EUROPEAN COMMISSION
DG Employment, Social Affairs and Inclusion

Europe 2020: Employment Policies
Sectorial Employment Challenges, Youth Employment and Entrepreneurship

TESTING THE MARKET – MANAGEMENT OF A DEDICATED INVESTMENT VEHICLE FOR MICROFINANCE

Important Disclaimer

This short version of the EaSI term sheet for a microfinance dedicated investment vehicle is for market testing purposes only. This document is an outline of the design for the product described herein, which is subject to change and non-exhaustive.

This document is intended to provide a basis for the expression of interest from potential fund managers and does not constitute a recommendation, an offer or a binding commitment by the Commission.

The Commission reserves itself the right not to issue a call for the selection of fund manager(s) under the EaSI.

1. European Programme for Employment and Social Innovation (EaSI)

On 6 October 2011, the Commission proposed a Programme for Social Change and Innovation[1] which will *inter alia* "promote employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable groups and micro-enterprises, and by increasing access to finance for social enterprises" in the programming period 2014-2020.

Political agreement between the co-legislators on the programme has been reached and the regulation establishing the programme, now named Programme for Employment and Social Innovation (EaSI), is expected to be formally adopted in autumn 2013.

[1] COM(2011)609 final

Microfinance support

The microfinance instrument under EaSI will be a successor of the current European Progress Microfinance Facility. Until the end of the latter in 2016, both instruments will operate in parallel.

Like in the case of Progress Microfinance, the soon-to-be-adopted EaSI regulation defines "microfinance" as including "guarantees, microcredit, equity and quasi-equity extended to persons and micro-enterprises". "Microcredit" means a loan of up to EUR 25 000.

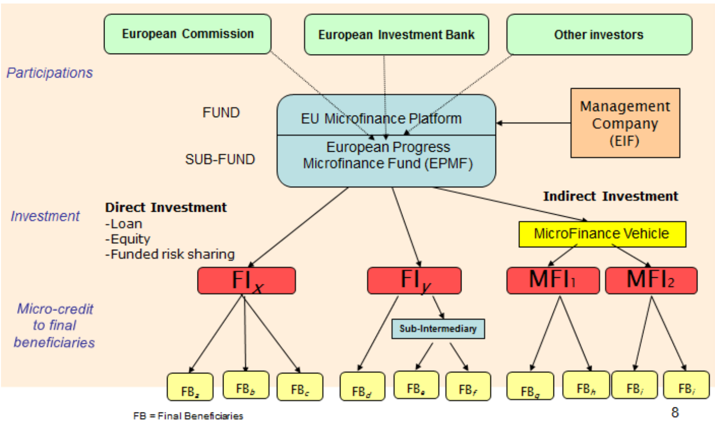
In the Commission proposal for the PSCI 2014-20, EUR 83.92 million was earmarked for microfinance support, EUR 8.52 million for capacity building for microfinance providers. The final figure depends on the outcome of the negotiations on the Multiannual Financial Framework 2014-2020.

For the implementation of the financial instrument promoting microfinance under EaSI, the Commission will cooperate with a financial institution. For guarantees, this is likely to be the European Investment Fund. For the dedicated investment vehicle (DIV) that undertakes funded investments in microfinance intermediaries, the choice of the manager is still open.

2. Indicative terms of the Dedicated Investment Vehicles (DIV) for microfinance

EU policy objective	Under the EaSI, the Commission aims at increasing access to, and the availability of, microfinance for (a) vulnerable persons who have lost or are at risk of losing their job, or have difficulty in entering or re-entering the labour market, or are at risk of social exclusion, or are socially excluded, and are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own micro-enterprises. (b) micro-enterprises in both start-up and development phase, especially micro-enterprises which employ persons as referred to in point (a). In addition, the Commission aims at building up the institutional capacity of microcredit providers.
Form of implementation:	The Commission concludes a delegation agreement (see below) with the manager of a DIV (dedicated investment vehicle). The DIV manager provides funded instruments (equity, debt, quasi-equity) to financial intermediaires in the countries targeted by the action (see below) which allows them to extend their outreach to final beneficiaries from within the target group (see above under "EU policy objective" – further guidance to be provided by the Commission).
Intermediaries	Bank or non-bank microcredit providers (can be public or private institutions)
Products to be offered to the intermediaries:	Debt, equity, potentially quasi-equity and funded risk-sharing (e.g. risk-sharing loans)
Duration	The commitment period for the Commission is 2014-2020. The investment period of the DIV is up to 10 years after the start of the programme. After 2024, a period of 4 to 6 years will be left to wind up the fund.
Country coverage	The 28 Member States of the European Union. Although the instrument will be demand-driven (demand by potential intermediaries), a certain geographical balance between the Member States will need to be respected (to be specified by the Commission). In addition to the EU Member States, the following countries may participate in the instrument (if agreements are concluded with the Commission, in which case, the country concerned would make a

