



# INTERIM EVALUATION OF THE EUROPEAN PROGRESS MICROFINANCE FACILITY

Final Report  
Specific Contract VC/2013/0660

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November 2014



**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion  
Directorate C – Europe 2020: Employment Policies  
Unit C2 – Sectorial Employment Challenges, Youth Employment and Entrepreneurship

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**Interim evaluation of the  
European Progress Microfinance  
facility**

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Specific Contract VC/2013/0660**

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Luxembourg: Publications Office of the European Union, 2015

ISBN 978-92-79-47768-3

doi: 10.2767/007542

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## List of acronyms and abbreviations

### Microcredit providers

ADIE	Association pour le Droit à l'Initiative Economique
Banca Popolare di Milano	Banca Popolare di Milano S.C. a r.l. (Italy)
Banca Transilvania	Banca Transilvania S.A. (Romania)
BCCM	Banca di Credito Cooperativo Mediocrati (Italy)
BES	Banco Espírito Santo (Portugal)
CCB	Cooperative Central Bank Ltd (Cyprus)
Créa-Sol	Institut de Microfinance Créa-Sol (France)
Crédal	Crédal Société Coopérative (Belgium)
Emil Banca	Emil Banca Credito Cooperativo S.C. (Italy)
Erste Bank (micro)	Microcredit Initiative, Erste Bank der österreichischen Sparkassen AG (Austria)
Erste Bank (SK)	Savingsbanks portfolio, Erste Bank der österreichischen Sparkassen AG (Austria)
FAER	FAER S.A. (Romania)
First Step	First Step Limited (Ireland)
FM Bank	FM Bank S.A. (Poland)
ICREF	Instituto de Crédito y Finanzas Región de Murcia (Spain)
Inicjatywa Mikr:	Inicjatywa Mikro (Poland)
Jobs MFI	Joint Opportunities for Business Support
Microfinance Ireland	Microfinancing Institution EAD (Bulgaria)
MicroStart	Microfinance Ireland Limited (Ireland)
Mikrofond	MicroStart (Belgium)
Millennium BCP	Mikrofond EAD (Bulgaria)
Pancretan CB	Millennium BCP SA (Portugal)
Patria Credit	Pancretan Cooperative Bank (Greece)
Qredits	Patria Credit IFN S.A. (Romania)
SEFEA	Qredits (the Netherlands)
Siauliu Bankas	Società Europea Finanza Etica ed Alternativa, societă cooperativa (Italy)
SocGen Expressbank	Siauliu Bankas AB (Lithuania)
Sberbank	Societe Generale Expressbank (Bulgaria)
	Sberbank Bank dd <sup>1</sup> (Slovenia)

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<sup>1</sup> The bank changed its name from Volksbank Slovenia dd to Sberbank banka dd in January 2013.

## Abbreviations and acronyms

BDS	Business development services
CIP	Competitiveness and Innovation Framework Programme
EaSI	Programme for Employment and Social Innovation
EIB	European Investment Bank
EIF	European Investment Fund
Progress Microfinance	European Progress Microfinance Facility
EPMF	European Progress Microfinance Facility
EPPA	European Parliament Preparatory Action on capacity building of microcredit providers
ERDF	European Regional Development Fund
ESF	European Social Fund
FCP-FIS	Fonds commun de placement - Fonds d'investissement spécialisé (Microcredit funded instruments)
FMA	Fiduciary and Management Agreement - Microcredit guarantees
JASMINE	Joint action to support microfinance institutions in Europe
JEREMIE	Joint European resources for Micro to Medium Enterprises
MFI	Microfinance Institution
SME	Small and medium-sized enterprises

## 0. Executive summary

The evaluation serves as an interim evaluation of the European Progress Microfinance Facility, which aims to increase access to finance for micro-entrepreneurs, including the self-employed. It has a particular focus on, but is not restricted to, groups with limited access to the conventional credit market, such as female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, etc. Access to finance is one of the most pressing problems of micro-enterprises in the EU. Rejection rates of loan applications by microenterprises are three times higher than these of other firms. Progress Microfinance tries to mitigate this problem, by providing different types of financial instruments to financial intermediaries and facilitating their offer of microcredit to micro-borrowers.

Progress Microfinance, initiated by the European Commission, is funded by the Commission and the European Investment Bank (EIB), and implemented and managed by the European Investment Fund (EIF). First initiated in 2010, the Facility will operate in its current phase until 2016, with a successor instrument planned under the Programme for Employment and Social Innovation (EaSI). The overall volume of the Progress Microfinance adds up to EUR 203 m, 180 m of which have been allocated to funded instruments (fonds commun de placement, FCP), whereas EUR 23,8 m have been employed to back credit guarantees (under a Fiduciary and Management Agreement, FMA). In either case, financial intermediaries from EU Member States, both banks and non-bank institutions (known as microcredit providers), can apply for funded instruments (loan and equity instruments) or guarantees from Progress Microfinance in order to strengthen or expand their microfinance portfolio. They consequently disburse the funds to applicants looking to grow or start a business (known as final recipients), of up to EUR 25000. As of 31 March 2014, the EIF had signed 30 agreements on the basis of guarantees and 27 on the basis of funded instruments.

In order to assess the results of Progress Microfinance mid-way through its operation, the present evaluation firstly focuses on different aspects of the facility's implementation, followed by an analysis of its effectiveness, i.e. in how far Progress Microfinance has actually increased the availability of microfinance to micro-enterprises and specifically vulnerable groups and social enterprises. Secondly, it measures the impact of Progress Microfinance both on intermediaries (lenders) and final recipients (micro-borrowers). With regard to the impact on the former, the aim is to assess in how far the facility enables microcredit providers to provide more microcredits and if the threshold for borrowers has actually been lowered so that increased financing is available for otherwise non-eligible individuals and enterprises. When it comes to final recipients of the Facility, it is assessed whether Progress Microfinance contributed to borrowers becoming (self-) employed and their ability to finance a new or existing micro-enterprise. Thirdly, the evaluation examines the sustainability of the results, how they have influenced the development of the businesses in terms of income, turnover and hiring, as well as the survival rate of the enterprises and their ability to access commercially offered credits.

As Progress Microfinance is a measure undertaken in the context of the Europe 2020 strategy for smart, sustainable and inclusive growth and is targeted especially at groups in precarious financial conditions, one section of this report examines the complementarity of the measures with other programmes such as the European Social Fund (ESF). The evaluation of efficiency takes into account implementation over the first three years of the programme and looks at how the portfolios are performing in terms of leverage effect of the funding. Concluding the report, recommendations on future adjustments to the facility are offered.

The evaluation has applied a straight-forward mixed methods approach to answer the evaluation questions, meaning that both quantitative and qualitative data have been collected and analysed from different sources, with data collection activities addressed at different groups of stakeholders. Commission and EIF officials have been interviewed in order to explain the institutional and political background of the programme. A total of 28 intermediaries, both banks and non-banks, which participate or have considered participating in Progress Microfinance have been interviewed. A survey among beneficiaries yielded information on the social background of micro-borrowers, their economic situation, their access to financing and the impact the microloan has made on their business. Furthermore, case studies offered valuable insight into how micro-borrowers used the microloans backed by Progress Microfinance and gathered in-depth information on the implementation of the facility by the intermediaries.

### **Effectiveness of Progress Microfinance in increasing access to finance for its target groups**

The evaluation provides clear evidence of the effectiveness of Progress Microfinance in increasing access to finance to micro-enterprises: 17% of the borrowers that responded to the survey had formerly been rejected when applying for financing from the conventional credit market. At the same time, 68% of the individuals covered in the survey applied for a credit for the first time and 56% assumed that it would have been impossible for them to receive a credit under similar conditions elsewhere – a strong indicator that Progress Microfinance helps lower the threshold to accessing finance.

The evidence of the effectiveness of the facility in reaching out to vulnerable micro-entrepreneurs and social economy is less conclusive. The objective of supporting in social economy has not been reached, both according to estimates by intermediaries regarding the share of social enterprises and by the share of such respondents in the survey (10%). When it comes to addressing clients that are affected by unemployment, the study yields mixed results - while 59,9% of the surveyed beneficiaries were unemployed at the time of loan application, these results are influenced by the high response rate from the French institution ADIE, which had a higher share of unemployed loan applicants compared to other intermediaries. On average, the share of unemployed persons receiving a microcredit is more modest (if ADIE respondents are excluded, the share of unemployed applicants who received a credit is 25%). However, data suggests that there was a high proportion of young businesses supported by microloans and that half of the businesses younger than six months were run by borrowers who were unemployed when receiving the microloan.

In regard to measuring the outreach to clients belonging to minorities or having a migration background, the results of both the social reporting conducted by intermediaries and the survey of micro-borrowers done by the evaluators show that this group represents a small share of all micro-borrowers under the facility. These results should however be interpreted with care, as self-reporting on minority or migrant background might be influenced by fear of discrimination amongst the respondents.

As regards other demographic characteristics of the client base, results from the survey of micro-borrowers show that the micro-borrowers under the Progress Microfinance portfolios of the intermediaries are predominantly middle aged and have at least secondary education. In respect to the male-female ratio, the 60:40 male-

female ratio aimed at by the fund is close to being reached, in spite of an apparent lack of targeted efforts by the intermediaries.

As regards the income levels of borrowers, 43 % of respondents reported income that put them below their national threshold of risk of poverty, substantially higher than the EU average, which stood at 18,2 % of the population in 2012. In addition, 17 % of the survey respondents can be classified as materially deprived – a share almost twice higher than the average for the EU population (9,9 %).

Although the data available from the interim phase does not allow for strong conclusions on target group outreach, it appears that overall, intermediaries do target those who are looking to start or grow a micro-enterprise who are financially excluded, but without specifically addressing particular vulnerable groups or social enterprises.

### **Impact of Progress Microfinance on intermediaries**

On the level of intermediaries, the impact of Progress Microfinance was assessed as being positive - most of the interviewed intermediaries stated that their lending activity has been positively influenced by the funding, particularly in terms of the volumes of micro-lending they are able to disperse and in terms of their access to other sources of financing for the same purpose. This applies especially to non-bank entities which have few resources to finance their lending activities, unlike larger banks with bigger capital bases and access to the financial markets.

Another positive effect Progress Microfinance has had on the lending policies of microfinance intermediaries is the facilitation of more favourable lending conditions for microcredits, usually in the form of a decrease in the interest rates or collateral requirements. As microloans typically yield lower revenues for intermediaries (associated operating costs do not decrease significantly despite the smaller sizes of the loans) microcredit interest rates are usually higher than those for conventional credit.

Progress Microfinance instruments were not found to have precipitated the shift of focus to micro-lending where it did not exist previously, but there was substantial evidence for the contribution of the facility to the intermediaries' abilities to grow their microcredit portfolio. A number of intermediaries were able to develop a new product or start working with groups of borrowers they would have considered too risky without the backing of the facility, e.g. start-ups or entrepreneurs who have difficulty fulfilling the intermediaries' standard eligibility criteria.

### **Impact of Progress Microfinance on micro-borrowers**

While the section on effectiveness examines whether Progress Microfinance has met its objectives including increased access to and availability of microfinance for the target groups, this section looks at programme impact at the level of micro-borrowers (e.g. evolution of the economic activity of the borrowers who received a loan). The positive impact of the loans backed by the facility can be established on several levels.

There is evidence to suggest that the facility helps unemployed people start their own business – a quarter of the surveyed borrowers were unemployed when applying for a credit and the majority of them reported being self-employed at the time of the evaluation. In fact, the overall unemployment rate of micro-borrowers participating in the survey is less than 5 %. Furthermore, half of the businesses younger than six months were run by borrowers who were unemployed when receiving the microloan – a clear indication of the employment-creation impact of the facility.

The case studies also offered multiple examples of borrowers for whom microcredit to start a business was the only alternative to unemployment or who needed a loan in order to preserve or expand their existing micro-business. While some argued that they would not have been able to start their business at all without an EPMF-backed loan, others indicated that it would have taken them much more time to set-up their business and to achieve the same results.

Due to data constraints, the evidence is anecdotal and no comparison or control group has been used. However, the evaluators consider that these results are strong indicators of the likely job-creation and business-creation effect of the Progress Microfinance facility.

### **Sustainability of impacts on micro-borrowers**

Sustainability is difficult to assess with any certainty at this early stage in the implementation of the facility, but the evaluation findings give an indication of likely sustainability in the future, in particular in relation to the programme impact on long-term development of the supported businesses (including access to mainstream banking, debt-levels and survival rates of businesses).

As regards the development of the businesses financed with microloans provided under a Progress Microfinance instrument, the reported results were generally positive. Half of the survey participants report increased turnover and 40 % have an increased income after having received a microloan. While only 13 % of the surveyed borrowers hired an employee as a result of the loan and the number of additional employees hired per loan was rather low, it is also worth considering the impact on existing employees. The job preservation effect was in line with available benchmarks: on average 1,6 persons were already employed by each beneficiary of the facility and the microcredit contributes to the preservation of these jobs.

Overall it is important to recognise the relatively young maturity of the loans in the Progress Microfinance portfolios: 64 % of the surveyed respondents had taken out their loan less than a year ago and the job creation effect might take somewhat longer to materialise.

The number of “young” businesses also presents challenges when trying to examine final recipients’ access to mainstream banking. Although survey data shows that only 5 % of borrowers under the Facility accessed regular bank credits following their microcredit, almost half of surveyed businesses were under one year at time of loan approval. Hence, in the context of this interim evaluation it is too early to assess whether Progress Microfinance supported credits have contributed to access to mainstream banking in the long term.

Among the survey responses, only 4 % (34 respondents) answered that their business was no longer operational, which is a fairly small share, especially if extrapolated to the total number of microcredit clients (4 % translates to app. 500 business no longer operational overall). The survival rate of businesses financed through a Progress Microfinance-backed microcredit therefore appears to be higher than the EU average. However, due to the risk of bias in response rates and distribution between countries/MFIs, this finding needs to be interpreted with care and it is currently not possible to draw firmer conclusions regarding the survival rate of Progress Microfinance supported businesses.

## **Complementarity of Progress Microfinance with other EU and national programmes**

There were cases identified during the evaluation that demonstrate the potential for creating synergies between programmes funded by the European Social Fund (ESF) and Progress Microfinance, for example related to ESF interventions targeting the shared objective of promoting access to employment. However, only one fifth of the intermediaries reported to collaborate with organisations or entities supported by the ESF, for instance business support centres. There was little evidence of ESF managing authorities using a particular ESF option designed to cover all or part of the interest rate on loans, in order to alleviate the burden on the borrower. However it appears that there is a need for a stronger strategic approach in order to better coordinate ESF and EPMF support and realise the inherent potential for complementarity between the two programmes.

There is no evidence to suggest undesirable overlaps between Progress Microfinance and other EU initiatives, such as the Competitiveness and Innovation framework Programme (CIP) or the programmes of the European Regional Development Funds (ERDF), both of which appear to target SMEs rather than microenterprises in their activities.

There were however, cases identified of good complementarity between Progress Microfinance and the JASMINE (Joint Action to Support Microfinance Institutions) of the Commission (implemented by the EIF), with just under half of the intermediaries having received technical assistance support under it. Intermediaries generally assessed it as being very helpful with regard to their ability to provide microcredits. Training improving professional capabilities of the employees of the microcredit providers was considered to be highly relevant, and a number of intermediaries noted that capacity building activities were particularly useful when preparing the application to EPMF, and to help “professionalise” the intermediary.

As regards synergies between Progress Microfinance and complementary national initiatives, more than half of the intermediaries have benefitted from or taken part in initiatives which aim to increase access to finance for the target groups of the Facility, such as the provision of guarantees to SMEs. Overall, though, such programmes were assessed as being mostly targeted towards SMEs rather than micro-enterprises specifically and as such do not overlap with the activities under Progress Microfinance. Indeed there appears to be a clear need for Progress Microfinance in this respect; several intermediaries mentioned that the limitations of the national funds either in terms of their scope (target groups, geographical coverage) or volumes are limiting factors and have led to the need to also apply for guarantees or loans through the EPMF.

### **Efficiency of Progress Microfinance**

Efficiency of the programme can first of all be assessed through progress on implementation of the portfolios. The overall objective of Progress Microfinance is to disburse 46 000 microloans by 2020 with an estimate amount of EUR 500 m.

As of September 2013, microcredit providers had disbursed a total of 13 252 microloans with an overall aggregate value of EUR 124,6 m. This was somewhat below the EIF projection of EUR 142,4 m by this period, and could partly be explained by lower levels of utilisation of the funded instruments: according to the survey conducted, whereas two out of three MFIs with a guarantee instrument reported to be

able to develop the portfolio as intended, this is only the case for approximately half of the MFIs with a funded instrument.

It is also useful to analyse the leverage achieved by the instruments when looking at the efficiency of the programme. Estimates in 2010 suggest that every euro committed in guarantees could generate at least six euros in microcredit, while the funded instruments were expected to have a leverage effect of between one and three.

The overall intended target in terms of leverage effect was that the funds committed from the EU budget of approx. EUR 100 m should generate at least EUR 500 m in microcredits, i.e. a leverage effect of approximately 5. The latest data shows that the utilised guarantee instrument had a leverage of 12,37 with EUR 20,96 m committed and microloans with an agreed volume of EUR 259,2 m to be disbursed. In this respect the guarantee-backed instruments have proven to be efficient and popular.

The leverage for the funded instruments is agreed with each intermediary in their agreement with the EIF. The latest data indicates an estimated leverage effect of the funded instruments of 4,41 against the EU budget contribution to the committed funds - net commitments of EUR 111,5 m are expected to result in approximately EUR 204 m in micro-lending.

While the results so far are encouraging and overall portfolio progression has been good, it is difficult to assess at this stage of the programme whether 46 000 microloans will be signed or if the leverage effect target of 5 will be reached. However, based on the total agreed microloan volumes to be generated by providers, the leverage effect of 5,5 as at March 2013 was above the target.

### **Recommendations**

The recommendations devised as part of the evaluation refer to the implementation of Progress Microfinance, with a view to improving the Facility's relevance, effectiveness, efficiency and impact.

With regard to the financial instruments through which Progress Microfinance is implemented, the guarantee-backed loans have turned out to be a success and would be worth further financial backup and promotion, combined with more flexibility as to the available volumes of the guarantee and the conditions under which it is offered.

In order to improve the outreach of Progress Microfinance to intermediaries and micro-borrowers, it is recommended that there is closer collaboration between EIF and intermediaries, special assistance for small intermediaries and those with a clear focus on vulnerable groups. Clarifying the scope of the target group and reinforcing the focus on financially excluded microenterprises will further increase the effectiveness of Progress Microfinance.

Outreach of intermediaries to the target groups of the Facility can also be improved through the more active enforcement of the provisions of agreements with intermediaries requiring them to cooperate with organisations representing final recipients. Furthermore, it is recommended that the possibility of setting aside funds for the specific targeting of social enterprises is explored.

The effectiveness, impacts and sustainability of Progress Microfinance can also be improved by the more strategic coordination of Progress Microfinance, ESF and national support activities targeting microenterprises, so as to increase the synergies between training, mentoring, business support, grants and microcredits



Lastly, the evaluators recommend that monitoring and reporting arrangements are revised with a view of improving their efficiency and effectiveness. Concretely, the evaluators suggest that observable facts, such as poverty/income levels are used in order to assess financial exclusion and vulnerability, given that indicators such as minority status and disability are often a sensitive subject for borrowers and difficult to monitor systematically. Furthermore, it is suggested that data is gathered in a consistent manner for both natural and legal persons.

## 1. Introduction

This report constitutes the final report for the interim evaluation of the European Progress Microfinance Facility (EPMF).

### 1.1 Objective of the assignment

The objective of the assignment is to conduct an interim (or mid-way) evaluation of the Progress Microfinance. As stated in the terms of reference, the objective is to assess the implementation, effectiveness, impact, sustainability, efficiency and complementarity of Progress Microfinance, both with regard to microfinance providers/the microfinance sector as well as final recipients in terms of employment and social inclusion.

The results may be used by the Commission to make corrections to Progress Microfinance for the continued implementation in the current programming period and to improve the successor instrument under the Programme for Employment and Social Innovation (EaSI).

### 1.2 Scope of the assignment

The scope of the evaluation is to assess Progress Microfinance from the start of the programme in 2010 until end of June 2013. It covers the countries in which there are microcredit providers who signed agreements under Progress Microfinance, and all EU Member States including the countries in which no microfinance provider has signed an agreement under Progress Microfinance.

Since the assignment concerns an interim evaluation, it should be born in mind that evidence related to the evaluation criteria impact and sustainability is only preliminary. This is due to the simple fact that evidence of impact and sustainability takes time to emerge, and the EPMF has only been operating since 2010. Furthermore, the 2013 implementation report<sup>2</sup> shows that 44,31% of the microenterprises supported had existed for less than a year, increasing the challenge of looking at impact and sustainability.

In our approach to answering the evaluation questions, this has been taken into account, by addressing the question of *likely contribution* to impact and sustainability criteria, rather than *attributed* impact and sustainability. Furthermore the absence of a clear baseline or a counterfactual situation (*what would have been the development of the microcredit market and the microenterprises without support from the Progress Microfinance*) calls for an approach which is closer related to theory-based evaluation<sup>3</sup> and contribution analysis.

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<sup>2</sup> Progress Microfinance – Annual Implementation Report 2013

<sup>3</sup> Theory-based evaluation is an approach in which attention is paid to theories of policy makers, programme managers or other stakeholders, i.e., collections of assumptions, and hypotheses - empirically testable - that are logically linked together.

### 1.3 This report

This report is the final report of the interim evaluation. It builds onwards from the interim report delivered during the interim stage of the evaluation to answer all the evaluation questions put forward in the terms of reference for the assignment.

This report is structured as follows:

- Section 2 contains a description of **methodology** used, data collection activities as well as an analysis of strength and weaknesses of the chosen design.
- In section 3, the findings concerning the **implementation** of the Progress Microfinance Facility are presented both at the level of the EIF and of the microcredit providers.
- In section 4, main evaluation findings on the **effectiveness, impact, sustainability, complementarity and efficiency** of the Progress Microfinance Facility are presented, based in particular on interviews with the microcredit providers, data submitted through the social reporting, survey with clients as well as case studies.
- Section 5 discusses the monitoring and social reporting, as well the available information for a possible **counterfactual evaluation** in order to assess the impact of Progress Microfinance.
- Section 6 presents **conclusions and recommendations** based on the findings.

## 2. Methodology for the evaluation

The evaluation has applied a straight forward mixed methods approach to answer the evaluation questions, meaning that both quantitative and qualitative data have been collected and analysed, from different sources.

To have a transparent framework for the evaluation, an evaluation matrix was elaborated in the inception phase, outlining in detail the evaluation questions, indicators, norms/judgement criteria and data sources. The analysis presented in this report follows the evaluation matrix; where there are any deviations or assessments were not possible, this is clearly highlighted in the text. The evaluation matrix can be found in Appendix A.

