, the European Court of Auditors (the “ECA”), the Commission and the agents of the Commission including OLAF (the “Agents”) shall have the right to carry out controls and to request information in respect of this agreement and its execution. The counterparty shall permit inspections by EIF, the agents of EIF, the ECA, the Commission and the Agents of its business operations, books and records. As these controls may include on the spot controls of the*

*counterparty, the counterparty shall permit access to its premises to EIF, the agents of EIF, the ECA, the Commission and the Agents during normal business hours.*

- Data Protection: To the extent that the Action requires the processing of personal data, Intermediaries shall comply with all obligations under the applicable legislation implementing the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995, as amended, on the protection of individuals with regard to the processing of personal data and on the free movement of such data<sup>3</sup> or, in case of non-implementation of Directive 95/46/EC, equivalent principles as those set out in Article 22 of Regulation (EC) No 45/2001 of the European Parliament and of the Council, dated 18 December 2000, as amended, relating to the protection of individuals with regard to the processing of personal data by the European Community institutions and bodies and of the free movement of such personal data<sup>4</sup>.
- Promotion: Intermediaries are encouraged to actively promote the Facility.
- Intermediaries shall be required to ensure that their specific promotional material, specific promotion campaigns and information on their webpage(s) relating to the financing supported by the Facility include the EU logo (twelve yellow stars on a blue background) and a statement that the supported debt financing "benefits from a guarantee issued under the 'European Progress Microfinance Facility' established by the European Union". Intermediaries shall display the European logo at least as prominently as their own logo.
- Intermediaries shall cooperate closely with organisations engaged in representing the interests of the Final Beneficiaries of Micro-credit and with organisations, in particular those supported by the European Social Fund, who provide mentoring and training programmes to the Final Beneficiaries. For the purposes of close cooperation, the Intermediaries shall liaise with the organisations mentioned above to obtain information on available financial support, mentoring and training programmes for Final Beneficiaries.
- Visibility: Intermediaries shall be required to include or, as the case may be, require in the agreements with the Final Beneficiaries the inclusion of a statement that the relevant Micro-credit "*benefits from a guarantee issued under the 'European Progress Microfinance Facility' established by the European Union*". This requirement shall be passed on to Sub-Intermediaries, where applicable.

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<sup>3</sup> OJ L 281, 23.11.1995, p. 31.

<sup>4</sup> OJ L 195, 19.07.2001, p.46.