	financial contribution as well): (a) The EFTA and EEA member countries (Iceland, Liechtenstein, Norway, Switzerland), in accordance with the EEA Agreement; (b) The candidate countries and potential candidates (The former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, Turkey; Albania, Bosnia and Herzegovina, Kosovo), in accordance with the general principles and the general terms and conditions laid down in the framework agreements concluded with them on their participation in Union programmes.
Budget	The budget for the microfinance instrument is expected to be split between the guarantees (not part of the DIV) and the DIV in a ratio 1:3 (tbc). The final budget allocation is subject to market demand.
Dedicated Investment Vehicle	The DIV could take the form of a FCP (Fonds Commun de Placement), SICAV (Société d'investissment à capital variable) or other. It is important that the form chosen allows for potentially low financial return (in view of the instrument's social objectives). It should also have a compartment structure (see below).
Delegation agreement	The delegation agreement is signed between the Commission and the DIV manager. It lays down the precise and detailed terms and conditions applicable for the implementation and the management of the financial instrument, the tasks and obligations of the DIV manager, the rules for the selection of intermediaries, governance aspects, remuneration of the DIV manager etc.
Leverage	According to the EU's Financial Regulation, the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance. Leverage effect of Union funds is defined as the amount of finance to eligible final beneficiaries (i.e. micro-borrowers) divided by the amount of the Union contribution. This means that leverage should be seen as a ratio between the financial resources allocated to a financial instrument (input) and the finance provided to eligible final beneficiaries (output). Under the current Progress Microfinance facility, the leverage effect is between 3.5 and 4 for the DIV.
Compartment structure	Managing Authorities of programmes co-financed by the European Structural and Investment Funds (ESIF) in the EU's Member States and regions will have the right to make use of the structures of the centrally managed instruments (like the financial instruments under the EaSI) to set up their own microfinance support schemes. This could be made possible via a compartment structure of a

	Europe-wide instrument. One of the compartments of the dedicated investment vehicle could be the EaSI instrument, but other compartments could be added for ring-fenced contributions from the ESIF at regional or national level, which would need to be invested in the territory of the Member State or region whose authorities have provided the ring-fenced contribution. The current Progress Microfinance facility has the following structure:  The current DIV is a FCP (Fonds commun de placement). The European Investment Bank is a co-investor. The current management company is the European Investment Fund (EIF). The only sub-fund is the European level instrument ("European Progress Microfinance Fund"), but theoretically there could be additional sub-funds (e.g. for contributions from the Member States and regions under the ESF).
Reporting	The fund manager will be required to provide a semi-annual reporting to the Commission, including on the financial implementation and the allocation and accessibility of funding and investment by sector, geographical area and type of beneficiary. Those implementation reports shall also set out the applications accepted or rejected with regard to each specific objective and the contracts concluded by the public and private bodies concerned, the actions funded and the results, including in terms of its social impact, employment creation and sustainability, of the businesses support granted. This means that the DIV manager will need to contractually require such information to be provided by the intermediaries in which it will invest.
Fees	Management fees usually have a fixed and a performance-based component and are subject to negotiation.

3. Indicative criteria for the selection of the fund manager

In the event the Commission decides to launch a call for the selection of the manager of the DIV, criteria like the following will be taken into account for the selection of the manager (please note that the list is non-exhaustive and not final and thus subject to changes):

- prior experience with the implementation of similar financial instruments, including the expertise and experience of proposed team members;
- a robust and credible methodology for identifying and appraising financial intermediaries and designing the most suitable financial products to be offered, also with a view to maximise the social impact;
- the level of management costs and fees for the implementation of the financial instrument and the methodology proposed for their calculation;
- the ability to raise resources for investments into the DIV additional to programme contributions;
- in cases where bodies implementing the financial instrument allocate own financial resources to this financial instrument or share the risk, proposed measures to mitigate a possible conflict of interest.
- the ability to cover all EU member states and, if required, the ability to extend to additional participating countries (see above).

4. How to signal interest

Potential fund managers are requested to signal their interest by explaining in a short document (not more than 3 pages):

- their prior experience with the implementation of similar financial instruments;
- how they assess their ability to raise resources for investments into the DIV additional to programme contributions;
- their ability to cover all EU member states and, if required, the ability to extend to the additional participating countries.

The document should be sent to **empl-microfinance@ec.europa.eu**.

The Commission will decide on the launch of a call in the first half of September, taking into consideration the interest expressed by the market until this point in time.