For certain key performance or results indicators related to effectiveness and impact, no judgment criteria have been assigned as it will be too early in the programme to exert a judgement. However, qualitative assessments have been made to answer the evaluation questions.

### 2.1 Data collection

#### 2.1.1 Interviews with Microcredit institutions and other stakeholders

The first part of the evaluation consisted mainly of data collection activities in the form of interviews with key stakeholders and intermediaries as well as review of secondary data.

Phone interviews were conducted with representatives of the European Commission in Brussels and Luxembourg (including DG ECFIN and DG EMPL). Face-to-face interviews were carried out with representatives of the European Investment Fund in Luxembourg in the form of one group interview (Microfinance Investments) and one individual interview (Strategic Development and EU Policies).

All in all, 28 telephone or face-to-face interviews were carried out with the intermediaries.<sup>4</sup> A complete list of the interviewed intermediaries and organisations can be found in Appendix B. The phone interviews with representatives of the intermediaries took place in November 2013 and the analysis presented in this report is based on transcripts from the interviews. Where possible, the evaluators have verified the provided information through follow-up case study visits and desk research.

#### 2.1.2 Survey to microcredit clients

The survey to micro-borrowers contained 24 questions on their experience with microcredits, their economic and social situation at the time of their application and at the moment of responding to the survey, as well as questions regarding their business and its development. The survey was anonymous, but the respondents were invited to voluntarily provide their name and phone number, should they agree to be contacted by the evaluators for an interview.

The survey was provided to micro-borrowers in the national language(s) of the Member State where their Progress Microfinance intermediary is established.<sup>5</sup> The complete English-language version of the survey is available in Appendix C.

<sup>4</sup> Of the 30 portfolios included in the overview table Annex B, one interview was carried to cover both portfolios of ERSTE Bank, Austria. No interview was carried out with First Step Ireland, as the availability period of the guarantee instrument for First Step ended automatically when Microfinance Ireland started its operations.

<sup>5</sup> For this purpose, the survey was translated to the following languages: French, Dutch/Flemish, Bulgarian, Romanian, Portuguese, Spanish, Polish, Slovenian and Lithuanian. Representatives of the surveyed

As shown in Table 1, the survey was addressed to the recipients of EPMF-backed products from 19 microcredit institutions, but was carried out by 15 of them. Four of the planned surveys were not carried out

- The surveys of CCB and FAER clients were cancelled due to the very low number of clients of the intermediaries with an e-mail address;
- FM Bank<sup>6</sup> confirmed the distribution of the survey, but no responses from their clients were received;
- Créa-Sol did not respond to repeated requests to distribute the survey to their clients.

**Table 1 Overview of survey response rate**

MFI's Name	MS	Survey dissemination method	Date of survey activation	Total EPMF recipients <sup>7</sup>	Survey sample size <sup>8</sup>	Responses			Response rate
						Complete	Partial	Total	
<b>Adie</b>	FR	Own	30-04-2014	1 405	1 462	363	41	404	28 %
<b>Créa-Sol</b>	FR	Survey not carried out	-	255	-	-	-	-	-
<b>Crédal Société Coopérative</b>	BE	Own	18-04-2014	98	136	40	3	43	32 %
<b>FAER</b>	RO	Survey not carried out	-	290	-	-	-	-	-
<b>Inicjatywa Mikro</b>	PL	Survey responses collected via interviews	n/a	463	53	53	-	53	n/a
<b>JOBS MFI</b>	BG	Own	16-04-2014	173	160	51	10	61	38 %
<b>MicroStart</b>	BE	Ramboll	07-05-2014	564	532	50	10	60	11 %
<b>Mikrofond EAD</b>	BG	Own	22-04-2014	716	150	75	11	86	57 %
<b>Patria Credit</b>	RO	Ramboll	16-04-2014	2 628	84	15	3	18	21 %
<b>Qredits</b>	NL	Own (adapted)	n/a	2 247	209	-	196	196	n/a
<b>Banca Transilvania</b>	RO	Own	15-04-2014	883	50	23	1	24	48 %
<b>Banco Espirito Santo</b>	PT	Own	09-05-2014	33	40	9	1	10	25 %
<b>Cooperative Central Bank</b>	CY	Cancelled	-	131	-	-	-	-	-
<b>FM Bank</b>	PL	Survey not carried out	-	1 519	-	-	-	-	-
<b>Millennium bcp</b>	PT	Own (Paper distribution)	15-05-2014	246	419	27	0	27	6 %
<b>Sberbank</b>	SI	Own	24-04-2014	259	275	78	12	90	33 %
<b>Societe Generale Expressbank</b>	BG	Own	15-05-2014	42	34	7	1	8	24 %

intermediaries were invited to provide feedback on the translations so as to ensure their quality and consistency.

<sup>6</sup> FM Bank underwent organisational changes during the evaluation period and now operates under the name BIZ Bank

<sup>7</sup> For intermediaries with more than one EPMF instrument, this is the sum of clients under the different instruments. Data from 30.09.2014 based on FCP and FMA Annual portfolio reporting for 2013.

<sup>8</sup> Based on the number of e-mails of recipients of EPMF-backed microcredits that the survey was distributed to, as reported or provided by the intermediary. The intermediaries were asked to distribute to /provide the e-mail addresses of all clients who've received/are receiving an EPMF-backed microcredit to date, which is why in certain cases the sample size exceeds the recorded number of beneficiaries from 30.09.2013. For Inicjatywa Mikro and Qredits where it was not possible to establish a sample size, it is taken as equal to the received responses.

MFI's Name	MS	Survey dissemination method	Date of survey activation	Total EPMF recipients <sup>7</sup>	Survey sample size <sup>8</sup>	Responses			Response rate
						Complete	Partial	Total	
<b>Siauliu Bankas</b>	LT	Ramboll	17-04-2014	125	54	10	1	11	20 %
<b>ICREF</b>	ES	Own	07-05-2014	163	92	9	1	10	11 %
Total				<b>12 240</b>	3 750	810	291	1 101	32 % <sup>9</sup>

The electronic survey was distributed or made available for distribution to all intermediaries on 15 April 2014<sup>10</sup> and closed for responses on 11 June 2014. Reminders to fill out the survey were sent out in mid-May 2014. Responses collected in alternative ways (by paper, self-administered survey or interviews) were received in June 2014. The response rate to the electronic/paper based survey was 32 %.<sup>11</sup> Overall a total of 1101 complete and partial responses were submitted.

The survey was carried out electronically, via Ramboll's SurveyXact system in all but three cases – Millenium bcp preferred to disseminate the survey and collect responses by mail due to "lawful constraints that forbid the disclosure of such information regarding [their] client [base]"; Qredits preferred to include some of the survey questions in their own annual survey, so as to avoid a situation of survey fatigue amongst their clients; clients of Inicjatywa Mikro were surveyed in person by representatives of the intermediary. For all other microcredit providers, the survey was disseminated by the intermediary through an e-mail (via a self-creation link to the survey<sup>12</sup>) or by Ramboll via a direct e-mail invitation (with an individual link to the survey) in those cases where the evaluators were provided with a list of e-mail addresses of the micro-borrowers.

### Validity of survey data

The collected survey data cannot be assessed as being representative of the entire population of micro-borrowers receiving EPMF-backed credits for several reasons:

- The electronic distribution of the survey excludes micro-borrowers without an e-mail address from the data collection process;
- Some intermediaries had more complete databases of e-mail addresses than others, so in most instances, the distribution sample has not been random or representative of the total population;
- Although the response rate per intermediary is more or less comparable, the actual number of respondents varies significantly – the respondents who are clients of ADIE are 404 in total, which is 36,7 % of all respondents;
- The survey was not implemented by four intermediaries (i.e. they were not willing to distribute the survey to clients or did not provide email addresses of clients);
- Distribution via a self-creation link provides complete anonymity to the respondents, but does not allow the evaluators to confirm the legitimacy of the responses – e.g. who actually responded or if any respondent answered to the survey twice.

<sup>9</sup> Average response rate from surveys where such can be established, excludes responses from Qredits and Inicjatywa Mikro

<sup>10</sup> Some of the intermediaries were only able to distribute the survey at a later point of time due to the difficulty of making the distribution arrangements

<sup>11</sup> Average from surveys where response rate can be established, excludes responses from Qredits and Inicjatywa Mikro

<sup>12</sup> For this method of distribution the EPMF intermediaries were provided with an e-mail template in their national language which contained a generic link to the survey and were asked to disseminate the e-mail to the clients of their EPMF-backed products. In this way, each time the link in the e-mail was opened by a respondent, a new survey session was created.

Of these caveats, the differences in the survey sample size and response rate are most relevant for the analysis of the data. Particularly in the case of ADIE, there is a danger that the large number of respondents from the intermediary has biased the results, but an analysis of the data by intermediary shows that this is not the case. The responses by clients of ADIE are largely consistent with those of clients of other intermediaries, and if there are divergences, these are reflected in the analysis. However, ADIE's clients represent 55 % of the responses of clients who receive a microcredit backed by the guarantee instrument of Progress Microfinance, which makes a comparative analysis of results under the funded instruments and the guarantee instrument unreliable.<sup>13</sup>

It is the assessment of the evaluators that despite these limitations, the overall response rate of 32 % can be considered acceptable given the mode of distribution and the target group. It allows the evaluators to perform qualitative and quantitative analysis on an overall level, but does not allow for analysis at country or MFI level.

The survey results presented in this report indicate that a broad range of respondents from different genders, age groups and educational backgrounds have participated in the survey, which also provides some reassurance against the validity concerns mentioned above.

### **2.1.3 Case studies**

In the context of the evaluation, 10 case studies with intermediaries of Progress Microfinance were carried out.

A case study is an in-depth investigation to explore causation in order to find underlying principles of a phenomenon whose context and environment are assumed highly influential. In this evaluation, the case studies were used to establish the link between the Progress Microfinance facility and the outputs and outcomes it generates amongst its final recipients - such as access to credit, employment, changes in conditions of credits, etc., in order to assess the strength of contribution to its intended impacts. It is here important to differentiate between contribution and attribution; attribution indicates a direct link between activities and outcomes, while contribution deals with the likely influence or change generated by Progress Microfinance.

The case studies were used to produce so called "performance stories" which help to exemplify why it is reasonable to assume that the funding provided by Progress Microfinance has contributed to the observed outcomes among the final recipients.

The case studies were based on the following main sources:

- Review of written documentation and available information;
- In-depth interviews with microcredit provider staff involved;
- In-depth interviews with borrowers (individual or focus groups);
- Interviews with PES, associations and alike, working with the target group.

Case studies were carried out face to face, during visits to the intermediaries and their clients. The case studies resulted in case study reports, prepared on the basis of common guidelines, templates and interview questionnaires.

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<sup>13</sup> ADIE's 1405 final beneficiaries as of 30.09.2014 represent 21% of the total beneficiaries of the guarantee instrument (data from the FMA Annual portfolio report 2013)

Case studies were carried out with:

- Credal (BE)
- MicroStart (BE)
- Qredits (NL)
- Patria Credit (RO)
- FAER (RO)
- Banca Transilvania (RO)
- Inicjatywa Mikro (PL)
- Societe Generale Expressbank (BG)
- Mikrofond (BG)
- JOBS MFI (BG)

A case study of FM Bank (PL) was planned for, but not possible to organise and carry out due to lack of cooperation from the intermediary.

The case study intermediaries were selected taking into account several factors:

- The cases cover both funding and guarantee instruments;
- The cases entail sufficient information (number of final recipients) to enable an analysis of contribution;
- The cases cover different types of intermediaries;
- The cases also include examples where the implementation has not worked as intended.



### 3. Implementation of Progress Microfinance

In this chapter we provide an assessment, based on the work carried out until now, of the quality of implementation of Progress Microfinance, both at the level of the European Investment Fund (EIF) and at the level of the microcredit providers. As part of this task, we have developed a typology of microcredit providers in Europe. First, the objectives and main instruments of the facility are described.

#### 3.1 Objectives of the Progress Microfinance

The European Progress Microfinance Facility was established in March 2010<sup>14</sup> with a financial contribution from the EU budget to the programme adding up to EUR 103 million for the period 1 January 2010 to 31 December 2013.<sup>15</sup>

The objectives of the programme are two-fold: the first objective is to, by enabling microcredit providers in the EU to increase their lending activities, aim to make microfinance more readily available to persons who wish to start up or develop micro-enterprises.

The other objective is to improve the access to microfinance, mainly by reducing the risk borne by the microcredit providers, so that they can lend to groups who would normally not qualify for financing.

These objectives are laid down in Art. 2 of Decision 283/2010/EU, which further focuses on defining the target groups for the final recipients of Progress Microfinance - persons who want to start or develop further their own microenterprise, and who:

- have lost or at risk of losing their job;
- have difficulties re-entering the labour market;
- are facing the threat of social exclusion;
- are vulnerable persons in a disadvantaged position with regard to access to the conventional credit market.

Microenterprises in the social economy, as well as microenterprises which employ the target groups listed above are also eligible for financing from the programme.<sup>16</sup> In line with the general objectives of the Progress Programme,<sup>17</sup> Progress Microfinance is further expected to actively promote equal opportunities for men and women.<sup>18</sup>

The objectives of the Progress Microfinance facility are also coherent with the EU growth and jobs strategy Europe 2020,<sup>19</sup> which aims to raise employment rates to 75 % and lift 20 million people out of poverty by 2020.

#### 3.2 Instruments and operation

The European Commission has concluded agreements with the European Investment Fund for the implementation of the Progress Microfinance facility and with the EIB for co-investment.<sup>20</sup> From the overall budget of EUR 203 million, EUR 23,8 million has been allocated for guarantees, funded solely by the European Commission. The

<sup>14</sup> Decision No 283/2010/EU, OJEU L87, 7.4.2010, p. 1

<sup>15</sup> Decision No 283/2010, Art 3

<sup>16</sup> Decision No 283/2010/EU, Art 2(1)

<sup>17</sup> European Commission (2008), Strategic Framework for the implementation of the Community Programme for Employment and Social Solidarity – PROGRESS, PROGRESS/009/2007- revised

<sup>18</sup> Decision No 283/2010/EU, Art 2(2)

<sup>19</sup> The Europe 2020 strategy is available on [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

<sup>20</sup> Decision No 283/2010/EU, 7.4.2010, Art. 5(2)

remaining budget, for funded instruments, is composed of EUR 80 million from the Commission and EUR 100 million from the EIB, which agreed to match the Commission’s contribution. MFIs in EU Member States can apply to the EIF in order to become intermediaries under Progress Microfinance. Figure 1 below illustrates the levels of implementation of Progress Microfinance.

**Figure 1 Levels of implementation of Progress Microfinance**



To reach the wide range of final recipients, two separate structures have been set up - a guarantee window launched under a Fiduciary and Management Agreement (FMA) between the Commission and the European Investment Fund under which portfolio **guarantees** can be issued, and a structured investment vehicle, in the form of a Fonds Commun de Placement- (FCP) under Luxembourg law, which offers **funded instruments** for intermediaries (debt, equity and risk-sharing).<sup>21</sup>

### 3.2.1 Funded instruments under Progress Microfinance

The structured investment vehicle (FCP) under which the funded instruments are provided was set up in November 2010 and was allocated EUR 178 million of the total amount available for the Progress Microfinance facility.<sup>22</sup>

The key features of the financial instruments, which potential intermediaries can apply for under the FCP are described in Table 2 Funded instruments under the FCP.<sup>23</sup>

**Table 2 Funded instruments under the FCP**

Instrument	Specification
Senior loans	Senior loans are provided to well-established non-bank MFIs and in general to smaller banks active in the field of microfinance. The purpose of the senior loan is to grow the microcredit portfolios of the financial intermediaries over a predefined period of around 2 to 3 years.

<sup>21</sup> Implementation of the European Progress Microfinance Facility - 2010, COM(2011) 195 Final, p. 6

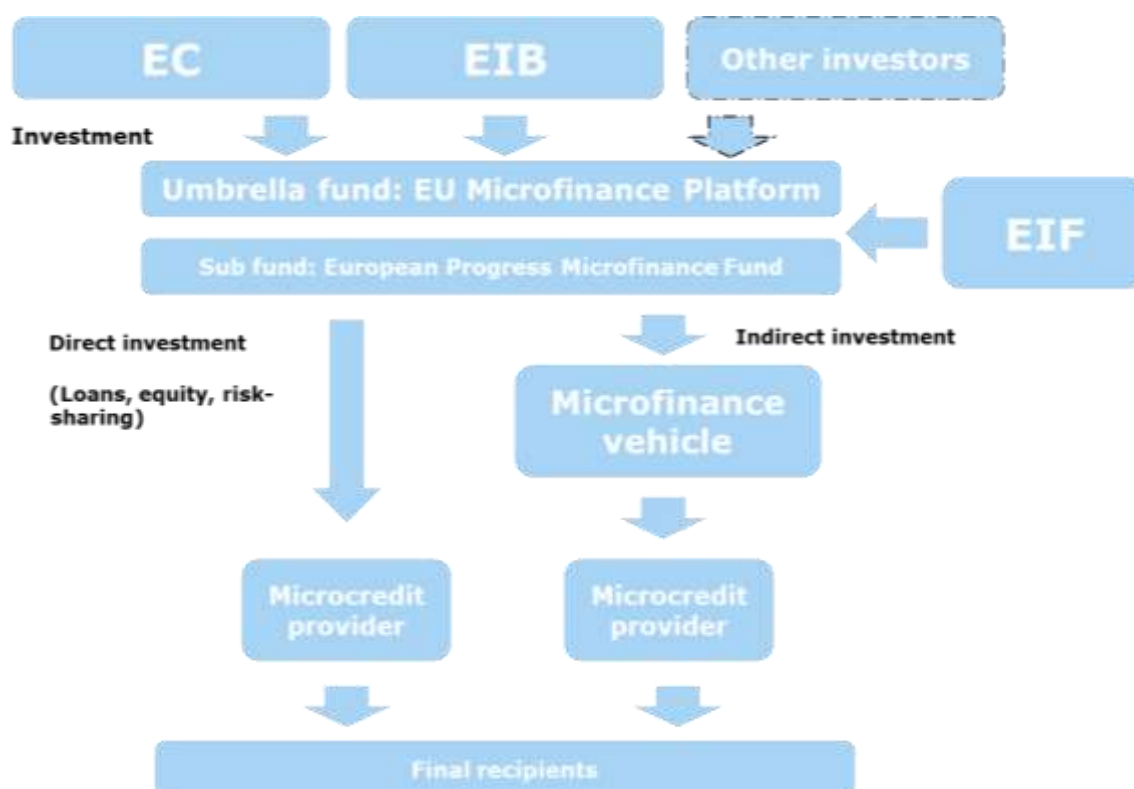
<sup>22</sup> Implementation of the European Progress Microfinance Facility - 2010, COM(2011) 195 Final, p. 9

<sup>23</sup> Bruhn-Leon, B., Eriksson, P., Kraemer-Eis, H., (2012), Progress for Microfinance in Europe, EIF Working Paper 2012/13

Instrument	Specification
<b>Subordinated loans</b>	Subordinated loans are structured as Tier-2 capital instruments and therefore do not only provide long-term funding but also strengthen the capital base of the financial intermediaries. This product is only offered to regulated banks active in the field of micro-lending, either as part of their normal SME lending or through a dedicated microfinance down-scaling model. Loans are provided with a maturity of up to 8 years.
<b>Risk-sharing loans</b>	Portfolio risk sharing loans are hybrid instruments that combine the funding component of senior loans with the credit loss protection of guarantees. Such product is offered to good quality banks in the context of microcredit pilot projects. Risk sharing loans are offered with maturities in the range of 5 to 8 years.
<b>Equity participation</b>	Equity and quasi-equity, through ordinary or preferred shares, is provided to start-up non-bank MFIs to strengthen their capital base. Equity investments are undertaken alongside other investors, so that a minority stake in the investee company can be achieved. The planned investment horizon is in the range of 7 to 9 years and exits could take the form of trade sale, possibly following the exercise of a put option vis-à-vis a third party identified at the time of the original investment or through a share buy-back by the investee company itself.

Figure 2 illustrates how the funded instruments are provided. The FCP was set up as an umbrella fund, the *EU Microfinance Platform*, its only sub fund being the European Progress Microfinance Fund, with the Commission and the EIB as founding investors and the EIF with a managing function. The Commission holds the junior units which are subordinate to the senior units, which in practice means that the Commission “[...] bears the first net losses affecting the sub-fund’s assets, while the EIB is protected as senior unit holder against losses incurred by the junior units.”<sup>24</sup>

**Figure 2 Progress Microfinance Funded instruments**



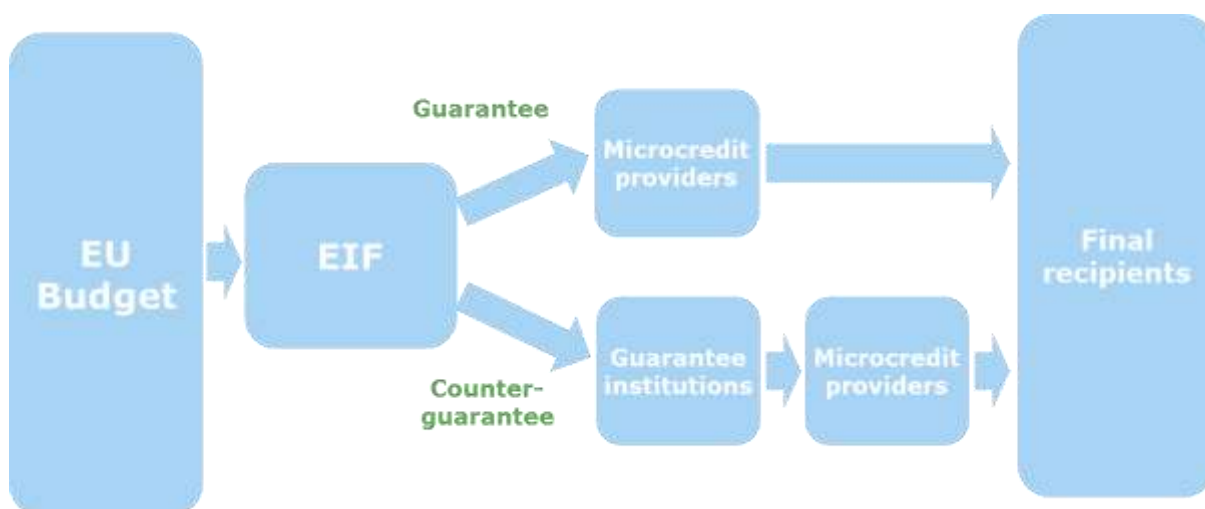
<sup>24</sup> Implementation of the European Progress Microfinance Facility - 2010, COM(2011) 195 Final, p.8

In addition to the instruments available for direct investments (loans and equity investments in intermediaries through ordinary or preferential shares), the fund can also be used for indirect equity and quasi-equity participations through a subordinated investment in a microfinance vehicle.

### 3.2.2 Guarantees under Progress Microfinance

The guarantees window was launched on 1 July 2010 and is funded only by the Commission. EUR 25 million have been allocated to the guarantee window and under it the EIF can issue portfolio guarantees to microcredit providers to cover their portfolio losses; counter-guarantees can also be issued to guarantee institutions, which in turn issue guarantees to cover the microloan portfolios of microcredit providers. The maximum guarantee rate covered by the guarantee instrument is 75% of the underlying microcredit or guarantee portfolio and the intermediary is to remain liable for at least 20% of the portfolio. The guarantee issued by the EIF covers the first loss, but a cap is also agreed for each guaranteed portfolio, based on the expected cumulative losses of the portfolio. The maximum liability for the European Progress Microfinance Facility is set at 20% of each guaranteed portfolio.<sup>25</sup> Figure 3 illustrates the above:<sup>26</sup>

Figure 3 Progress Microfinance guarantee instruments



The EIF is required to issue guarantees for intermediaries in at least 12 Member States until December 2012 as well as respect the concentration limit on guarantees per country.<sup>27</sup> This is to ensure a balanced geographical distribution, even though the facility is demand-driven.<sup>28</sup>

<sup>25</sup> Fiduciary and management agreement, Annex 1

<sup>26</sup> Implementation of the European Progress Microfinance Facility - 2010, COM(2011) 195 Final, p. 12

<sup>27</sup> EUR 4m per country under the present budgetary commitment of EUR 25m to the guarantee instrument's trust account

<sup>28</sup> Op.cit., p. 5

### 3.3 Implementation at the level of EIF

#### 3.3.1 Implementation 2010-2013

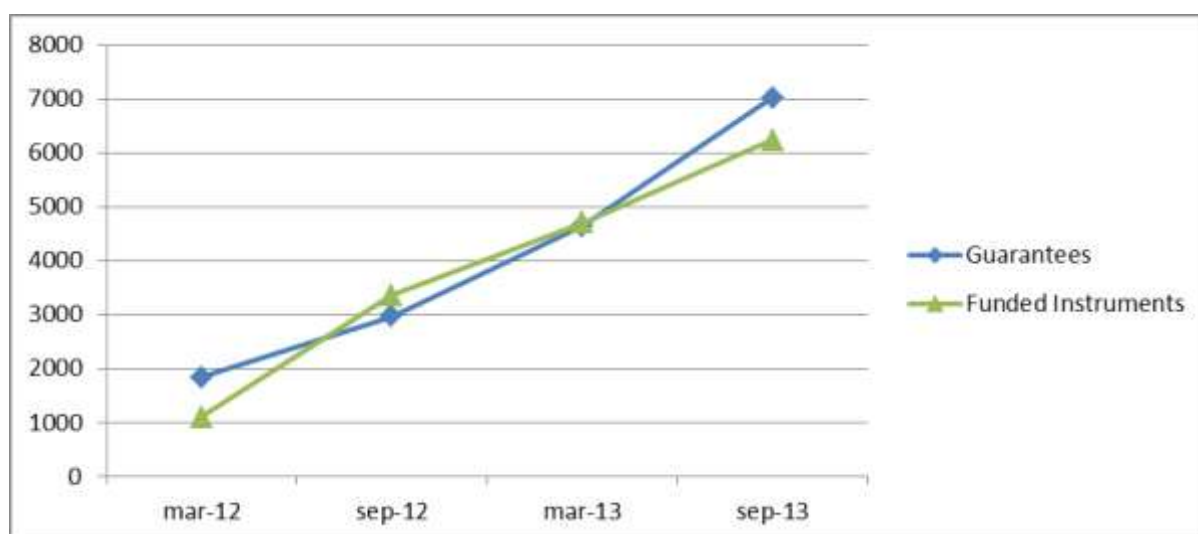
By September 2013, microcredit providers had disbursed a total of 13 252 microloans with an overall value of EUR 116,1 million.<sup>29</sup>

Out of this aggregated amount, 7 016 micro-loans worth EUR 64,5 million (net amount of microcredits) were provided under the guarantee instrument,<sup>30</sup> a 130 % increase in the number of disbursed credits reported at the end of 2012.<sup>31</sup> Microcredits from the guarantee portfolio have been provided to a total of 6 748 final recipients.

Similarly high levels of activity were reported for loans provided with support from the funded instruments (senior loans, subordinated loans, risk-sharing and equity). 6 236 microloans worth EUR 51,6 million have been disbursed by September 2013,<sup>32</sup> representing a 148% increase in lending volume compared to the results reported in the 2012 annual portfolio reporting.<sup>33</sup> Microcredits provided under the funded instruments have a total of 5 942 final recipients.<sup>34</sup>

Figure 4 below illustrates the development of the number of loans disbursed under the facility over the last reporting periods.

**Figure 4 Cumulative number of microcredits disbursed**



Source: EPMF semi-annual and annual reports (FMA and FCP), 2011- 2013

According to the 2011 Annual Report, the rising demand in guarantees is in part due to the fact that there was an extension of the term of the guarantees from 3 to 6 years in October 2011.<sup>35</sup> This was neither confirmed nor disproved by interviews with the EIF; there was however some indication from intermediaries (case studies, e.g. Crédal) that longer terms may be welcome, given the initial investment in terms of

<sup>29</sup> Aggregated amounts as reported in EPMF FMA Annual Portfolio Reporting 2013 and EPMF FCP Annual Portfolio Reporting 2013.

<sup>30</sup> EPMF FMA Annual Portfolio Reporting 2013

<sup>31</sup> EPMF FMA Annual Portfolio Reporting 2012

<sup>32</sup> EPMF FCP Annual Portfolio Reporting 2013

<sup>33</sup> EPMF FCP Annual Portfolio Reporting 2012

<sup>34</sup> EPMF FCP Annual Portfolio Reporting 2013

<sup>35</sup> Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Implementation of the European Progress Microfinance Facility— 2011. COM(2012) 391 final

time and resources required to apply for the guarantee; sufficient time is then needed for the intermediary to be able to sell the agreed volumes of loans.

### **Microcredit provider contracts**

The overview of contracts presented below covers contracts concluded between the EIF and intermediaries by the end of June 2013. Of the 44 contracts with 28 intermediaries, 16 contracts are for the guarantee instrument and 18 for a funded instrument. Table 3 and Table 4 below present an overview of the concluded contracts.

**Table 3 Overview guarantee contracts**

Contract	MS	Signature date	End of Availability Period	Duration of availability period (in months)	Microcredit guarantee rate	Agreed Volume in mEUR <sup>36</sup>	Guarantee Cap in mEUR	Net amount of microcredits in mEUR <sup>37</sup>
<b>ADIE</b>	FR	2012-12-13	2015-06-12	36	75,00 %	33,6	2,27	11,73
<b>Crédal</b>	BE	2012-04-27	2014-04-26	24	75,00 %	1,7	0,25	0,87
<b>Erste Bank (microcredit initiative)</b>	AT	2012-09-28	2014-09-27	24	66,67 %	1,9	0,22	0,53
<b>Erste Bank (Sparkassen)</b>	AT	2012-09-28	2014-09-27	24	75,00 %	2,1	0,26	0,07
<b>FAIR Finance</b>	UK	2013-05-24	2015-05-23	24	75,00 %	1,18	0,18	0
<b>First Step</b>	IE	2012-06-29	2013-02-06	12	75,00 %	1,5	0,19	0,32
<b>FM Bank</b>	PL	2011-03-31	2013-03-30	24	75,00 %	17,2	0,74	4,8
<b>FM Bank (Start-ups)</b>	PL	2013-06-28	2015-06-27	24	75,00 %	8,47	1,27	0,84
<b>FM Bank (Vulnerable Group)</b>	PL	2013-06-28	2015-06-27	24	75,00 %	7,06	0,93	0,25
<b>Micro Start</b>	BE	2010-12-15	2013-02-17	24	75,00 %	2,7	0,11	1,68
<b>MicroStart (2<sup>nd</sup> contract)</b>	BE	2013-06-06	2015-02-17	24	75,00 %	4	1,44	1,38
<b>Microfinance Ireland</b>	IE	2012-11-05	2015-05-04	36	75,00 %	9,6	0,16	1,15
<b>Millenium BCP</b>	PT	2011-12-15	2013-12-14	24	75,00 %	3,15	0,31	3
<b>Pancrean CB</b>	EL	2011-12-19	2013-12-18	24	75,00 %	6	0,8	0,8
<b>Patria Credit</b>	RO	2011-12-29	2013-12-28	24	75,00 %	8	0,96	5,71
<b>Qredits</b>	NL	2010-12-16	2014-12-15	48	75,00 %	47,40	3,02	30,32
<b>Total</b>						<b>155,56</b>	<b>13,11</b>	<b>64,49</b>

Source: EPMF FMA Annual Portfolio Reporting 2013

<sup>36</sup> As of September 2013

<sup>37</sup> As of September 2013

**Table 4 Overview funded instruments contracts**

Contract	Country	Type of Financial Instrument	Signature date	Duration of the agreement (months) <sup>1</sup>	Commitment in mEUR	Cumulative notional commitments in mEUR <sup>38</sup>
<b>Mikrofond EAD</b>	BG	Senior Loan	2011-02-10	48	3	3,83
<b>Patria Credit</b>	RO	Senior Loan	2011-05-16	60	8	8,74
<b>Siauliu Bankas</b>	LT	Senior Loan	2011-06-28	60	5	1,91
<b>CCB</b>	CY	Senior Loan	2011-07-26	96	4	2,81
<b>Jobs MFI</b>	BG	Senior Loan	2011-09-26	84	6	2,84
<b>FAER</b>	RO	Senior Loan	2011-10-05	66	2	2,51
<b>ICREF</b>	ES	Senior Loan	2011-11-24	84	4	3,38
<b>Inicjatywa Mikro</b>	PO	Senior Loan	2011-11-30	67	6,763	3,07
<b>Pancretan CB</b>	GR	Senior Loan	2011-12-19	n/a	-	0
<b>Créa-Sol</b>	FR	Senior Loan	2012-02-17	60	2	2,04
<b>Banca Transilvania</b>	RO	Senior Loan	2012-03-20	35	7,5	10,78
<b>SEFEA</b>	IT	Senior Loan	2012-06-21	62,3	2	0
<b>BCCM</b>	IT	Senior Loan	2012-06-27	81	3	1,37
<b>Emil Banca</b>	IT	Senior Loan	2012-12-14	81,5	2	1,23
<b>SocGen Expressbank</b>	BG	Senior Loan	2012-12-21	81,3	8,5	0,45
<b>BES</b>	PT	Senior Loan	2013-01-17	73,5	8,75	0,21
<b>Sberbank</b>	SI	Subordinated Loan	2011-12-20	96	8,75	6,46
<b>Banca Popolare di Milano</b>	IT	Portfolio Risk Sharing Loan	2012-12-21	81,3	8,75	0
<b>Total</b>					<b>90,018</b>	<b>51,616</b>

<sup>1</sup>Rounded-up values

Source: EPMF FCP-FIS Annual Portfolio Reporting 2013

As evident from the tables, several intermediaries have contracts for more than one instrument. Patria Credit (RO) has signed contracts for both types of instruments (guarantee and senior loan), as has Pancretan CB, although the intermediary is only using the guarantee.

### 3.3.2 A typology of microcredit providers

As of June 2013, 28 institutions in 16 Member States participate in the Progress Microfinance Facility. One of these institutions First Step (IE) no longer has an active Progress Microfinance instrument, since the availability period of its guarantee instrument ) ended automatically when Microfinance Ireland started its operations, as per agreement between the intermediaries.

Reporting data for FAIR Finance (UK) who signed an agreement for the guarantee instrument in May 2013 is included where available, but the intermediary, as well as

<sup>38</sup> As of September 2013

any of the intermediaries who have signed agreements after June 2013, were not included in the data collection activities conducted as part of this evaluation.<sup>39</sup>

Table 5 below presents an overview of the types of banks and financial institutions participating in Progress Microfinance.<sup>40</sup>

The microcredit providers include both bank and non-bank institutions, operating at regional<sup>41</sup> or nation-wide level. As of March 2013, there were 12 non-bank providers, 14 banks, and one public institution (ICREF (ES)). Several of the intermediaries have been set up with government support (Jobs MFI (BG), Microfinance Ireland (IE), Qredits (NL), FAER (RO)<sup>42</sup>) or offer microcredit products supported by their national government - e.g. one of the guarantee portfolios of Erste Bank (AT) is implemented in conjunction to the bank's participation in the Microcredit Initiative, launched by the Austrian Ministry of Social Affairs and Labour in support of unemployed or disabled.

The participating institutions can also be classified with respect to their commercial profile. Half of the non-bank intermediaries have declared in their requests for approval that they are not-for-profit institutions. One of the non-bank institutions - SEFEA (IT) - is a cooperative that was founded with the purpose of promoting the development of ethical finance in Europe by providing financial and non-financial support to its members. As such, SEFEA does not lend directly to final recipients of its Progress Microfinance instrument, but rather acts as intermediary to other intermediaries, by lending out funding from its EMPF loan to them.

As far as the bank intermediaries are concerned, 50 % of the participating bank institutions are cooperative banks, whose first aim is not to maximise profit but to provide the best possible products and services to their members.<sup>43</sup> The remaining seven banks are commercial and offer the EMPF products as part of their strategic activities targeting small and micro enterprises and start-ups. It should, however, be pointed out that the two commercial banks from Portugal using EMPF instruments (BES and Millennium BCP) have stated that they offer microfinance as part of their Corporate Social Responsibility (CSR) policy rather than for profit-making purposes.

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<sup>39</sup> As of 31 March, 2014, the number of FMA operations came up to 30 and the number of FCP operations was 24.

<sup>40</sup> The table is based on the information provided by the intermediaries in their Requests for approval to the EIF.

<sup>41</sup> e.g. ICREF in the Region of Murcia in Spain, Pancretan CB on the island of Crete in Greece, BCCM in the province of Cosenza, Italy.

<sup>42</sup> Support from the Government of the Swiss Confederacy and of HEKS/EPER (the aid agency of the Swiss Protestant Churches).

<sup>43</sup> De Santis, R. and Paolo Surico 2013, Bank Lending and Monetary Transmission in the Euro Area, Working Paper Series No 1568 / July 2013, European Central Bank. ISSN 1725-2806



**Table 5 Typology of microcredit providers using Progress Microfinance instruments**

Intermediary	MS	Instrument	Type		Background in Microfinance		Market Share/Size	Branch network
			Bank/ non- bank	Not-for- profit /cooperative / commercial	Year of establishment	Experience in microfinance at time of EPMF application		
<b>ADIE</b>	FR	Guarantee	Non-bank	Not-for-profit	1988	ADIE's activity has always been focused on start-ups created by persons with no access to bank financing.	Largest microcredit organisation	119 branches in 16 regions in FR and overseas
<b>Banca Popolare di Milano</b>	IT	Risk Sharing Loan	Bank	Cooperative bank	1865	Since 2010 Strategic plan to i.a. provide financial services for the disadvantaged.	8th largest bank 4th largest cooperative	46 retail branches in 13 of the 20 regions of IT
<b>Banca Transilvania</b>	RO	Senior Loan	Bank	Commercial bank	1993	No specific previous experience in microcredits.	6.3 %	63 branches, 435 agencies, 26 working points
<b>BCCM</b>	IT	Senior Loan	Bank	Cooperative bank	1999	No specific previous experience in microcredits.	Largest cooperative bank in Calabria and one of the largest in the south of Italy	17 branches in 3 provinces
<b>BES</b>	PT	Senior Loan	Bank	Commercial bank	1869	In 2006, within the scope of its strategy for sustainability, BES developed and launched a microfinance facility designed for social and professional segments of the population who suffer difficulties in accessing traditional credit sources.	3rd largest bank	701
<b>CCB</b>	CY	Senior Loan	Bank	Cooperative bank	1937	No specific previous experience in microcredits.	2 <sup>nd</sup> largest bank	4 branches and 430 outlets
<b>Créa-Sol</b>	FR	Senior Loan	Non-bank	Not-for-profit	2005	The mission of Créa-Sol is to provide access to finance for individuals who are excluded from regular bank financing.	N/A	N/A
<b>Crédal</b>	BE	Guarantee	Non-bank	Cooperative company	1984	In 2000, Crédal started its microloan activity targeting unemployed persons, those facing social exclusion or having otherwise difficulties in accessing financing and willing to start or develop a microenterprise.	1 of the 2 biggest microcredit providers	4

Intermediary	MS	Instrument	Type		Background in Microfinance		Market Share/Size	Branch network
			Bank/ non- bank	Not-for- profit /cooperative / commercial	Year of establishment	Experience in microfinance at time of EPMF application		
<b>Emil Banca</b>	IT	Senior Loan	Bank	Cooperative bank	1895	EBCC takes an active part in various microcredit projects in collaboration with NGOs and Municipalities. Between 2009 and 2012, EBCC disbursed 1,770 microloans for a total amount of EUR 25.7m.	N/A	49
<b>Erste Bank</b>	AT	Guarantee (2 lines)	Bank	Commercial bank	1819	Financing to micro enterprises is provided on a commercial basis. As part of its social responsibility strategy, the bank participates in the Microcredit Initiative launched by the Austrian government.	One of the largest banking groups in Austria	1,050
<b>FAER</b>	RO	Senior Loan	Non-bank	N/A	1992	FAER was set up as a Microfinance Commercial Company with the main objective of supporting small farmers and microenterprises.	1.7 % of market for microcredits	4
<b>First Step</b>	IE	Guarantee	Non-bank	Not-for-profit	1991	First Step was set up as microfinance institution providing loans to micro-entrepreneurs who want to create or develop their own enterprise and who cannot access to commercial funding.	Only institution in IE providing microcredit to the target group. Market was taken over by MFI in 2012	1
<b>FM Bank</b>	PL	Guarantee	Bank	Commercial bank	2009	FM Bank targets exclusively micro and small businesses with an annual turnover of up to PLN 3m (EUR 750k). FM Bank is based on the experience of Fundusz Mikro, a fund which had granted small micro loans (average EUR 3k) to micro and small businesses for over 15 years.	N/A Leading role in providing microfinance in Poland	67
<b>ICREF</b>	ES	Senior Loan	Public institution	Public institution	2009	No specific previous experience in microcredits.	N/A	N/A
<b>Inicjatywa Mikro</b>	PL	Senior Loan	Non-bank	N/A	1996	The only business line is lending to microenterprises in South Poland.	N/A	7
<b>Jobs MFI</b>	BG	Senior Loan	Non-bank	N/A	2010	The MFI was set up with the objective to provide leases and	2 % of the market for micro financing	Network of 36 Business Centres

Intermediary	MS	Instrument	Type		Background in Microfinance		Market Share/Size	Branch network
			Bank/ non- bank	Not-for- profit /cooperative / commercial	Year of establishment	Experience in microfinance at time of EPMF application		
						microcredits to small and micro- enterprises in remote areas of Bulgaria.	in 2013 (forecast)	acting as agents
<b>MicroStart</b>	BE	Guarantee	Non-bank	Not-for-profit	2010	The MFI became operational on the condition that the EPMF guarantee is available.	N/A	2
<b>Microfinance Ireland</b>	IE	Guarantee	Non-bank	Not-for-profit	2012	MFI's key focus is on increasing the availability of microloans to micro- enterprises excluded from access to finance. The MFI became operational on the condition that the EPMF guarantee is available.	Only microfinance provider in Ireland (First Step stopped its lending activities when MFI started operations).	1 central office supported by 35 State Agency City and County Enterprise Boards
<b>Mikrofond EAD</b>	BG	Senior Loan	Non-bank	N/A	1999	The MFI was set up with the goal to finance Bulgarian entrepreneurs who do not have access to financing through the mainstream banking system.	4.22 % of market for microcredits	10
<b>Millennium BCP</b>	PT	Guarantee	Bank	Commercial bank; Millennium Microcredit division has a not for profit purpose	1985	In 2005, as part of its CSR strategy Millennium BCP established its Millennium Microcredit division with the objective to provide financing to individuals excluded from commercial lending.	Main microcredit provider	4
<b>Pancretan CB</b>	EL	Guarantee & Senior Loan	Bank	Cooperative bank	1993	No specific previous experience in microcredits.	0.65 % of the total banking market in Greece	60
<b>Patria Credit</b>	RO	Guarantee & Senior Loan	Non-bank	For-profit	1996	The MFI was set with the objective to provide loans to microenterprises and individuals without access to banks.	Non-bank market leader in microfinance	40
<b>Qredits</b>	NL	Guarantee	Non-bank	Not-for-profit	2008	The MFI was set up with the mission to provide financing of up to EUR 35,000 and mentoring services for microenterprises and start-ups with a viable business plan that do not have access to commercial bank financing.	Qredits is the only active MFI operating nationwide	9

Intermediary	MS	Instrument	Type		Background in Microfinance		Market Share/Size	Branch network
			Bank/ non- bank	Not-for- profit /cooperative / commercial	Year of establishment	Experience in microfinance at time of EPMF application		
<b>SEFEA</b>	IT	Senior Loan	Bank	Cooperative company	2002	Was set up with the purpose of promoting the development of ethical finance in Europe by providing financial and non-financial support to its members. As of 2011, 6 of its 30 investments were in the field of microfinance.	N/A	N/A
<b>Siauliu Bankas</b>	LT	Senior Loan	Bank	Commercial bank	1992	Lending to micro, small and medium enterprises represents about 60 % of the bank's total loan portfolio.	8th largest bank	51
<b>SocGen Expressbank</b>	BG	Senior Loan	Bank	Commercial bank	1993	The development strategy of SGEB is focused on cooperation with micro, small and medium-sized enterprises and provision of services to individuals in Bulgaria.	8th largest bank	150
<b>Sberbank</b>	SI	Subordinated Loan	Bank	Commercial bank	1993	Microenterprises have recently been established as a separate client group (reported in July 2011)	15th largest bank, 5 % of market for SME banking	10

### 3.3.3 Characteristics of the market for microcredits

Based on the market analysis the participating institutions have presented in their requests for approval, it is possible to outline some key trends in the market for microfinance in Europe. With respect to market concentration, the densest markets are observed in Bulgaria and Romania, where despite the dominant market share of a large commercial bank (ProCredit Bank), which focuses on SMEs, there are a number of intermediaries which provide loans to micro and small enterprises. In comparison, the EPMF-supported intermediaries in the Netherlands and Ireland are the sole MFIs in these countries. A more developed microcredit market is observed in France and Belgium and fast growth was reported in Italy. In a number of countries, microcredits are provided by commercial banks as part of their regular lending activities (AT, CY, SI), and as indicated above, in Portugal microfinance is provided by the largest commercial banks, but as part of their Corporate Social Responsibility (CSR) activities - for example, Millenium BCP confirmed that their goal is not necessarily to have profitability but to help disadvantaged people; however, they did not state whether they operate the microcredits part of the business at a profit or loss.

### 3.3.4 Selection of intermediaries

According to the Management agreement between the EU and the EIF, intermediaries are "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."<sup>44</sup> On the basis of a call for expression of interest intermediaries are able to submit a proposal to the EIF which can be examined on a continuous basis.

The selection criteria for the intermediaries seeking to secure a guarantee, as stated by the FMA management regulations are listed below:

- 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 recipients 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 recipients, type of target group supported, geographical reach;
- ability to provide the reporting specific requirements and willingness to accept the *additionality* requirement (as defined below).<sup>45</sup>

The EIF carries out this assessment by evaluating the applications and, after they have been approved by the EIF Board and the European Commission, negotiates the contracts and signs them with the intermediaries. The procedures are broadly the same for the funded instruments, apart from that the contracts are not based on calls for expression of interest and applications are approved by the EIF Board.

A due diligence is also undertaken, often on the premises of the intermediary. The EIF underlined the importance of these initial discussions and negotiations to guide the intermediary to the most suitable product, and noted that this "origination" stage was

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<sup>44</sup> See Annex 1 (Project policy and operational guidelines, section on additionality) to the Fiduciary and Management agreement between the EU and the EIF for the European Progress Microfinance Facility for Employment and Social Inclusion.

<sup>45</sup> Ibid.

often the longest part of the negotiations. With regards to the application process, the EIF also noted that a distinction could be made between simpler negotiations associated with MFIs/non-banks who could not access the market otherwise, and more sophisticated counterparts such as banks who had more difficulty in identifying how the Progress Microfinance funding could fit into their current operations.

In terms of selection criteria, the non-participating intermediaries interviewed,<sup>46</sup> who were not eligible, did not indicate that they did not conclude agreements due to characteristics of their institution such as size, but rather due to a mismatch of the available Progress Microfinance instruments and their current market requirements/activities (see section 3.3.5 on relevance of the instruments).

The majority of intermediaries interviewed (21 out of 27) assessed the overall application procedure to be relevant and reasonable. However, both positive and negative responses were nuanced. While there was no clear division of opinion in terms of bank/non-bank status, the size of the institution and their experience in this type of negotiation seemed to be the decisive factors. It was generally smaller, less experienced intermediaries who indicated that the process was fairly challenging and not well adapted to smaller institutions, particularly when negotiating complex legal contracts.

However, the non-participating MFIs who did not conclude contracts did not suggest that the negotiation or communication issues contributed to the failure to conclude contracts. Three out of the four interviewed MFIs considered that sufficient guidance and support was provided from the EIF, who responded quickly to queries. The fourth institution did not state this explicitly but indicated that the cooperation with EIF was fruitful, and the communication timely and constant. In addition, the MFIs indicated that clear explanations were given as to why agreements were unable to be closed.

Some intermediaries identified instances of misunderstanding/ miscomprehension of some of the "fine print" contained in the contract and there were instances of fundamental misunderstandings regarding the instruments - for example it was originally not clear to one intermediary that the total of the loan could not exceed EUR 25 000 and that they could not supplement the amount from the EIF with their own funds in the same loan. Another indicated that it was not clear that there was a cap on the guarantee during the initial stages of negotiation.

Regarding the process itself, the due diligence undertaken by the EIF was generally considered to be a heavy requirement in terms of complexity and demands on resources. However, several intermediaries noted that, although the procedure was demanding, they considered the associated costs as a longer term investment that would help them gain experience and build capacity in this area. Indeed, some intermediaries indicated a very positive experience:

*"[The EIF] even came and did due diligence which was very smooth. We got an agenda and we could prepare for it. Not difficult at all." (Interview with an intermediary)*

The benefits of the process of dealing with the EIF in terms of recognition were also mentioned at this stage, and appeared to be an important factor when judging the costs associated with applying for the instruments, against the benefits. The majority

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<sup>46</sup> The evaluators were provided with a list of 10 non-participating intermediaries, out of who only 4 agreed to be interviewed for the evaluation. As rejected or non finalised agreements can be sensitive according to the EIF, additional contacts were not asked for. The limited sample does not allow for an in-depth analysis of non-participating MFIS or Banks.

of intermediaries indicated that the support from the EIF was substantial, and that the team were quick to respond to issues and queries that arose during the negotiations.

### 3.3.5 Relevance of the instruments

The vast majority of the MFIs considered that the instruments offered under Progress Microfinance were relevant to their institution's needs, and were suitable for their type of activity. This was the case for both guarantees and for senior loans, which were the most widely used funded instruments.

The EIF microfinance team pointed out that, to date, only one agreement had been signed for a risk-sharing loan. According to them, this instrument is considered too complex by the intermediaries, even for banks. The EIF further suggested that it would be better to combine two different agreements rather than bundling together a guarantee and a loan in one product.

In terms of provision of equity, the EIF indicated that there had been few concrete proposals and that most of the time MFIs seeking equity did not already have other sources, which is a prerequisite for the equity instrument.<sup>47</sup> As the EIF cannot be the sole investor in an entity, in these cases funding from the EIF was not suitable. Some providers explained why they chose one instrument over the other:

*"The guarantee is definitely relevant to us, the equity and loans not really - the demands are excessive and we can find alternative sources<sup>48</sup> [...] Equity was not useful for us because we are a foundation and it was strangely formulated and we couldn't use it. If it could be more flexible, it would be useful."* (Interview with an intermediary)

Millenium bcp indicated that they were considering a senior loan (they currently have a guarantee) but that they did not yet have sufficient volume to be eligible.

When negotiating the agreements that were concluded, several providers (e.g. Microfinance Ireland, Mikrofond EAD) indicated that they had negotiated volumes that were suitable for their operations during the negotiation period. Another intermediary pointed to the importance of the Progress funding to enable providers to lend in otherwise unsustainable conditions as explained in the following quote:

*The senior loan line is very important because it provides the main funding for the loans we disburse[...] Equity is crucial for Western Europe where micro lending is still in early development. It is difficult for Western European institutions to be self-sustaining, due to low sums lent in this type of business.* (Intermediary from Bulgaria)

However, there were several intermediaries who expressed a desire for more flexibility within the instruments. For example, four intermediaries (Inicjatywa Mikro, CCB, ICREF, Siauliu Bankas) considered that the EUR 25 000 threshold was too small for the purposes of starting a micro-business, and that the maximum amount permitted under the instrument should be increased. In addition Jobs MFI suggested that it would be advantageous if they were able to finance a loan under both the loan and guarantee instrument from Progress Microfinance. Crédal suggested that the duration of the availability period of the loans from the EIF should be increased, as they did not have the resources to sell the loans within the time limit of two years.

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<sup>47</sup> Equity investments are undertaken alongside other investors, so that a minority stake in the investee company can be achieved.

<sup>48</sup> Grants and subsidized loans from government and commercial banks

In terms of volume of debt financing offered by Progress Microfinance, only 3 out of 27 intermediaries did not consider the volume to be sufficient (Banca Transilvania, CCB, Erste bank-micro). ADIE indicated that their product was developing well, and that they would be looking to renegotiate for larger volumes in the future. Five intermediaries (FM Bank, Crédal, Microfinace Ireland, Siauliu Bankas, SEFEA) stated that they had difficulty absorbing the funding due to lack of demand or necessary expensive rates on the products.

Reasons given for not concluding contracts by non-participating intermediaries were generally related to the fact that the instruments simply did not match their needs at the time. For example, one institution stated that the requirements of the guarantee to only apply to loans with a fixed repayment schedule (and not to credit card limits and overdrafts etc.) did not suit their funding needs at the time. One institution indicated that while their loans could have fully complied with the EIF requirements, there was limited business potential in this type of loan at the time: their clients were typically small companies interested in revolving products. The “tough” reporting requirement was also noted as an additional factor in this decision.

Another microfinance institution stated that at the time of application for a Progress Microfinance guarantee, they were also applying for a national government funded scheme providing capital for start-up business, with a low interest rate. It was clarified that the funding from Progress Microfinance was therefore not suitable for them as the Progress Microfinance guarantee did not permit the backing of funding that was already guaranteed by national government (i.e. public capital). Furthermore, the provider stated that the Progress Microfinance guarantee requires that there be precise information on what exactly will be guaranteed. According to the provide, they were unable to specify this at the time of application as they had a variety of funding sources.

Only 6 out of 27 intermediaries interviewed stated that the conditions of the loan/guarantee resulted in adverse effects for their institution. This included an increased administrative burden due to the social reporting requirements, both for the provider and for their clients (Qredits, Emil Banca, Sberbank). ADIE stated that the Progress Microfinance guarantee is required to be the only microcredit guarantee - so by refusing other potential guarantees, the institution became more exposed in some respects. Créa-Sol pointed out that the loan rate is slightly more expensive than the French market rate, and that in addition, the obligations to maintain high levels of liquidity in order to take the senior loan, were challenging for them to comply with. One intermediary (SEFEA) noted that they were finding themselves unable to recover the sunk costs associated with the application procedure overall due to lack of demand from sub-intermediaries.<sup>49</sup>

As illustrated in the figure below, opinion was divided when intermediaries were asked whether the conditions of the agreement reflected their expectations in general. While 18 out of 27 intermediaries responded affirmatively, they generally did not give much more detail. However, intermediaries answering both positively and negatively did mention instances where they met unexpected circumstances. Some mentioned that amendments had to be made to the agreement signed, for example, regarding absorption and repayment terms (Jobs MFI). CCB noted that when levels of expected absorption were not reached, they had to sign an amendment to the contract with the EIF increasing the rate of interest they were paying. Qredits described how they had to change all their contracts with final recipients at a later date to ensure that the monitoring requirements were met and that the access to the premises of the client

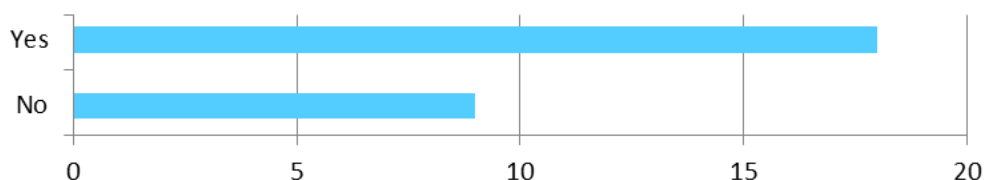
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<sup>49</sup> At time of publication of this report, SEFEA has concluded one contract with a sub-intermediary.



was granted – and that they considered this to be an excessive requirement. MicroStart stated that they lost many clients as a result of changes to their contract: they did not originally apply the Commission visibility guidelines to their contract material and as a result had to communicate this to their clients at a later stage, resulting in clients terminating their loans.

**Figure 5 Overall did the conditions of the agreement you signed reflect your expectations? N=27**



(Source: Interviews with intermediaries)

### 3.3.6 EC visibility requirements at the EIF

The agreements between EC and the EIF contain overall provisions for visibility and promotion of Progress Microfinance. According to the agreement between the Commission and the EIF, the EIF is required to “take reasonable steps to publicise the fact that the European Union has funded the Action. To that end, EIF shall highlight the EU support in relevant information given by EIF to Intermediaries and in specific reports on the Action which are published for dissemination”.<sup>50</sup>

In addition, the EIF is required to encourage the intermediaries to promote the action in a way that gives high visibility to EU support, and requires them to ensure that the visibility requirement is passed on to the final recipient, by including a specific sentence in the contract (or covering letter) and that the EU logo is included in the specific promotional material, specific promotion campaigns and specific information on the relevant webpage.

The evaluators have screened the communication materials and website of the EIF,<sup>51</sup> and interviewed the MFI team regarding the visibility and promotion actions. Findings indicate that the requirements are being met through the provisions of a statement on the origin of funding, the EU logo and links to relevant websites with more information, such as DG EMPL.

According to interviews with the microfinance team in the EIF, the guidelines are being implemented in the communication with the intermediaries. While the evaluators have not found any evidence contradicting this, there is some evidence indicating that the application of the visibility requirements by intermediaries is not consistent (this is discussed further in section 3.4.7).

## 3.4 Implementation at the level of microcredit providers

In order to assess how Progress Microfinance has been implemented by microcredit providers, it is relevant to look into the conditions and procedures under which they offer microcredits. Such an overview of the types of credits provided allows an assessment as to whether the procedures applied by the intermediaries are in line with what is considered to be adequate, which can be benchmarked against the European Code of Good Conduct for Microcredit Provision. Furthermore, it is relevant to look at the training and mentoring services of the intermediaries to see how the

<sup>50</sup> See FMA agreement article 14, and FCP p. 63, 2.14 Investment policy

<sup>51</sup> [http://www.eif.org/what\\_we\\_do/microfinance/progress/](http://www.eif.org/what_we_do/microfinance/progress/)

final recipients are supported by the intermediaries. The intermediaries have also been asked about their views and experiences of the social reporting, which is meant to ensure an effective monitoring of the impacts that Progress Microfinance has on the final recipients. Finally, the intermediaries have been asked to report on their use of the Commission visibility requirements and their adherence to the European Code of Good Conduct for Microcredit Provision (the Code).

#### **3.4.1 Analysis of portfolio development at intermediary level**

In addition to the overall presentation of the implementation of Progress Microfinance in Section 3.3, the following analysis looks into the use of the facility at intermediary level.

With respect to the agreements concluded up to June 2013, analysis of the data summarised in Table 6 and Table 7 below shows that the utilisation of the guarantees under the guarantee contracts can vary substantially, as do the rates of disbursement under the funded instruments.

**Table 6 Portfolio development guarantees**

Intermediary	MS	Agreed Volume in mEUR	Actual Utilisation in mEUR	Actual Utilisation in %	Guarantee Cap in mEUR	Guarantee cap used in %	Microcredit guarantee Rate	Microcredit guarantee in mEUR	Cumulative number of Final Recipients <sup>1</sup>	Cumulative number of micro-credits <sup>1</sup>	Average amount of micro-credits in EUR <sup>1</sup>	Net called guarantees in mEUR	Average microcredit maturity in months <sup>1</sup>
ADIE	FR	33,6	11,76	35	2,27	0	75 %	8,82	1 405	1406	8 358	0,00	40,2
Crédal	BE	1,7	0,89	52,35	0,25	4	75 %	0,67	98	108	8 228	0,01	33,5
Erste Bank-EPMF (micro)	AT	1,9	0,54	28,42	0,22	0	67 %	0,36	50	50	10 682	0,00	59,6
Erste Bank-(Spar-kassen)	AT	2,1	0,07	3,33	0,26	0	75 %	0,05	4	4	18625	0,00	60
FAIR Finance	UK	1,18	0	0	0,18	0	75 %	0	0	0	0	0,00	0
First Step	IE	1,5	0,36	24	0,19	10,53	75 %	0,27	24	24	14 955	0,02	36
FM Bank	PL	17,2	6,8	39,54	0,74	90,54	75 %	5,1	1 347	1 413	4 809	0,67	35
FM Bank Start-ups	PL	8,47	0,9	10,63	1,27	0	75 %	0,68	152	152	5 542	0,00	54,8
FM Bank Vulnerable Group	PL	7,06	0,26	3,68	0,93	0	75 %	0,2	20	20	12 368	0,00	51
Micro Start	BE	2,7	2,02	74,81	0,11	54,55	75 %	1,52	343	412	4 886	0,06	22,5
MicroStart (II)	BE	4	1,16	29	0,16	0	75 %	0,87	221	247	4 697	0,00	23,4
Microfinance Ireland	IE	9,6	1,4	14,58	1,44	0	75 %	1,05	90	90	15 594	0,00	38
Millenium BCP	PT	3,15	3,15	100	0,31	19,35	75 %	2,36	246	261	12 053	0,06	55,8
Pancrean CB	EL	6	0,81	13,5	0,8	0	75 %	0,61	51	51	15 831	0,00	49,2
Patria Credit	RO	8	5,71	71,38	0,96	0	75 %	4,28	352	369	15 462	0,00	42,4
Qredits	NL	47,4	32,49	68,54	3,02	17,22	75 %	24,37	2 247	2310	14 066	0,52	49,6
<b>Total/ average</b>		<b>155,6</b>	<b>68,32</b>	<b>35,55</b>	<b>13,11</b>	<b>10,22</b>		<b>51,21</b>	<b>6 650</b>	<b>6917</b>	<b>11 077</b>	<b>1,34</b>	<b>43,4</b>

<sup>1</sup> includes expired and defaulted loans

(Source: EPMF FMA Annual Portfolio Reporting 2013)

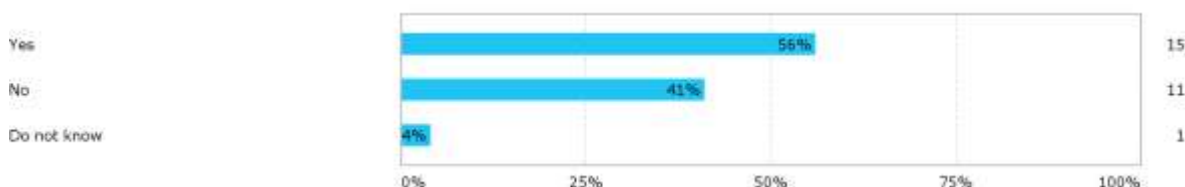
**Table 7 Portfolio development funded instruments**

Intermediary	MS	Commitment in mEUR	Cumulative disbursements in mEUR	Total commitments as a proportion of Financial Instrument Commitment	Total disbursements as a proportion of Financial Instrument Disbursement	Cumulative notional commitments in mEUR	Cumulative notional disbursements in mEUR	Cumulative number of final recipients	Cumulative number of microcredits	Cumulative number of defaults	Cumulative amount of defaults in mEUR	Average initial maturity of microcredits in months
Mikrofond	BG	3	1,75	127,5 %	218,57 %	3,83	3,83	716	860	0	0	29
Patria Credit	RO	8	8	109,27 %	109,27 %	8,74	8,74	2 276	2 338	132	0,53	38
Siaulių Banka	LT	5	5	38,26 %	38,26 %	1,91	1,82	125	130	6	0,05	48
CCB	CY	4,	4	70,28 %	70,28 %	2,81	2,81	131	131	0	0	92
Jobs MFI	BG	6	4	47,39 %	71,09 %	2,84	2,71	173	197	0	0	45
FAER	RO	2,01	0,97	125 %	257,43 %	2,51	2,51	290	305	39	0,00	49
ICREF	ES	4	4	84,41 %	84,41 %	3,38	3,38	163	163	2	0,002	58
Inicjatywa Mikro	PL	6,76	2,75	45,34 %	111,51 %	3,067	3,07	463	463	19	0,12	36
Pancretan Coop Bank	EL	-	0	0%	0 %	0	0	0	0	0	0	n/a
Créa-Sol	FR	2	1,5	101,88 %	135,83 %	2,04	2,02	255	255	0	0	51
Banca Transilvania	RO	7,5	7,5	143,75 %	143,75 %	10,78	10,04	883	924	0	0	41
SEFEA	IT	2	1	0%	0 %	0	0			0	0	n/a
BCCM	IT	3	1,5	45,58 %	91,17 %	1,37	1,37	67	67	0	0	67
Emil Banca	IT	2	1,2	61,25 %	102,08 %	1,23	1,23	66	66	0	0	54
SocGen Expressbank	BG	8,5	4,25	6,68 %	13,35 %	0,45	0,37	42	45	0	0	42
BES	PT	8,75	4	2,44 %	5,34 %	0,21	0,21	33	33	0	0	47
Sberbank <sup>1</sup>	SI	8,75	8,75	73,83 %	73,83 %	6,46	6,45	259	259	0	0	79
Banca Popolare di Milano	IT	8,75	0	0 %	0 %	0	0	0	0	0	0	n/a
<b>Total/average</b>		<b>90,02</b>	<b>60,17</b>			<b>51,62</b>	<b>50,545</b>	<b>5 942</b>	<b>6 236</b>	<b>198</b>	<b>0,699</b>	<b>52</b>

(Source: EPMF FCP-FIS Annual Portfolio Reporting 2013)

In terms of the development of the microcredit portfolio, more than half of the interviewed MFIs stated that their microcredit portfolio has developed as intended (see Figure 6).

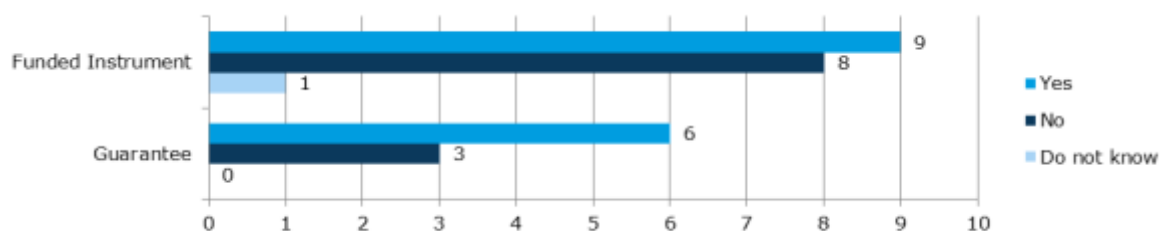
**Figure 6 Has the microcredit portfolio developed as intended in the loan agreement? N=27**



(Source: Interviews with intermediaries)

Some differences can be found when analysing the different types of contracts. Evidence suggests that the MFIs with a contract for a guarantee instrument have been somewhat more successful in developing their portfolio in line with the loan agreement than the MFIs with a funded instrument; whereas two out of three MFIs with a guarantee instrument have been able to develop the portfolio as intended, this is only the case for approximately half of the MFIs with a funded instrument (see Figure 7). No consistent reason was identified as to why this might be the case. However, a representative of Sberbank (subordinated loan) noted that portfolio development was slower than their plans and expectations. Although they expected the market to “eat” the product up, they found that was not the case, and suggested that people were more afraid, there were higher levels of insecurity, etc. Another MFI (SEFEA, senior loan), assessed the pricing of the instrument to be too high, thus not competitive and not appealing to customers. They stated this to be the reason as why they were struggling to reach the target volumes.

**Figure 7 Has the microcredit portfolio developed as intended in the loan agreement? (per type of instrument N=27)**



(Source: Interviews with intermediaries)

The economic downturn is used by the MFIs as an explanation for both the difficulties in developing their portfolios and in the increased demand for microfinancing. Whereas it is by some MFIs considered to be less interesting for potential micro-borrowers to start up new companies due to the high risks related to the economic downturn, others mention that there is now more demand for microcredits for unemployed who are interested in starting up their own companies, exactly because of the economic downturn and increased unemployment.

*"[The development is] slower and not in accordance with our plans and expectations. When we started, we thought that this is a product that the market will eat off of our hands, but people are more afraid, everything is insecure, and it is difficult for potential start-ups to find business partners."* (Interview with an intermediary)

Significant variation can also be observed in the average amount of the microcredits disbursed by intermediaries – while in some instances the average microcredits covered by the guarantee instrument come up to just about EUR 5 000 (FM Bank (PL), MicroStart (BE)), in the majority of cases microcredits average EUR 15 000. A comparison of the average size of the microloans distributed to final recipients under the funded instruments and the guarantees is not possible, as such data is not reported for the funded instruments, however it appears that the average size of loans under the funded instruments is lower compared to the guarantees – EUR 8 105<sup>52</sup> vs EUR 11 077.<sup>53</sup> The difference could be explained by the collateral requirements of the products offered by intermediaries – if products backed by a guarantee have more relaxed collateral requirements, then this would make it possible for borrowers to receive larger amounts than what they would be able to cover with their available assets or guarantors for a credit that requires 100 % collateral backing. An example of this is offered by the case study of Patria Credit (RO) – an intermediary that has both a senior loan and a guarantee from the Progress Microfinance Facility. The average amount of loans under the guarantee is nearly twice the average of the entire portfolio of Patria, which can be attributed to the lack of collateral requirements for these products, their lower price as well as the terms of the guarantee agreement between Patria Credit and the EIF.<sup>54</sup>

There are also additional factors which determine the volumes of demanded/supplied microcredits. On the demand side, the amounts borrowed would depend on the size of the borrower's business as well as the sector of economic activity they operate in. To continue the example of Patria Credit, the loans under its Progress Microfinance senior loan portfolio are targeted mainly at agricultural producers. The low average loan amount can be explained by the lower needs of the borrowers in this sector in terms of working or investment capital and their lower capacity to take on large amounts of credit (for example due to the low revenues generated by their economic activity). On the supply side, lenders can have different collateral requirements depending on the size of the loan – for example, for loans up to EUR 10 000, Mikrofond (BG) only requires the commitment of two natural persons as guarantors, whereas volumes above that are to be backed up by collateral such as real estate, land, or movable property.

In general, the average value of microcredits seems to be higher but relatively close to the results of the latest European Microfinance Network survey of the microcredit sector in Europe (2010-2011), according to which the average volume of a microcredit in an EU Member State is EUR 7 129.<sup>55</sup>

With regard to the rate of default on loans backed by the guarantees, as evident from the table this is still relatively low – only 10,22 % of the agreed guarantee cap of EUR 13,11 million for the assessed agreements has been used until September 2013. There is only one case where an intermediary has reached a high level of use of the

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<sup>52</sup> Own calculations based on the cumulative notional disbursements and the cumulative number of microcredits as reported in EPMF FCP-FIS Annual Portfolio Reporting 2013 for the contracts covered by the evaluation (see Table 7)

<sup>53</sup> Based on data on the average amount of microcredits in EUR reported in EPMF FMA Annual Portfolio Reporting 2013 for the contracts covered by the evaluation (see Table 6)

<sup>54</sup> In the agreement with the intermediary it was specified that loans under the Guarantee should not be smaller than EUR 10 000 – a clause which was amended in June 2013 to allow loans above a threshold of EUR 5 000.

<sup>55</sup> European Microfinance Network, 2012, Overview of the Microcredit Sector in the European Union 2010-2011. Available on: [http://www.european-microfinance.org/docs/microfinance\\_in\\_europe/introduction/1.overview2010-2011-final.pdf](http://www.european-microfinance.org/docs/microfinance_in_europe/introduction/1.overview2010-2011-final.pdf)

guarantee cap (FM Bank (1<sup>st</sup> contract for guarantee instrument), 91 % of the guarantee cap used).

With regard to the volume of defaults under the instruments, the net called guarantee is considerably higher than the cumulative amount of defaults under the funded instruments (EUR 1,34 million vs EUR 0,7 million). Again, this could be explained by the higher risk profile of borrowers under the guarantee agreements reported by the Commission and confirmed in the case studies with intermediaries receiving a guarantee.

In relative terms, the share of defaulted loans for the funded instruments<sup>56</sup> is 1,59 % and 1,96 % for the guarantees.<sup>57</sup> These loss rates are significantly lower than the write-off ratio on microcredits in general, which according to data of the European Microfinance Network was 7 % on average for the EU.<sup>58</sup>

### **3.4.2 Microcredit conditions**

The conditions for microcredits provided through support from Progress Microfinance vary greatly between the intermediaries. While the interest rates offered on the products are often within the range of 6-8 %, some intermediaries offer products with an interest rate as high as 18-20 %. Fees for the microcredits can be indicated in a percentage of the credit or as a fixed total fee, but several intermediaries have decided not to charge any fees from the micro-borrowers.

As can be seen in the following table, the interest rate varies considerably between and also within countries. Naturally, a more risky client profile will require higher interest rates to off-set the risks, as will the presence of high operating costs brought about by the small structure of the intermediary, the presence of specific outreach programmes, the provision of business advisory services, etc.

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<sup>56</sup> Calculated as the ratio of cumulative default loans to cumulative disbursements

<sup>57</sup> Calculated as the ratio of the net called guarantee to the actual guarantee utilisation

<sup>58</sup> European Microfinance Network, 2012, Overview 2010-2011

**Table 8 Conditions for microcredit products**

Intermediary	Country	Interest rate	Fees	Collateral	Repayment conditions	Duration of the credit
<b>ADIE</b>	France	6,77 %	5 %	No information available	Monthly instalments. Grace period: Max. 6 months. (rarely used)	4 years including the grace period.
<b>Banca Popolare di Milano</b>	Italy	6m Euribor and: +3,75 % (rating 1-2); +4,75 % (rating 3-4); +6,25 % (rating 5); +7,5 % (rating 6-7)	No initial fee Annual fee for instalment payment: € 24 Delayed payment: +1 % (on top of normal interest rate) Early repayment: 2 % of the outstanding debt	Not obligatory, but interest rate -0.25 % if collateral is provided.	Biannual instalments. Grace period: Max. 6 months.	Max. 4 years, min. 19 months.
<b>Banca Transilvania</b>	Romania	7,75 %	Administrative fee: 0,1 %/month Initial fee: 0,1-0,5 %	No collaterals required.	Revolving or fixed instalment credits.	Most credits are 5 years, very few are for 10 years.
<b>BCCM</b>	Italy	6m Euribor 360 + 7,5 %. Variable rate.	Initial fee: Clients-partners: 1 % (min € 400) Clients-non partners: 1.20 % (min € 500) Instalment payment fee: € 1.2 Current account fee (if not client-partner): € 70 Early repayment: 1 % of the outstanding debt Delayed payment: +2 % on the interest rate charged	Assessed on a case-by-case basis.	No pre-amortisation.	Up to 7 years (in 2012) and to 6 years (since 2013).
<b>BES</b>	Portugal	6 % on average.	No fees.	No information available	Monthly instalments.	Average 4 years.
<b>CCB</b>	Cyprus	Euribor + 3 %	No fees.	Required.	Monthly instalments. Grace period: 3 years.	Max. 8 years.
<b>Créa-Sol</b>	France	5 %	Guarantee fee: 1,75 % Insurance fee: 0,38 % of the loan amount.	No information available	Monthly instalments. Grace period: 3 or 6 months.	1-5 years. Average duration: 51 months.
<b>Crédal</b>	Belgium	6 %-8 %. The rates are fixed.	3-5 % of the amount of the credit, up to 500€.	No information available.	Monthly instalments. Grace period: 3 to 6 months.	Max. 4 years.



Intermediary	Country	Interest rate	Fees	Collateral	Repayment conditions	Duration of the credit
<b>Emil Banca</b>	Italy	Two products: Rinascita (R): 6m Euribor 360 + 4,75 %. Variable rate. Vantaggio (V): 6m Euribor 360 + 5,25 %. Variable rate.	R: initial fee (€150), instalment payment fee (€5), early repayment 1 % (min €50) V: initial fee (€200), instalment payment fee (€5), early repayment 1 % (min €50)	No collaterals required.	R: monthly deferred constant instalments, delayed payments (breaching the amortisation schedule) lead to an increase by 3 % of the interest V: same as for R	R: max. 6 years with 12 months of pre-amortisation V: max. 5 years, with 6 months of pre-amortisation
<b>Erste Bank (micro)</b>	Austria	3m Euribor + 3 %. Fixed interest rate.	No fees due to the Government programme.	No collaterals required.	Grace period: 6 months.	5 years.
<b>Erste Bank (SK)</b>	Austria	Conditions depend on the loan. The loans are used to fund investments and the costs differ based on the risks.	Conditions depend on the loan. The loans are used to fund investments and the costs differ based on the risks.	No collaterals required.	Conditions depend on the loan. The loans are used to fund investments and the costs differ based on the risks.	Depending on the type of investment, 1-5 years.
<b>FAER</b>	Romania	18-20 % (APR)	Initial fee: 3,5 % Monthly administrative fee: 0,1 % indirect fees: notary taxes for establishing the mortgage on real-estate. Modifications to the repayment plan are subject to fees, however, these can be waved under certain conditions (financial difficulties that are not the fault of the recipient, force majeure)	Required.	Monthly instalments. Grace period: max 9 months.	Max. 7 years.
<b>FM Bank</b>	Poland	8-16 %	Initial fee: 3-5 %.	No information available	Monthly instalments.	3-5 years.
<b>ICREF</b>	Spain	6m Euribor+ 2,95 %.	1 %	No information available	Monthly, triannual or biannual instalments. No grace period.	1-5 years (often 5).
<b>Inicjatywa Mikro</b>	Poland	Interest rate is 15 % (4 times the Interest Lombard Rate) Effective APR is around 22 %	Max 6 %. Fees often replaced by additional products: - repayment cover insurance. - services supporting clients when they have problems with collection of payments from contractors. All taken into account, the max fee may be at 10 % of the loan.	Required.	Two options: - monthly instalments, or - clients pay only monthly interest, but at the end of the financing period they pay 9 % capital.	Max. 7 years (average: 2,5 years). Max. for a new client: 5 years.

Intermediary	Country	Interest rate	Fees	Collateral	Repayment conditions	Duration of the credit
<b>Jobs MFI</b>	Bulgaria	10,3 % + 1-3 %, depending on the credit rating of the client.	Initial fee: 50 BGN.	Required.	3 options: Leasing: grace period 12 months Investment capital: grace period 12 months Working capital: Grace period up to 23 months.	Leasing: up to 5 years Investment capital: up to 5 years Working capital: 2 years
<b>MicroStart</b>	Belgium	Four different loans: 1. Test loan €2,000: 9,95 %. People who are not sure. 2. Up to €5000: 9.95 %. Already in business. 3. Investment loan €10,000: 8,95 %. Someone who would like to invest in business. 4. Group loan, for example community. Each member can get up to €10,000: 8,95 %. Mutually responsible for repayment.	5 % of the total credit.	Required.	Monthly instalments. Grace period: max. 3 months. Can be paid back as a bullet payment.	1. 1 year 2. 1 year 3. 3 years 4. 3 years
<b>Microfinance Ireland</b>	Ireland	Fixed interest rate at the time of the loan, 8,8 % APR.	No fees.	No collaterals required.	Monthly or weekly direct instalments.	Min 3 months, max. 5 years.
<b>Mikrofond EAD</b>	Bulgaria	12 % fixed interest rate + risk premium starting from 0,4 % (APR between 20-24 %)	5-10 % of the total credit.	Required.	Monthly instalments. Flexible repayment schedules possible for seasonal businesses.	Max. 3 years.
<b>Millennium BCP</b>	Portugal	6m Euribor + 6 %.	Initial fee: €150. Early repayment without additional costs.	No collaterals required.	Negotiated with the client - flexibly.	Usually 5 years - although can be shorter
<b>Pancretan CB</b>	Greece	8-10 %	Around 1 % max of the total credit.	Required. Guarantees can bring the interest rate down.	Monthly, quarterly and sometimes annual instalments. Mostly quarterly.	4-8 years.

Intermediary	Country	Interest rate	Fees	Collateral	Repayment conditions	Duration of the credit
<b>Patria Credit</b>	Romania	Loans under guarantee portfolio - 8 % Loans under senior loan portfolio - 12,9 %-18,9 % <i>APR must not be higher than 18,7 % (it ranges between 16 % and 18,7 %).</i>	Guarantee-backed product initial fee is 0.9 % in the first year and increases with 1pp each subsequent year. Monthly administrative fee: 0,4 %  Senior loan-backed product has an initial fee of 4.25 % and monthly administrative fee of 0,5 %.	No collaterals required.	Monthly instalments.	
<b>Qredits</b>	The Netherlands	9,75 – 10,75 % fixed	€250-750	No information available.	Monthly fixed instalments. Grace period: 6 months. Can be reintroduced at a later stage if difficulties are encountered.	1-10 years. Average is 4,5 years. It is also possible to extend the maturity of the loan so that the monthly instalments decrease.
<b>SEFEA</b>	Italy	1 % fee to sub-intermediaries to cover administrative costs.	Commitment fee: 0.5 %	No information available.	Biannual payments.	5 years.
<b>Siauliu Bankas</b>	Latvia	6 % (companies owned by women). 7 % (others).	No other fees.	Required.	Depends on the credit and on the cash flow.	Investment credits: 3-5 years.
<b>SocGen Expressbank</b>	Bulgaria	Min. 6,5 % depending on the conditions. Up to 14 % for overdraft credits.	The fees depend on the type of client, currency, credit, collateral and duration.	Required.	Credits for companies: reducing instalments Credits for self-employed: annuity payments Overdrafts: bullets or decreasing limits until maturity.	For working capital and overdraft: 1 year, renewable . For investment: until 30.09.2019
<b>Sberbank</b>	Slovenia	Fixed interest rate, 6-7 %.	2-3 %	Required.	Bullet payments or instalments. Mainly monthly instalments, some quarterly.	6 years for the majority of the loans.

The heterogeneity and relatively small size of the sample make it challenging to compare the prices of products and assess whether they come cheap or expensive. The only available source of reference data regarding interest rate level for microcredits is the EMN 2010-2011 Overview of the Microcredit Sector in Europe, according to which the average annual interest rate for such products in Europe is 11%.<sup>59</sup> Data for countries of relevance for the evaluation is presented in the following table. In general, as evident from the comparison with interest rates for loans up to and including EUR 1m, interest rates on microcredits are significantly higher sometimes twice as high as the interest rate on bigger loans or even more (e.g. BE, IE, NL, PL).

**Table 9 Interest rate on microfinance products 2011 and loans up to EUR 1 million**

Country	Annual interest rate microcredits 2010-2011*	Interest rates for loans up to and including EUR 1 million 2011**	Interest rates for loans up to and including EUR 1 million 2013**
Austria	n/a	2,9 %	2,2 %
Belgium	7 %	2,9 %	2 %
Bulgaria	15 %	9,4 %	7,5 %
Cyprus	n/a	7 %	6,7 %
France	4 %	3 %	2,1 %
Greece	n/a	6,8 %	6,6 %
Ireland	9 %	4,7 %	4,2 %
Italy	4 %	3,9 %	4,4 %
Latvia	7 %	5,2 %	4,5 %
Netherlands	10 %	3,7 %	5,3 %
Poland	12 %	6,5 %	5 %
Romania	16 %	10,4 %	6,5 %
Portugal	n/a	6,9 %	9,7 %
Slovenia	n/a	5,8 %	5,7 %
Spain	7 %	4,5 %	5,1 %
<b>Average Europe</b>	<b>11 %</b>		
<b>Average EU</b>		<b>5,18 %</b>	<b>4,56 %</b>

Source: \*EMN 2010-2011 Overview of the Microcredit Sector in Europe, Main product characteristics, p.87  
\*\* DG Enterprise and industry, Access to finance indicators, data for 2011 and 2013<sup>60</sup>

A more detailed comparative analysis between the EMN data and the information provided by the Progress Microfinance intermediaries should be pursued cautiously, as there are several caveats when it comes to data validity and comparability. Firstly, there is a mismatch between the reporting periods – since 2011, interest rates have changed and the data is not comparable with the levels reported by the Progress Microfinance intermediaries in the context of the survey. Furthermore, it is not clear whether the reported interest rates include the annualised costs associated with the microcredit.

With these caveats in mind, the available evidence indicates that there are no clear trends when it comes to the comparing the pricing of Progress Microfinance-backed

<sup>59</sup> The analysis is based on data from 154 MFIs in 32 European countries

<sup>60</sup> Available on: [http://ec.europa.eu/enterprise/policies/finance/data/enterprise-finance-index/access-to-finance-indicators/loans/index\\_en.htm](http://ec.europa.eu/enterprise/policies/finance/data/enterprise-finance-index/access-to-finance-indicators/loans/index_en.htm)

products and other comparable products or larger loans. Intermediaries with interest rates higher compared to the national levels explained that this is the case due to the higher costs involved in operating as a microfinance institution and the higher risk involved in microfinance as compared to other market segments. In comparison, banks which offer multiple products are perhaps able to counter some part of the risk through diversification and offer lower interest rates.

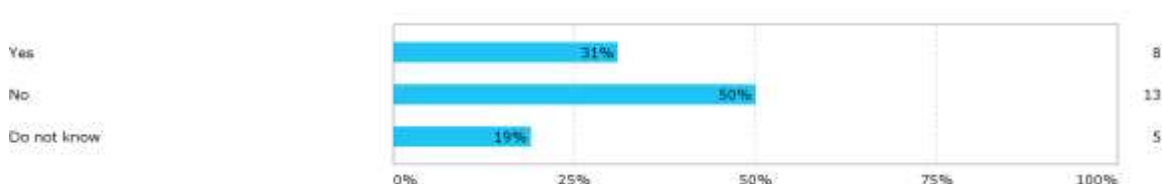
While the scope of this evaluation does not provide for more detailed analysis of the performance of microcredits backed by Progress Microfinance against the general microfinance market in Europe or the financial market in general, half of the intermediaries of the facility stated that the conditions for credits have actually been positively affected by the support provided from Progress Microfinance and there were a number of instances where a provider lowered the prices of their microcredit product as a result. A discussion of this is provided in Section 4.2.1 which addresses the impact of the facility on microcredit providers.

### 3.4.3 Microcredit procedures and European Code of Good Conduct in microcredit provision

The European Code of Good Conduct for Microcredit Provision sets a framework for acceptable microcredit procedures and is addressed mainly to non-bank microcredit institutions as particularly banks are subject to specific relevant regulation. "The purpose of the Code is not to introduce or replace existing regulations of microcredit providers. Rather it is intended to detail a set of common standards in terms of the operation and reporting of microcredit providers."<sup>61</sup> Thus, when assessing whether the microcredit providers have provided sufficient information to customers, if they have acceptable debt-collection practices and a policy of non-discrimination towards customers, it is relevant to look into the extent to which the intermediaries comply with the Code.

As illustrated by the following figure, one third of the intermediaries interviewed have signed up to the voluntary European Code of Good Conduct for Microcredit Provision.

**Figure 8 Has your company signed up to the voluntary European Code of Good Conduct for Microcredit Provision?**



(Source: Interviews with intermediaries)

The fact that the Code of Good Conduct is primarily designed to cover non-bank microcredit providers<sup>62</sup> is reflected to a certain extent in the data – all eight of the signatories are non-bank intermediaries. As can be seen from the figure above, eight interviewees stated that they were unaware of the existence of such a code. At least one interviewed intermediary indicated their intention to sign up to the Code, but had not done so yet. Representatives of BBCM were of the opinion that there is no need for them to sign the Code, since as a cooperative bank they already have better credit provision procedures than the ones in the Code, which they characterised as basic and obvious. One of the intermediaries in Romania does not advertise APR for the Progress

<sup>61</sup> European Code of Good Conduct for Microcredit provision, p.10

<sup>62</sup> European Code of Good Conduct for Microcredit provision, p.10

Microfinance products, as in Romania there are different rules for the provision of consumer and business credit when it comes to advertising the APR (it is obligatory to publish the APR in consumer credit advertisements, but not in business credit advertisements). Microfinance products of one of the Progress Microfinance intermediaries are considered as business credits – thus they are not obliged to publish the APR and they do not do it. Representatives of the intermediary were of the opinion that if they were to do so voluntarily, they would be at a competitive disadvantage vis-à-vis their competitors (both banks and non-banks alike), as consumers could perceive their microfinance products as more expensive than what is offered by their competitors.

The Code lays down specific requirements about the provisions of pre-contractual information to the customer and its inclusions in the credit agreement:<sup>63</sup>

- the identity and geographical address of the lender
- the amount
- the duration of the credit agreement
- the borrowing rate
- total amount payable
- charges for late repayments
- right of early withdrawal
- debt-collection practices

As can be seen from Table 10, the majority of the intermediaries comply with the recommendations from the Code.<sup>64</sup> The information that is most often missing from the loan agreement concerns debt-collection practices. With respect to the right of early withdrawal, the majority of the intermediaries specify it in the loan agreements and Qredits and Mikrofond EAD added further that it is possible to withdraw from the contract within 14 days from contract signature. This is in line with the priority clause 1.6 of the Code.<sup>65</sup>

No substantial differences were observed in the practices of bank and non-bank Progress Microfinance intermediaries with regard to their approach to providing information in the contracts with their customers.

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<sup>63</sup> Clause 1.3 of the code

<sup>64</sup> Data collected through interviews with representatives of the intermediaries.

<sup>65</sup> The Code states that "Customers have the right to either a) withdraw within 14 calendar days of the signing of the credit agreement or b) repay their loan in its entirety without incurring extra costs within 14 calendar days of the signing of the credit agreement, without having to give a reason."

**Table 10 What information is provided to clients in their loan agreement?**

Intermediary	The amount	The duration of the credit agreement	The borrowing rate	Total amount payable	Charges for late repayments	Right of early withdrawal	Debt-collection practices	Grace period	Other (please specify)
<b>ADIE</b>	Yes	Yes	Yes	Yes	Yes	Yes	No, but there is an internal charter of ethics for the purpose of staff use.	No	No
<b>Banca Popolare di Milano</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>Banca Transilvania</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes, the full repayment schedules with dates and amounts due.
<b>BCCM</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>BES</b>	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes, monitoring and data protection processes.
<b>CCB</b>	Yes	Yes	Yes	No	Yes	No, such situations have not been met yet.	Yes	Yes	Yes, the capitalisation of the loan, the instalments, the collaterals.
<b>Créa-Sol</b>	Yes	Yes	Yes	Yes	Yes, but there are no such charges.	Yes	Yes	Yes	No
<b>Crédal</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, automatic payment from the account. General conditions explaining everything about the contract and rules.
<b>Emil Banca</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>Erste Bank (micro)</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, everything that is required by the law and the consumer safety organisations in Austria.
<b>FAER</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
<b>FM Bank</b>	Yes	Yes	Yes	Yes	Yes	Yes	No, this is only an internal regulation of the bank.	No, only given for credit cards.	Yes, any changes to the loan.

Intermediary	The amount	The duration of the credit agreement	The borrowing rate	Total amount payable	Charges for late repayments	Right of early withdrawal	Debt-collection practices	Grace period	Other (please specify)
<b>ICREF</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
<b>Inicjatywa Mikro</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
<b>Jobs MFI</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, the general conditions, fees etc.
<b>MicroStart</b>	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No
<b>Microfinance Ireland</b>	Yes	Yes	Yes	Yes	No, as no such charges exist.	No, but it is mentioned on the website.	No, this is only mentioned on the website.	Yes	Yes, also the repayment schedule is stated.
<b>Mikrofond EAD</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, the purpose of the loan, co-signers, bank accounts, clause about personal data use, and about a 14 day free cancellation period.
<b>Millennium BCP</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>Pancretan CB</b>	Yes	Yes	Yes	No not possible to forecast the Euribor.	Yes	Yes, but there is no charge.	No	Yes	Yes
<b>Patria Credit</b>	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
<b>Qredits</b>	Yes	Yes	Yes	Yes	No, as no such charges exist.	No, but it is possible to cancel the contract within 2 weeks.	Yes	Yes	Yes, general conditions applicable to all loan agreements.
<b>SEFEA</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>Siauliu Bankas</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes, we provide all the information required by the law.
<b>SocGen Expressbank</b>	Yes	Yes	Yes	No	No	No	No	No	Yes.
<b>Sberbank</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, the securities of the credit loan.



#### **3.4.4 Eligibility and selection criteria**

With respect to the microcredit procedures, it is also important to assess the eligibility checks of final recipients performed by the intermediaries to ensure that they are in line with the Code in terms of e.g. non-discrimination and eligibility checks. According to the Code, the microcredit providers are to support their customers in ensuring that they avoid over-indebtedness by assessing "repayment capacity and loan affordability on the basis of sufficient information from the applicant, database and/or competitors. At a minimum this must involve calculating the customer's working capital, business and household surplus, and assets and liabilities. It should include an investigation of the capacity to carry forward the project. In that sense, referring to internal business development services or external partners to assist in the assessment is considered good practice."<sup>66</sup>

The eligibility and selection criteria of the intermediaries as well as the procedures used in this respect (for example ranking or scoring systems) differ greatly from one intermediary to another. The eligibility and selection criteria in terms of the target groups and the extent to which the criteria ensure increased access to and availability of microfinance for the specific target groups of Progress Microfinance is discussed below in the section on effectiveness 4.1.9).

A general trend that can be seen when looking at the eligibility and selection criteria used by the intermediaries is that in particular intermediaries that are banks more often refer to a general list of objective criteria used when assessing the eligibility of the applicants. Intermediaries that are not banks more often use a combination of objective and subjective criteria when assessing the eligibility. There are however also exceptions to the rule, as for example Millennium bcp mentioned that in addition to looking at the credit profile and business idea of the applicant, they also discuss with the friends and family of the applicants. The discussions with family members or the assessment of the familiar situation of the applicants is mentioned by several intermediaries as an important indicator of the eligibility of the applicant. For example Inicjatywa Mikro mentioned that family conditions are an important aspect to consider as the micro-borrowers are usually investing in a small family business.

Several intermediaries also comply with the good practice recommendation from the Code concerning internal business development services or external partners. For example, Erste Bank receives the applications on one of their portfolios from an external consultant who pre-screens the applications. If the consultant considers the applications to be eligible, they are in most cases also accepted by the bank. At Crédal, the applications are handled by a counsellor who meets the client and develops the file. It is presented before an external committee, composed of social, financial and entrepreneurial members. This multi-disciplinary committee takes the decision on the loan and provides advice to the future entrepreneur. Jobs MFI work with business centres which support the applicants in filling their applications. The applications are finally assessed by a loan officer and the risk department, and based on these two opinions the credit council decides on whether the funding can be granted. These examples identified reflect the different business models of the interviewed intermediaries and no reasons were put forward for not complying with the good practice recommendations from the Code.

#### **3.4.5 Cooperation with organisations representing final recipients and between microcredit providers**

According to Art.4 of Decision 283/2010 establishing Progress Microfinance, in order to reach the final recipients and to create competitive and viable micro-enterprises,

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<sup>66</sup> The Code, Clause 1.10.

intermediaries of the facility shall cooperate closely with organisations engaged in representing the interests of the final recipients of microcredit and with organisations, in particular those supported by the ESF, who provide mentoring and training programmes to those final recipients. This requirement is also part of the contracts concluded between intermediaries and the EIF for the funded instruments and guarantees.

The intermediaries are very active in cooperating with organisations representing their clients, with only one organisation not cooperating with organisations representing their clients. For many of the intermediaries this is one of the main ways to gain access to potential clients and to advertise their microcredit products.

Cooperation takes place with associations, such as migrants associations, ethnic associations, associations of agricultural producers, handicrafts and the like (for example MicroStart, Mikrofond EAD, FAER, Siauliu Bankas, Patria Credit, SocGen Expressbank). FAER cooperates with the FAER foundation (Foundation for the Promotion of Agriculture and Regional Economy), which organises multiple trainings, information courses, thematic workshops, and on-site visits to established producers which facilitate best practice exchange. The MFI's credit officers are often available during these events to offer information and support to interested participants who want to finance their own projects and investment. Four of the eight final recipients interviewed in the context of the FAER case-study had accessed loans under Progress Microfinance after participating in courses and training organised by the FAER foundation.

On a different level, several intermediaries also cooperate directly with the Chambers of Commerce or with the local administration, such as city and county enterprise boards (Qredits, Erste Bank, Microfinance Ireland, Créa-Sol). Créa-Sol only provides loans through organisations representing its clients:

- Les Plateformes Initiative France – a network providing regional platforms and financing for entrepreneurs;
- 'Boutiques de gestion - BGE' - a national network providing support to entrepreneurs;
- Chambers of Commerce;
- France Active – a network for support to business creation, and job creation, particularly for those who find it difficult to access the job market.

SEFEA also cooperate with associations and other institutions involved in the world of ethical economy and environment, but not directly with associations representing final recipients as they are not their clients. One important partner organisation of Qredits is the national Employee Insurance Agency, which is the operational agency of the Ministry of Social Affairs and Employment. The agency frequently refers unemployed people to Qredits (in person and via a link on their website). Another specific type of cooperation exists between the intermediaries and organisations that support the final recipients in developing their business plans. For example Crédal has very positive experiences from such cooperation, as they see that the applications for microcredits submitted by potential clients who have been receiving support in developing their business plans are usually better prepared than other applications.

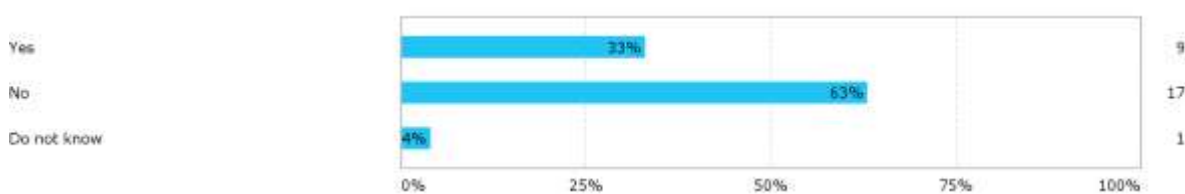
ICREF explain that the cooperation with the many businesses and associations clearly facilitates the relations with their final recipients. ICREF aim to cooperate with some of the bigger associations who are working with the target population, in order to maximise the impact of the cooperation.

Inicjatywa Mikro, which is the only intermediary not cooperating with organisations representing their clients, state that they are keen to remain independent from any political influence/negotiations. As they do not want to be influenced by anybody, they tend to avoid cooperation with such associations.

It can thus be concluded that there is clear evidence of close cooperation between microcredit providers and organisations representing final recipients and that the cooperation is to a high extent central for the client outreach of the microcredit providers.

The Progress Microfinance intermediaries were also asked about their cooperation with other microcredit providers. Such cooperation was found to take place on the European level, for example within the framework of the European Microfinance Network, where approximately half of the microcredit institutions receiving support through the Progress Microfinance are members. However, only one third of the intermediaries interviewed stated having experience of cooperation with other microcredit providers targeting the same clients.

**Figure 9 Do you cooperate with other microcredit providers targeting the same clients?**



(Source: Interviews with intermediaries)

Often the cooperation is in the form of exchange of good practices or information (Crédal, MicroStart, Créa-Sol), but there is also cooperation in terms of applying co-financing. This has for example been done by Crédal and MicroStart. MicroStart explained that they work together with two other MFIs in Belgium, with the objective of allowing a client to take out multiple microcredits, in cases where the maximum credit with the individual MFIs is insufficient. This way, the client accesses the necessary funds, while the MFIs maintained their risk at an acceptable level.

Some microcredit providers also exchange clients, when they consider that the client's profile suits better for another provider. This is for example done by Créa-Sol and BES. Créa-Sol noted that they were not necessarily competitors with the provider with whom they shared dossiers as they had a slightly different client base; they simply considered that the other provider could deal with the dossier better, or vice versa. ICREF mentioned joint publicity and collection of statistics as areas where cooperation takes place. Banca Transilvania is crediting other microcredit providers in order to distribute microfinance further downstream.

Concerning the intermediaries who do not cooperate with other microcredit providers, the reasons for non-cooperation are often that the intermediaries consider themselves to be competitors or that there are no other microcredit providers in the country in question. Qredits and Microfinance Ireland cooperate with commercial banks which transfer potential clients to them, when these do not pass the standardised conditions for credit of the banks. While the collected evidence does not indicate the existence of a reverse process whereby borrowers are referred to commercial banks once they are deemed "bankable", one respondent (Microfinance Ireland) noted that there is little need for this, as borrowers are incentivised by the lower rates on standard business

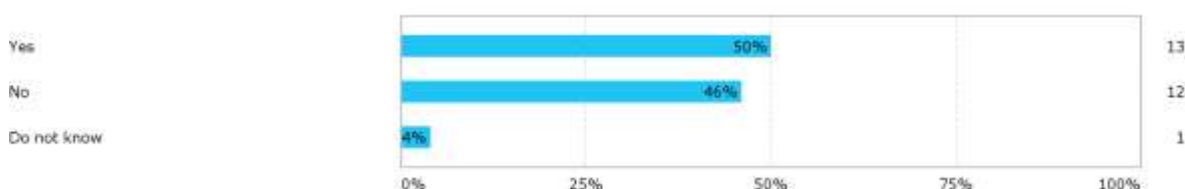
loans to move on as soon as they have established the viability of their business operation.

### 3.4.6 Training provided to micro-borrowers

As already mentioned, intermediaries of the Progress Microfinance facility shall liaise and cooperate closely with organisations engaged in representing the interests of the final recipients of microcredit and with organisations, in particular those supported by the ESF, who provide mentoring and training programmes to those final recipients.

According to the conducted interview, half of the intermediaries of Progress Microfinance provide training and/or mentoring as part of their credit agreement with micro-borrowers (see Figure 10). There are no differences between banks and non-banks in this respect, but intermediaries with a guarantee are more active in this field than the intermediaries with a funded instrument, with two thirds of the intermediaries with a guarantee providing training and/or mentoring, as opposed to 40 % of the intermediaries with a funded instrument.

**Figure 10 Do you provide training and mentoring as part of the credit agreement?**



(Source: Interviews with Progress Microfinance intermediaries)

The types of training provided differ to a high extent. Whereas the training and mentoring are offered for free in some cases, other intermediaries provide it against a small fee, mainly to cover the costs of training and organising volunteers and material for the training. Qredits and ADIE explained that they provide e-learning or share guidelines on the internet. The training is often on specific themes, such as sales training, debt management, business development or legal subjects.

In particular banks who reported that they provide mentoring and training explained, when asked to specify, that the mentoring is in fact understood to cover the more specific advisory services provided by the employees of the bank to the final recipients, including the follow-up meetings that the final recipients have with the banks concerning the financial statements or the like.<sup>67</sup> In the following table, an overview is provided of the types of training or mentoring provided by the intermediaries or of the further explanations of why the intermediaries are not providing any training and mentoring.

<sup>67</sup> These respondents are marked with a \* in the table.

**Table 11 Overview of the training and mentoring offered to final recipients of Progress Microfinance**

	Type of training or mentoring offered to final recipients	Reasons for the lack of (more) training or mentoring
<b>ADIE</b>	Programmes including group training or individual training on varied subjects. - how to develop their business - legal subjects There is also an internet site for clients, with instruction sheets for certain topics.	
<b>Banca Popolare di Milano</b>		They will think about it at a later stage.
<b>Banca Transilvania</b>	The clients are advised informally by the loan officers throughout their relationship with the bank.*	
<b>BCCM</b>	Elective mentoring and training activities are provided by external providers (cooperatives and the labour office of the local diocese) upon payment of a fee, which can be financed up to € 500. For other microcredit products mentoring is provided for free. <sup>68</sup>	
<b>BES</b>	The intermediary provides support in the first phase when the loan is discussed. Help is provided through the development of the business plan.*	No structure, no capacity and competence.
<b>CCB</b>	Advisory services in connection with the application.*	
<b>Créa-Sol</b>	Training and mentoring is provided by the client associations which actually deliver the loans.	
<b>Crédal</b>	The clients can receive a mentor for two years. The credit committee decides whether this is obligatory for the client or not.	
<b>Emil Banca</b>	-	The bank does not offer support services as it considers that local professional and employers' associations already provide sufficient support and additional training activities would translate into overlaps and duplication of costs. No cooperation with such organisations is established however.
<b>Erste Bank (micro)</b>	Mentoring carried out by an external consultant paid by the Government.	
<b>Erste Bank (SK)</b>	No training and mentoring are provided apart from standard advisory services, such as thorough explanation of the loan agreement to the clients.*	
<b>FAER</b>	FAER as well as the FAER foundation organise courses on specific themes (management, technology, rural tourism, etc.).	

<sup>68</sup> No additional clarifications were offered as the type of products of the bank under which free training is provided and why such is not available for free with its Progress Microfinance product.

	<b>Type of training or mentoring offered to final recipients</b>	<b>Reasons for the lack of (more) training or mentoring</b>
<b>FM Bank</b>	-	Plan to start implementing training in the coming year.
<b>ICREF</b>	-	The partners of ICREF responsible for implementation do not provide training for the final recipients.
<b>Inicjatywa Mikro</b>	The experienced loan officers do provide mentoring to clients and train their less experienced colleagues. Junior loan officers provide advice.*	
<b>Jobs MFI</b>	Business development services are offered to final recipients by the intermediary's partner network of business centres. The credit officers also offer support to clients with the development of their business plans in the process of loan application.	The intermediary does not provide training activities directly to its clients as it assesses that there is a lack of interest from its clients in such.
<b>MicroStart</b>	Free and non-compulsory training, provided by volunteers either before or after the microcredit. Business support is provided for up to 3 years after.	
<b>Microfinance Ireland</b>	Some support in business plan development is provided to loan applicants by area-based social partnerships for disadvantaged persons, which the intermediary cooperates with.	The county and enterprise boards are supposed to provide pre-loan programmes, but they do not have the budget for it, so currently nothing provided.
<b>Mikrofond EAD</b>	Informal advice is provided to the loan applicants and borrowers by the credit officers of the intermediary.	The intermediary has provided such training in the past, but experience shows that separate institutions should provide these trainings, because otherwise the client gets confused about the relationship between the FMI and the client.
<b>Millennium BCP</b>	Informal training in the form of advice.*	
<b>Pancretan CB</b>		Not possible for a bank to provide the client with suggestions on how to formulate business plans, etc.
<b>Patria Credit</b>	Only standard advice provided.*	Not possible to commit the resources of the intermediary to providing such a service.
<b>Qredits</b>	Several training and mentoring products, some of which are part of the loan agreements. E-learning and voluntary coaching before loan is granted. The client has to pay for it (app. EUR 160). E-learning costs about EUR 50. With the loan the clients also pay for coaching provided by volunteers (EUR 180). Specific training like sales training or debt management is also provided. The prices are to support the voluntary network but not meant to cover salaries.	

	Type of training or mentoring offered to final recipients	Reasons for the lack of (more) training or mentoring
<b>SEFEA</b>	SEFEA provide training and mentoring activities to their sub-intermediaries. However, the latter are not requested to provide this kind of services to final recipients, even though SEFEA would be willing/able to use its network to activate this kind of service.	
<b>Siauliu Bankas</b>	Advice rather than training.*	
<b>SocGen Expressbank</b>	Advice rather than training, provided to the customer during the interview conducted as part of the loan application process thorough detailed explanations of the loan terms conditions.*	
<b>Sberbank</b>	Requirements to attend training or mentoring are not a part of the credit agreements with final recipients. The intermediary has developed an educational class of 2-3 hours on well-managed personal finance for its customers, but there is no demand for such events.	

The training programme provided by Qredits represents an interesting example. The coaching/training is provided by over 600 volunteers, who are employees of the largest Dutch commercial banks and consulting companies. The service is provided against a fee (EUR 170-200), which covers the administrative expenses and travel costs, with the wages of the coaches and trainers being provided pro bono by their employers as part of their CSR activities.

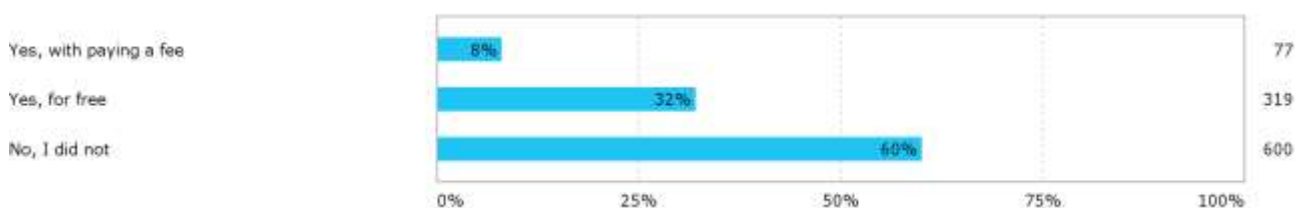
#### **Case study example – Crédal**

In **Crédal**, the clients make use of training services before having their application accepted, for example to improve their business plan, or after the microcredit has been transferred to ensure a good start for the business. There are two primary formats, one-off courses lasting 3 hours (either taking place in the morning or evening) or longer seminars, for example a three months programme consisting of multiple seminars. According to Crédal the training (and other support services) usually concerns accounting, budgeting, market research or developing and improving an existing business plan. These support services were deemed crucial to the work of Crédal, because they helped clients develop viable business ideas and thereby contributed to the progress of their business projects. Representatives from Crédal noted that only a minority of their clients make use of these services and placed emphasis on the fact that participation should be voluntary.

The information reported by intermediaries can be compared with the data from the survey to their clients (Figure 11).

With regard to the receipt of non-financial support, advice or training as a compliment to the credit, 60 % of the surveyed Progress Microfinance micro-borrowers did not get such. Of those who did, the majority had it for free - only 8 % of all respondents received non-financial support against a fee.

**Figure 11 Q11 Did you receive non-financial support, advice and/or training as a complement to the credit?**



(Source: Survey of micro-borrowers, responses from Qredits included)

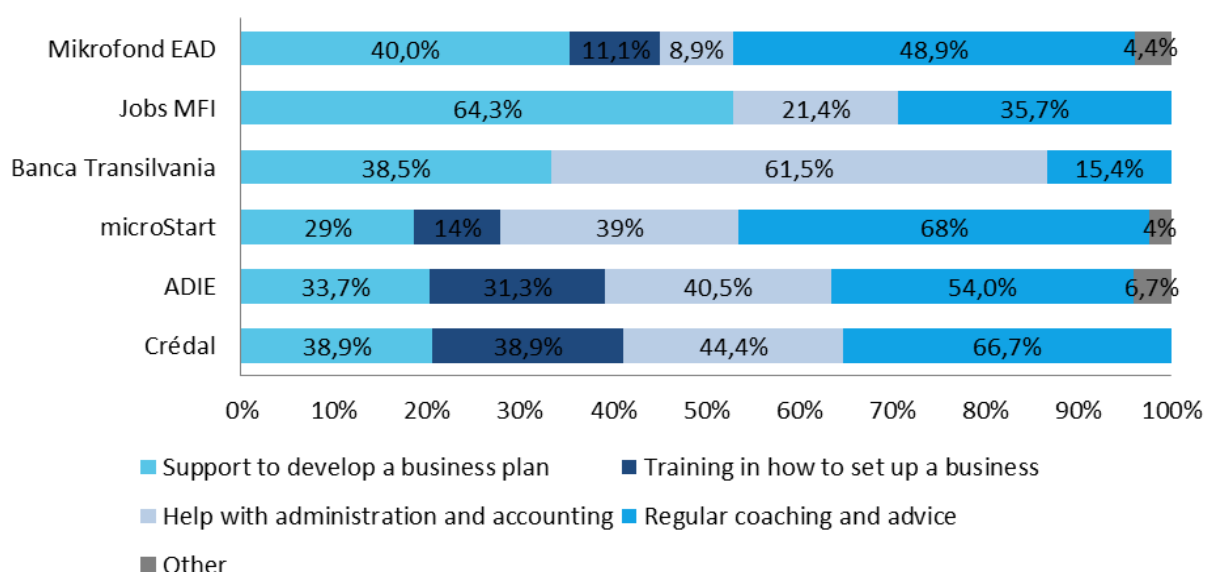
Interestingly enough, some of the highest reported rates of participation in non-financial support, advice and/or training activities are from clients of MFIs that do not provide formalised training or mentoring – more than half of the clients of Mikrofond, Jobs MFI and Patria Credit reported that they have received non-financial support from the MFIs, although the MFIs themselves did not report on its provision. For the MFIs which have formalised training or mentoring programmes and whose clients were surveyed (MicroStart, ADIE and Crédal), the rates were also relatively high – 40-50 % of their customers have taken advantage of the offered programmes. Qredits’ training programmes, which are available for a fee of EUR 170 - 200, had a take up of 36 % in the surveyed sample. The conducted interviews with final recipients show that among the reasons for lack of interest in business development services by borrowers is the low awareness of the benefits of such, as well as the assessment of the clients that they do not need them, as they consider themselves sufficiently knowledgeable and experienced in financial and debt management.

The most often encountered type of non-financial support received was in the form of regular coaching and advice (51 %),<sup>69</sup> support for the development of a business plan (38 %) or help with administration and accounting (35 %). 20 % of the respondents who got non-financial support received training on how to set up a business. Figure 12 below shows a breakdown of these results by type of non-financial support received from the MFI’s for which more than 40 % of the surveyed clients have participated in a training/mentoring activity.

<sup>69</sup> Regular coaching and advice is offered through mentorship and counselling arrangements that take place throughout the duration of the microcredit agreement.



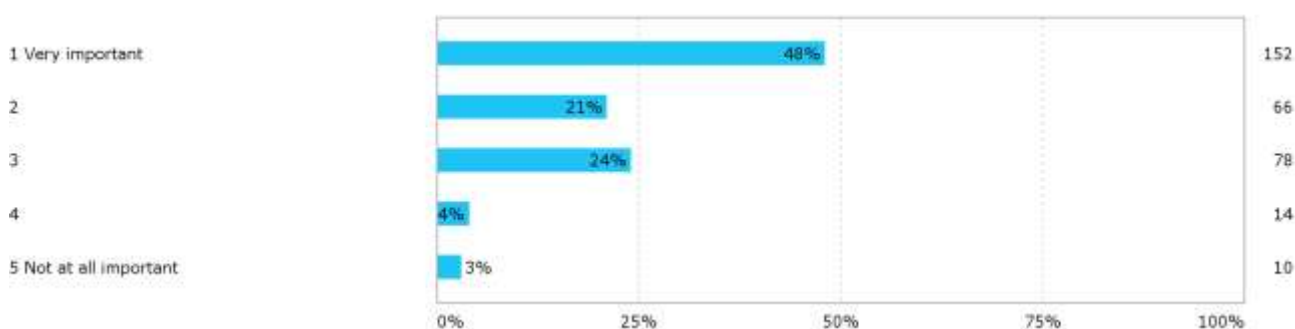
**Figure 12 What kind of non-financial support did you get?**



(Responses from clients of MFIs with participation rate > 40 %; n=295; multiple choices possible)  
(Source: Survey of micro-borrowers, no responses from Qredits)

The received non-financial support appears to have been important for the success of the businesses backed by Progress Microfinance, although the evidence of this is not overwhelming – while only a few final recipients deemed non-financial support to have been of little or no importance, there is varying degree of certainty about its positive impacts (see Figure 13). A cross analysis with the collected data on type of support provided shows that the results in this regard do not vary in relation to the type of training/mentoring received.

**Figure 13 Q13 How important was the non-financial support for the success of your business?**



(Source: Survey of micro-borrowers, no responses from Qredits)

As regards the demand for such non-financial support in general, the data does not yield firm evidence in regard to the interest in this. About one third of the respondents expressed absolute certainty that they would like to receive (more) non-financial support, another third was not interested in such at all, and the remaining third had varying degree of certainty as to whether they demand such support. A cross-analysis of the data with the results from Figure 10 shows that interest in training does not differ significantly depending on whether the micro-borrower has already received training or not (see Table 12). In fact, a slightly higher share of those who have not previously received any non-financial support are completely uninterested in receiving

such compared to previous recipients on the same opinion (36 % and 20 % respectively).

**Table 12 Cross analysis of demand for non-financial support with previous experience with such**

<b>Interest in receiving (more) non-financial support</b>	<b>1 Yes, absolutely</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5 No, not at all</b>	<b>Total</b>
<b>Respondents who have received non-financial support</b>	33 %	13 %	24 %	10 %	20 %	319
<b>Respondents who have not received non-financial support</b>	33 %	8 %	14 %	8 %	36 %	466
<b>Total responses (number)</b>	258	82	143	71	231	785
<b>Total responses (%)</b>	33 %	10 %	18 %	9 %	29 %	100 %

(Source: Survey of micro-borrowers, no responses from Qredits)

It can thus be concluded that while only half of the Progress Microfinance intermediaries provide training and mentoring services in connection to microcredits, in the majority of the cases where such services have been used by the micro-borrowers, the experience has been deemed useful. At the same time, it should be noted that such services are not considered a "must" by all borrowers - an opinion shared by intermediaries who reported that they do not provide formal training or mentoring services due to a combination of the high costs involved in this and the perceived lack of interest from client (e.g. Mikrofond, Societe Generale). Examples of different ways of providing training in cooperation with third parties are offered in Section 3.4.5.

### 3.4.7 EC visibility requirements

The visibility and promotion requirements as set out in the agreements between the EC and the EIF, state that the EIF shall make reasonable efforts to encourage intermediaries to promote the fact that the EU has funded the support. To this end the EIF shall require intermediaries to insert a specific sentence<sup>70</sup> in the contract with the final recipient (or in the cover letter); in addition the EU flag and a statement that the microcredit has been supported by Progress Microfinance with funding from the EU must be included in the intermediaries specific promotional material, specific promotion campaigns and specific information on the relevant webpage.

The majority of intermediaries report that they are applying the Commission's visibility requirements in all of their material, and were aware that the requirements were compulsory. The material, where the requirements are included can be divided into the following:

- Loan contracts (where the intermediaries explain that the microcredit is supported by funding from Progress Microfinance);
- Promotional material, such as leaflets;
- Website;
- Presentations.

<sup>70</sup> In the case of the guarantees agreement, the sentence must read: "This financing benefits from a guarantee issued under the 'European Progress Microfinance Facility' established by the European Union."

The intermediaries were asked during the interviewing process about their compliance with the visibility requirements and there were several instances of self-reported irregularities. Three mentioned that at the time of the interview they only include the information in their loan contract/application form, and not yet in their promotional material or website. In these cases the promotional material or websites still remain to be updated and plans were in place to include the information at a later stage. This information was not verified through an exhaustive check of all contracts, promotional materials and presentations has been conducted, but ad-hoc checks performed in the context of case studies indicate that although compliance with the visibility requirements is mostly in place, some discrepancies remain. For example, there were two instances where the intermediary offers multiple products under its Progress Microfinance portfolio, but the information on support from Progress Microfinance is only indicated on the website presentation of one of the products or in the respective promotional materials. The available evidence, although not exhaustive, indicates that the application of the visibility requirements is not consistent.

However, several interviewees mention that it is an advantage for their product to have the EU and EIF logos in their promotional materials as it enhances their reputation amongst stakeholders and customers. That said, the actual awareness of the final recipients of the support of the EU via Progress Microfinance to the microcredits they received has not been explicitly evaluated, but was assessed by the evaluators involved in case studies as being generally low although at least 3 case studies found that interviewed final recipients were aware of the EU support. One case study indicated that final recipients were not aware of the source of the funding and did not seem concerned by the organization or funding of the intermediary. There were suggestions from another case study that this could in part be explained by the fact that EU funds were not traditionally associated with financial instruments in that country.

## **4. Main findings in the evaluation**

### **4.1 Effectiveness of Progress Microfinance in reaching its objectives**

This chapter assesses the effectiveness of Progress Microfinance in meeting its objectives. As set out in Article 2 of the founding Decision, these objectives are to increase access to, and availability of, microfinance, for:

- 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 microenterprise, including self-employment;

- b) microenterprises, especially in the social economy, as well as microenterprises which employ persons referred to in point (a).

In addition, the facility has the objective of actively promoting equal opportunities for women and men.

In order to assess whether these objectives have been met, the evaluation looks at the extent to which target groups are currently being addressed by the intermediaries under the Progress Microfinance instruments, as well as whether the Progress

Microfinance funding resulted in increased access to, and availability of, microfinance for the target groups.

The assessment takes into account factors such as gender, age, members of minority groups, migrants, disabled people, unemployed and inactive people.

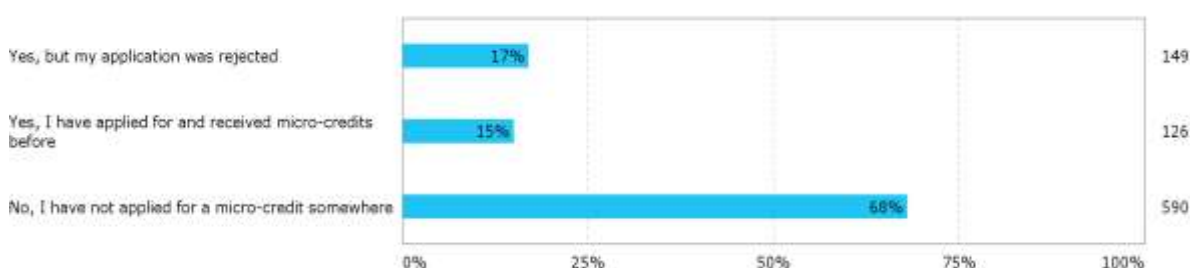
#### 4.1.1 Progress Microfinance’s effectiveness in increasing access to and availability of microfinance for microenterprises

According to research, access to finance is one of the most pressing problems of microenterprises in the EU.<sup>71</sup> Rejection rates of loan applications by microenterprises are three times higher than those of other firms - 18 %, compared to 6 % for small firms and 7 % for medium-sized firms and microenterprises use bank loans and other external financing sources considerably less than other SME size classes.<sup>72</sup>

The survey with micro-borrowers conducted in the context of this evaluation offers concrete evidence of the role of Progress Microfinance in increasing access to finance for microenterprises. As evident from Figure 14, 17 % of the surveyed borrowers received a microcredit from a Progress Microfinance intermediary after they had been rejected by another financial institution - a clear indication of financial exclusion. Although the results are not representative (non-random, biased sample), extrapolating them to Progress Microfinance level (i.e. total number of final recipients of the facility), this can be seen as an indication that about 2 140 individuals and enterprises around Europe excluded from the credit market received access to finance as a result of Progress Microfinance support to the MFIs.<sup>73</sup>

In addition, for 68 % of the respondents, their application for microcredit from a Progress Microfinance intermediary was the first time they applied for a microcredit - another rather strong indication of the role of Progress Microfinance in increasing access to finance for micro enterprises and start-ups. Subject to the caveats describe above, an extrapolation to the total number of final recipients of the facility shows that 8 560 individuals and enterprises received their first microcredit through the products offered by Progress Microfinance intermediaries with support from the facility.

**Figure 14 Q1 Did you apply for microfinancing from other institutions before receiving a microcredit?**



(Source: Survey of micro-borrowers, no responses from Qredits)

Of those respondents who had received a microcredit previously, 75 % did so from an ordinary bank and 15 % from another microcredit institution.

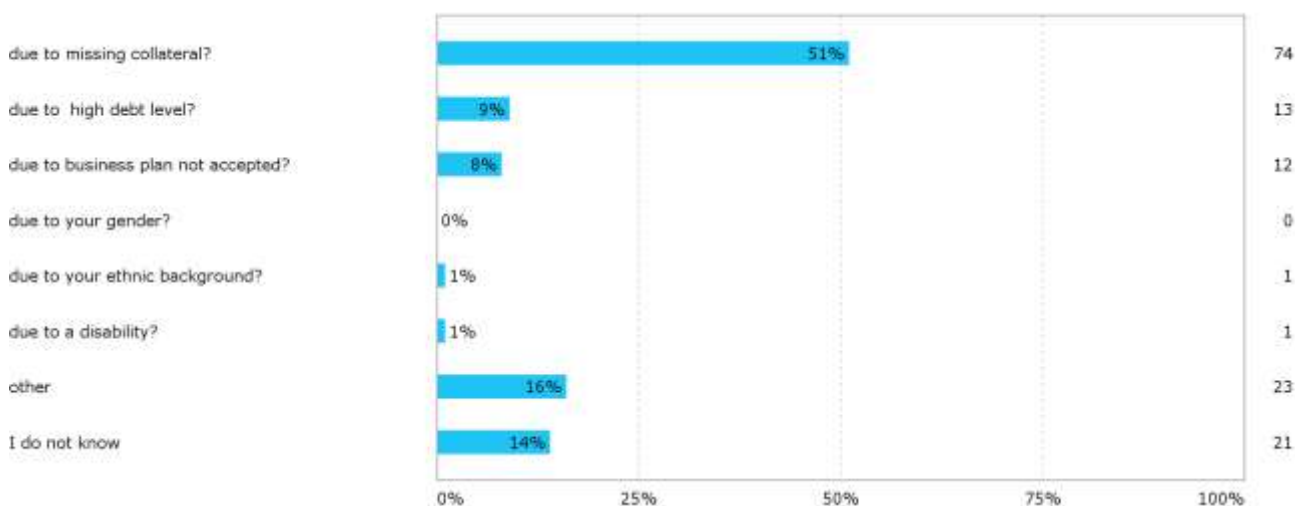
<sup>71</sup> EIF European Small Business Finance Outlook 2013

<sup>72</sup> ECB, 2014, Survey on the access to finance of small and medium-sized enterprises in the euro area (October 2013 to March 2014)

<sup>73</sup> Total number of final beneficiaries of the FCP as of 30.09.2013 – 5 942  
Total number of final beneficiaries of the FMA as of 30.09.2013 - 6 650

According to the respondents whose applications were rejected, the most often encountered reason for the rejection was the lack of collateral (51% of the cases). As illustrated by Figure 15, other reported factors that lead to a rejection were the high debt levels of the applicant, rejection of the applicant’s business plan, the risky nature of the business or its start-up character.<sup>74</sup>

**Figure 15 Q2 Do you think the rejection for a credit was motivated by factors such as:**



(Source: Survey of micro-borrowers, no responses from Qredits)

The information collected by the case studies offers further insight into the question of access to credit. Collateral requirements were identified by representatives of a number of intermediaries as being the main obstacle to microcredit applicants (Mikrofond, Jobs MFI, Inicjatywa Micro, Patria Credit). Credal’s representatives noted that often mainstream banks reject loan applications from start-up entrepreneurs due to their age (especially if they are under 30) or because they are unemployed at the time of application. MicroStart’s client base is entrepreneurs who lack access to conventional credit because they are unemployed, self-employed, or receive social benefits. Qredits maintains that its clients don’t have access to commercial financing because they are considered as being ‘unprofitable target groups’ - unemployed or self-employed persons, people with social benefits, people with unfavourable debt histories, immigrants and minorities, and people with lower levels of education.

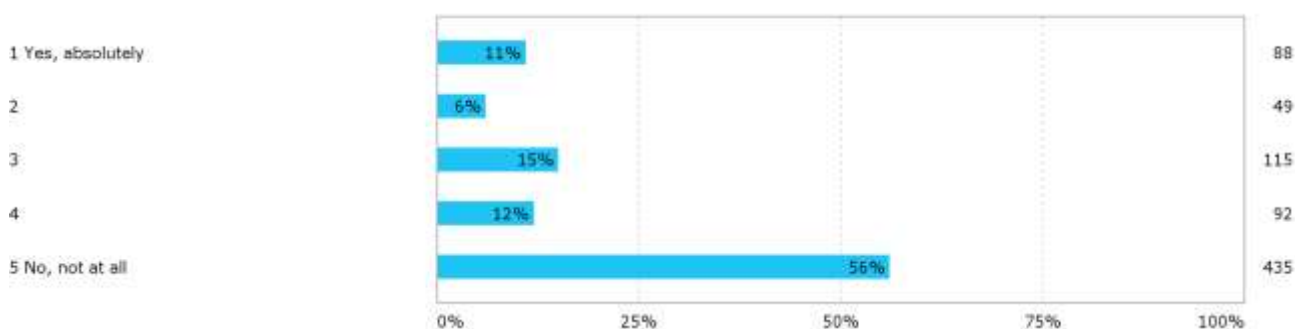
Patria Credit and FAER pointed towards the lack of access to credit for agricultural producers in Romania, as many of them are not incorporated as legal entities and lack documentary evidence of their income. Representatives of the intermediaries also highlighted that geographical exclusion (residents of remote areas with limited access to banking infrastructures) and general lack of experience with using financial services contribute to the lack of access to conventional credit by their clients. Representatives of MFIs in Bulgaria as well as some of their clients highlighted the lack of opportunities for financing of start-ups, since mainstream banks have requirements that are difficult to fulfil by newly established companies - such as that the business has been registered and active for more than year, or that certain levels of revenue can be demonstrated.

The survey results shown in Figure 16 are further evidence of the lack of access to credit for the current clients of the intermediaries backed by Progress Microfinance.

<sup>74</sup> The last two factors were reported by 6 and 5 respondents respectively who selected the answer “Other”.

The majority of respondents to the survey were of the opinion that they would not be able to receive a credit with similar conditions elsewhere – only a third expressed some degree of certainty that this could be the case.

**Figure 16 Q15 Do you think you could have received a credit elsewhere, with similar conditions?**



(Source: Survey of micro-borrowers, no responses from Qredits)

The case studies offered further evidence of this.

**Client of microStart, Belgium**

The client is the owner of a newly founded beauty salon in Brussels. She has a professional education in the area and previous professional experience from the field, but was unemployed and spent her time trying to secure financing for her start-up, whilst simultaneously looking for jobs. Before she contacted microStart, she initially tried to get funding from other banks and public funding (*Fonds de Participation*), but her applications were refused. The client first heard about microStart at a public job centre (Actiris), and immediately contacted the bank, which advised her to take the dreamStart entrepreneur course for young people. She attended the 3 month long course, which strengthened her business plan and her loan application was accepted.

**Client of Jobs MFI, Bulgaria**

The client is the co-owner of a company renting and maintaining water dispensers with filtering systems in office facilities. The company was one of the first in the Bulgarian market in this line of business and started operations with own investment, but soon needed more working capital. The owners' loan applications to mainstream banks were rejected, due to the owners' inability to meet the collateral requirements – in this case, the mortgage of a real estate property. The recipient turned to JOBS MFI based on a recommendation from an acquaintance and negotiated a loan of EUR 25 000, with the equipment itself as collateral, in addition to the two owners as guarantors.

While some MFIs provided examples of initiatives targeting specific vulnerable groups (described in more detail under the following sections on individual target groups), many address more broadly micro-entrepreneurs and those who are unable to access traditional means of finance. In general, evidence suggests that Progress Microfinance did not induce microfinance providers to target groups which they were not already targeting before the Progress Microfinance support. Only 3 out of 27 intermediaries interviewed (Microfinance Ireland, SEFEA, MicroStart) stated that they were not providing microcredits to the identified target groups prior to receiving support from Progress Microfinance; in these cases, this was due to the fact that they started up their microfinance activities with or alongside Progress Microfinance financing.

Based on the interviews with the MFIs, it is also possible to conclude that Progress Microfinance has increased access to and availability of microfinance for microenterprises. The MFIs reported that they are able to take more risks thanks to the support from Progress Microfinance, making it more attractive to provide funding to microenterprises, where the risks on credits are traditionally considered to be high.

#### 4.1.2 Social economy

While there is some evidence of the effectiveness of Progress Microfinance in terms of reaching specific target groups (see following sections), the evidence of its outreach to microenterprises in the social economy<sup>75</sup> is less clear. As can be seen from Figure 17, of the 15 MFIs whose clients include social enterprises, 14 state that these enterprises represent less than 25 % of their portfolio.<sup>76</sup> The results presented in the figure are based on the assessment provided by intermediaries in the data collection process, as they are not required to report on the subject of social economy as part of their social reporting duties. On the subject of social enterprises, a respondent from Mikrofond commented that providing microfinance to such is challenging for several reasons:

- There are not that many social microenterprises in the economy in general;<sup>77</sup>
- Such enterprises are less likely to have a business-model that generates sufficient revenue streams to service a loan while maintaining a social objective;
- Social enterprises would often need more money than other microenterprises, which usually means that the MFI would need a bigger collateral for loan and many social enterprises would have difficulty in securing such.

A Mikrofond representative was of the opinion that for social enterprises, financial products which combine grant and loan financing would be more suitable than pure microcredits. According to the representative, in Bulgaria, such enterprises are more experienced in using grant schemes and do not have the capacity to plan sufficiently for generating of the revenue streams needed to service a loan.

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<sup>75</sup> Includes cooperatives, mutual societies, non-profit associations, foundations and social enterprises.

'Social enterprise' means an undertaking, regardless of its legal form, which:

1. in accordance with its Articles of Association, Statutes or any other statutory document establishing the business, has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners, members and shareholders, where the undertaking:

–provides services or goods which generate a social return and/or

–employs a method of production of goods or services that embodies its social objective;

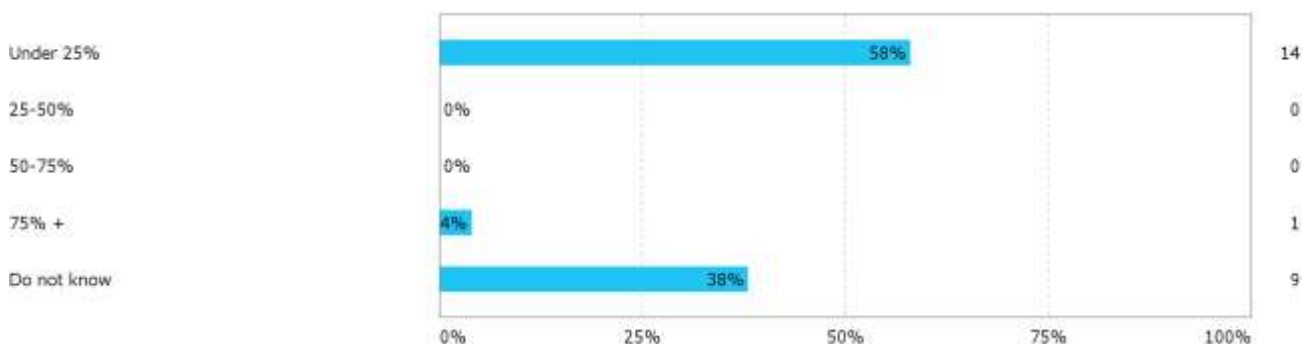
2. uses its profits first and foremost to achieve its primary objective and has in place predefined procedures and rules for any circumstances in which profits are distributed to shareholders and owners, in order to ensure that any distribution of profits does not undermine the primary objective;

3. is managed in an entrepreneurial, accountable and transparent way, in particular by involving workers, customers and/or stakeholders affected by its business activities.

<sup>76</sup> The one MFI with more than 75% being SEFEA, who has recently signed a first agreement with a sub-intermediary. This agreement is with a financial operator whose activity has a social impact.

<sup>77</sup> While a 2012 report by Ciriec International (The Social Economy in the European Union) indicates over 14.5 million paid employees, equivalent to about 6.5% of the working population of the EU-27 is engaged in some form of social enterprise, no statistics per enterprises are available.

**Figure 17 In your portfolio, what ratio of clients are social enterprises?**

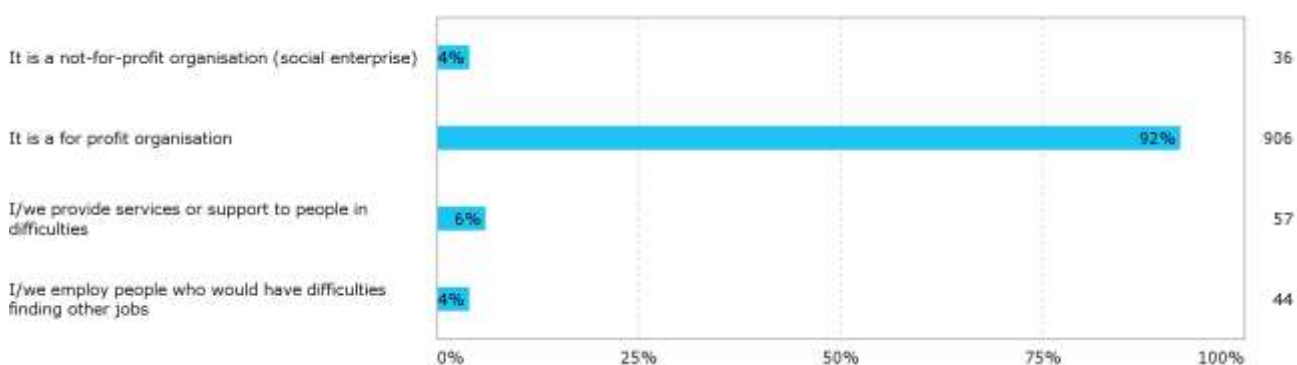


(Source: Interviews with intermediaries)

These results are confirmed by the survey to micro-borrowers. A clear majority of the respondents classified their businesses as a for-profit organisation (91%), with very few examples of not-for profit organisations, businesses that provide services to people in difficulties or that employ people who would have difficulties finding other jobs. The data collected from cases studies so far is further evidence of this and it can be concluded that the objective of supporting in particular the social economy has not been reached.

**Figure 18 Q8 How would you describe your business?**

(multiple choice, n= 986)



(Source: Survey of micro-borrowers, Qredits respondents included)

In terms of the effect on the specific target groups, the MFIs target their products more broadly at microenterprises in general and persons having difficulties in borrowing money from elsewhere, rather than always targeting vulnerable groups specifically such as minorities, young people, disabled persons, etc. (see next section). Moreover, several MFIs mentioned that most of their clients are simply trying to create their own private businesses rather than aiming to have a social impact.

It can thus be concluded that while Progress Microfinance has clearly been effective in increasing access to and availability of microfinance for microenterprises, it has been less effective in doing so in the social economy. This should, however, be seen in the context of the programme, where the MFIs have not been actively encouraged or required to include enterprises in the social economy into their portfolio. In order to ensure broader influence of Progress Microfinance, a broader inclusion of enterprises seems to have been necessary for a larger up-take of the programme.



### 4.1.3 Unemployed/inactive

When interviewed, some providers identified a greater focus on unemployed/inactive people in their activities. MicroStart, for example noted that 50% of their final beneficiaries are either job seekers, on welfare benefits or unemployed.<sup>78</sup> According to Millennium bcp, 31% of their clients were unemployed at the time of loan application.<sup>79</sup>

Several MFIs made the point that the target group of unemployed or inactive persons is well-covered by their microfinance products as they understand the facility to in general addressed to the unemployed or those seeking to develop micro-businesses, and they have taken this into account when selling their microcredit products. For example, FAER specifically targets young unemployed persons who are in the process of taking over the family farm from their parents. Such persons are eligible to receive a substantial start-up grant, but often need a credit to cover their operational costs until the receipt of the grant. In order to encourage job creation, FAER also prioritises applicants who plan to hire new employees for a loan under their Progress Microfinance portfolio which offers lower interest rates compared to the rest of their products. MicroStart also implements a programme called dreamStart which aims to help unemployed persons under 30 to strengthen their business projects (and business plans) through courses and workshops in business-related subjects.

The social reporting data available indicates that a substantial proportion of final recipients fell into the unemployed/inactive category. Aggregate data for 2011- 2013 shows that 59,5 % of all Progress Microfinance final recipients, who applied for a loan as a natural person, were unemployed or inactive at the time of loan signature, meaning that the loan contributed to the starting of a business (to be eligible for a microloan, final recipients must be seeking to start or develop their own microenterprise, including self-employment).

**Table 13 Employment status of final recipients**

	Employed		Unemployed		Studying		Inactive		Total No. <sup>80</sup>
	No.	%	No.	%	No.	%	No.	%	
<b>2011</b>	103	72,5	34	23,9	0	0	5	3,5	142
<b>2012</b>	686	67,5	263	25,9	6	0,6	61	6,0	1016
<b>2013</b>	1 217	38,5	1 743	55,1	10	0,3	140	4,4	3 165

(Source: FCP and FMA Social reporting for 2011, 2012 and 2013)

According to the social reporting submitted by Progress Microfinance intermediaries, the micro-providers which had the highest proportion of unemployed borrowers (natural persons) were ADIE (FR), where over 90 % of the final recipients of Progress Microfinance were unemployed or inactive at the time of contract signature and Créa-Sol (FR), with 84,9 % unemployed/inactive borrowers.

In the survey, both legal and natural persons were asked to report on their status at the time of application and as a consequence the results cannot be directly compared to those of the social reporting. Since borrowers who receive a microcredit as an enterprise rather than as a natural person cannot be considered unemployed at the

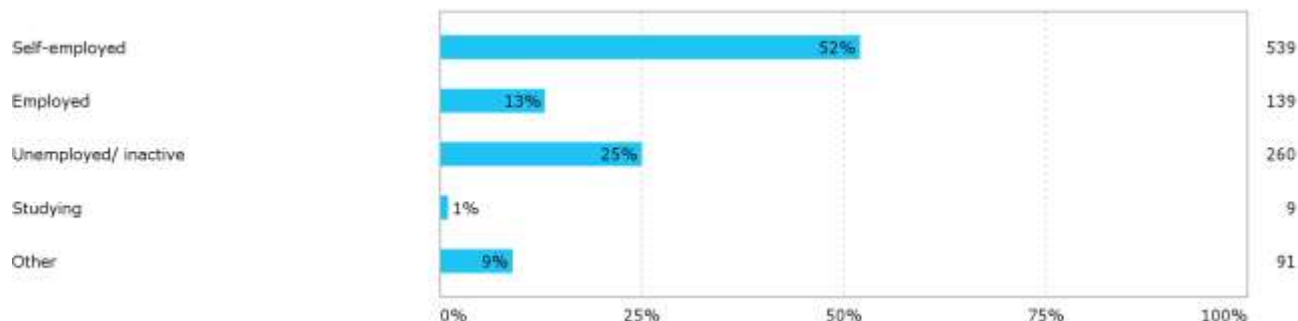
<sup>78</sup> According to the micro-borrower's survey, 33% of the respondents were unemployed at the point of loan application, however this data should not be taken as evidence against MicroStart's estimate as the response rate for clients of the intermediary was rather low – 11% or 60 of the 532 clients the survey was sent to.

<sup>79</sup> It was not possible to confirm these results through the survey, as only 18 responses were received from clients of Millennium bcp

<sup>80</sup> Number included 55 respondents which are not identified as belonging to any of the categories listed in the table.

time of loan application, the percentage of persons having reported such status in the survey is correspondingly lower.

**Figure 19 Q6 At the time of application for microcredit, were you?**

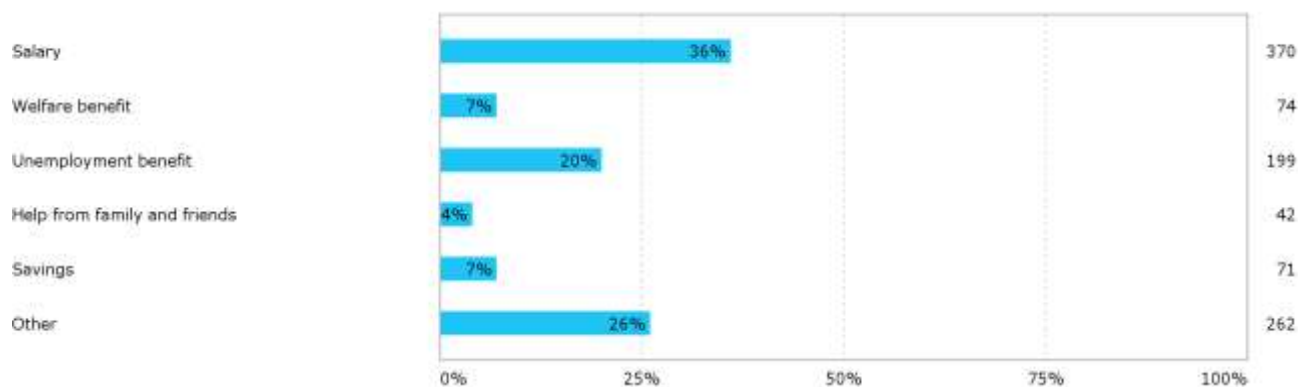


(Source: Survey of micro-borrowers, responses from Qcredits included)

Furthermore, although about a third of the respondents had a salary when submitting their loan application, almost as many had mainly unemployment benefit or welfare as source of income (see Figure 20).

It should be noted that the disproportionate number of respondents from ADIE (see 2.1.2) influences the results on this question, given the intermediary’s higher share of unemployed clients in general (as discussed above). If the results of ADIE are excluded, the average share of borrowers who were unemployed or inactive at the time of loan application goes down to 16 % and the average share of clients who were on unemployment or welfare benefits decreases to a total of 14 %.

**Figure 20 Q7 What was your main source of income before you received the credit?**



(Source: Survey of micro-borrowers, responses from Qcredits included)

The case studies identified several examples where microcredits under the Progress Microfinance facility lead to the transition of businesses from the shadow economy to official economic activity. FAER reported that they see a natural progression of their clients in the agricultural sector - from (i) subsistence farming to (ii) becoming a registered farmer and/or family association and finally, (iii) registering as a commercial enterprise carrying out farming as an economic activity. MicroStart also reported that according to their own information, Progress Microfinance backed loans have transformed 11 previously informal businesses into formal businesses, as the borrowers started declaring income from previously informal business activities as revenues of their microenterprise.

#### **4.1.4 Minority groups and migrants**

In terms of specific strategies to increase outreach to minority groups, eight providers indicated that they engaged in an activity aiming to increase outreach to minorities although not always as part of a coherent strategy (Qredits, ADIE, Mikrofond, MicroStart, Millennium bcp, BES, FAER, Microfinance Ireland). Four providers (Qredits, ADIE, MicroStart, Mikrofond) reported that they had opened branches in areas with a high density of the minority in question in order to be closer to the target group. For Mikrofond in Bulgaria, for example, this was particularly relevant for outreach to Turkish minorities. MicroStart indicated that they have almost exclusively minority clients as they have offices in areas of Brussels where there is a high density of minority groups.

Other providers (MicroStart, ADIE, Mikrofond) indicated that word of mouth was a fast and efficient way to target minority groups, with ADIE noting this is as a useful strategy for increasing awareness among the Roma population in France, who they target specifically as part of their operations. Mikrofond EAD in Bulgaria also report that they have worked with the Roma population since 1990. Cooperation with organisations and associations working closely with immigrants and other minorities was also a well-used strategy, mentioned by at least five providers (Millenium bcp, MicroStart, BES, FAER and Microfinance Ireland). The latter developed a specific product for loans of up to EUR 5 000 tailored to minorities together with area-based social partnerships, whereby there is a simplified application process and a one year integrated business plan and mentoring are offered by the partnerships.

In contrast to the above evidence, the social reporting data indicates outreach to very few persons from a minority background. In 2013, only 37 final recipients who are natural persons identified themselves as belonging to a minority group, and aggregated data on the employees of final recipients (completed by the final recipient) only indicated 213 employees in total in 2013 as belonging to a minority group.

Evidence from the survey with clients of the Progress Microfinance intermediaries confirms the above, although it shows a slightly higher share of micro-borrowers (16 %) identifying themselves as being a migrant, with a foreign background or from a minority group.

With regard to these results, the EIF microfinance team made the point that the final recipients do not necessarily see themselves as marginalized groups, so it becomes difficult to assess the real outreach. This was reiterated by more than one intermediary – e.g. both Mikrofond and JOBS MFI representatives gave examples of clients who, although belonging to ethnic minorities, would not identify as such when filling out their loan application forms. Representatives of the interviewed MFIs explained that this is often the case as loan applicants fear discrimination if they disclose their ethnic background.

#### **4.1.5 Outreach to younger/older people**

While none of the Progress Microfinance intermediaries reported that they offer products targeted specifically to older borrowers, strategies to target young people were implemented by a number of them. For example, Qredits is working together with educational institutions to develop an e-learning platform. Crédal market their products at employment fairs at universities and schools and are planning on implementing a special programme offering a mix of credit and mentoring to young people.

ADIE offer a special training programme for young people under the age of 32, who are given training and business modules over a period of 2-4 months in order to help them set up a project. Upon completion of the training, the young people then have the possibility of accessing a microcredit from ADIE.

Other tactics to reach out to young people included word of mouth (MicroStart), and the involvement of associations (Millennium bcp, Pancretan CB – see 3.4.5), meaning that providers could also be more efficient in terms of marketing costs.

The social reporting data from 2013 indicates the majority (84 %) of final recipients were between the ages of 25-54. Those who were aged 55 or over at the time of receiving the loan accounted for 9,7 % of final recipients. However, there were also 187 recipients (5,9 %) who were under the age of 25.

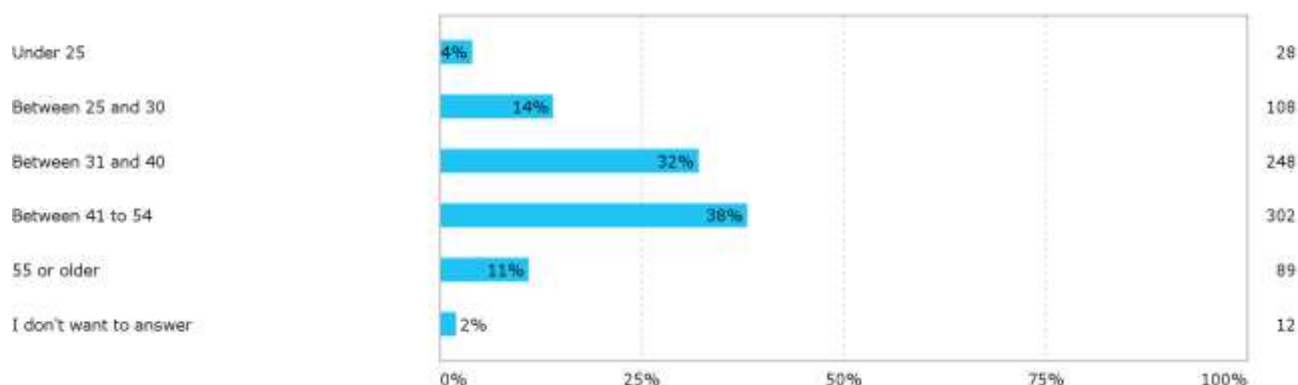
**Table 14 Age of final recipients**

	<25		25-54		>55		Total No.
	No.	%	No.	%	No.	%	
<b>2011</b>	7	4,9	116	81,7	19	13,4	142
<b>2012</b>	53	5,2	864	85	99	9,7	1 016
<b>2013</b>	187	5,9	2 669	84,3	308	9,7	3 165

(Source: FCP and FMA Social reporting for 2011, 2012 and 2013)

The data collected from the survey to micro-borrowers receiving products backed by Progress Microfinance allows further insight into the age profile of the group. The biggest share of clients by age group is in fact between 41 and 54 years of age, followed by the 31 to 40 years old group. Micro-borrowers younger than 25 or older than 55 are relatively few in comparison – 4 and 11 % of the total respondents.<sup>81</sup>

**Figure 21 Q21 How old are you?**



(Source: Survey of micro-borrowers, responses from Qcredits not included)

The social reporting activities of Progress Microfinance also feature data on the age profile of the employees of microenterprises receiving credits backed by Progress Microfinance. Amongst the employees of final recipients, there were slightly higher proportions of younger and older people: 9,4 % under the age of 25 and 8,3 % above the age of 55, with a clear majority of the employees being in 25-54 age group.

<sup>81</sup> The distribution in age brackets is not influenced significantly by the large share of ADIE respondents, although it should be noted that 20 of the 28 borrowers younger than 25 who represent 4% of the surveyed sample are clients of Adie.

#### 4.1.6 Other disadvantaged groups

There were few strategies identified to specifically target disabled or handicapped groups at the level of intermediaries. However, five providers (Qredits, Millennium bcp, ADIE, Erste bank (micro) undertake specific activities to promote their products. Qredits had “benefit offers” for disabled people, which helped them to connect with some more disadvantaged clients. Millennium bcp indicated that they collaborate closely with associations such as the Portuguese Association for Disabled People. ADIE reported that they do work with a limited number of handicapped people assisting them in obtaining special grants. However, many providers mentioned that while they did not have any specific measures to target handicapped people, they would be covered in their regular microfinance products.

According to the 2013 social reporting data, only one recipient has identified themselves as disabled. Data on the employees of final recipients revealed that 29 employees were disabled. Similar to the reluctance of credit applicants to disclose their ethnic background, people from a disadvantaged background are unlikely to report on this, either because they do not consider themselves disadvantaged or because they fear discrimination. This challenge in capturing the real outreach of Progress Microfinance to such target groups is illustrated by the fact that, two of the five micro-borrowers of a Progress Microfinance intermediary in Bulgaria that were interviewed during a case study visit mentioned that they are recipients of social pensions for disability due to chronic medical conditions. At the same time, according to the social report, the intermediary does not have any clients with a disability.

Of the respondents to the survey, 3 % (or 17 respondents) reported that they live with disabilities and 11 % considered that they belong to other disadvantaged groups – e.g. single parents, persons considered too old or too young to receive a microcredit, persons with low income or on social benefits.

#### 4.1.7 Educational level

While MFIs did not mention specifically targeting final recipients who have not completed higher level of education, it would appear that all levels of education are covered amongst the final recipients. According to the social reporting for 2013, over 41,6 % of final recipients had completed secondary education. However, 15,5 % of the recipients had either primary or no formal education.

**Table 15 Education levels of final recipients**

	No formal education		Primary		Secondary		Post-secondary		University		n/i		Total No.
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
<b>2011</b>	0	0	7	4,9	101	71,1	21	14,8	13	9,2	-	-	142
<b>2012</b>	17	1,7	57	5,6	517	50,9	229	22,5	179	17,6	17	1,7	1016
<b>2013</b>	90	2,8	401	12,7	1318	41,6	688	21,7	576	18,2	92	2,9	3165

(Source: FCP and FMA Social reporting for 2011, 2012 and 2013)

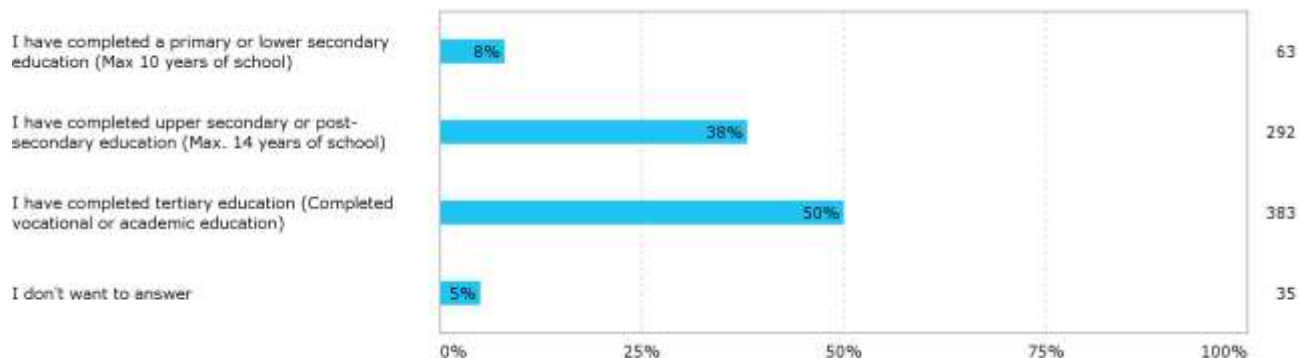
In terms of helping to develop the specific business acumen of final recipients, many of the providers do offer training and mentoring, to assist in the development of business models and understanding how to successfully set up a business (see section 3.4.6).

The results of the survey (Figure 22) show that one half of the surveyed final recipients have tertiary education.<sup>82</sup> The difference with the social reporting results

<sup>82</sup> These results are not influenced significantly by the large share of ADIE respondents.

can be attributed to the different populations – social reporting data on education is collected only for borrowers who are natural persons, while the survey addressed those who borrow as a legal person as well.

**Figure 22 Q23 What is your highest education?**



(Source: Survey of micro-borrowers, responses from Qcredits not included)

A cross-analysis was performed between the data collected on education level and other variables, within the limitations of the small sample size. Some of the more pronounced results are that borrowers with primary or lower secondary education were much more likely to have income levels which put them at risk of poverty than borrowers with higher education (67 % vs 42 %) and that such borrowers were twice as likely to apply for a microcredit while being unemployed (43 % vs 24,5 % on average for higher educated cohorts) and consequently use it to start a business (63 % of the micro-borrowers used the loan for a business younger than 6 months, while higher-educated borrowers tend to finance businesses older than a year).

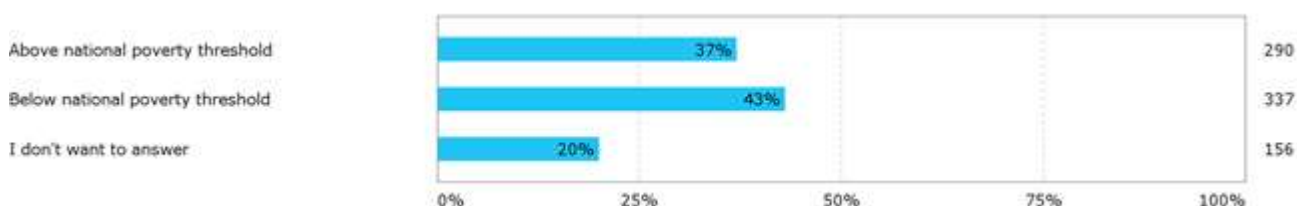
These results are interesting to interpret in light of the target groups for Progress Microfinance financing and can be interpreted as indicators of two opposing results – either that the cohort of vulnerable people is in fact broader than expected and many of those in need of microfinance have higher education and can be seen as middle-class, or that the target group of Progress Microfinance is not reached to a sufficient extent.

#### 4.1.8 Income level

Regarding the financial situation of the final recipients of Progress Microfinance loans, their collected responses indicate that for 2012, the bigger share (43 %) had a net income below the poverty-at-risk threshold for their country. The results here are influenced to some extent by the large number of respondents who are clients of ADIE.<sup>83</sup> If these respondents are excluded from the analysis sample, the overall values are reversed – 47 % of the micro-borrowers had income above the national poverty threshold, whereas 32 % had income lower than that.

<sup>83</sup> In the survey sample of ADIE alone - 404 respondents - the share of respondents with income below the national poverty threshold in France is 55%, which is consistent with the levels in other intermediaries in France and Belgium.

**Figure 23 Q18 What was your total net income in 2012 including any benefits or other support (excluding the microcredit)?**



(Source: Survey of micro-borrowers, responses from Qredits included)

The average level of people at risk of poverty in the EU in 2012 stood at 18,2 % and for surveys which received more than 50 responses from the clients of an intermediary, it was also possible to make a comparison with the national reference values for population at risk of poverty. As can be seen from the following table, in four of the six cases, the percentage of micro-borrowers with income below the national poverty threshold significantly exceeds the national average. This can be traced back to the specific target groups and outreach approaches of these intermediaries – e.g. ADIE specifically targets those who cannot access standard finance for the development of enterprises, such as persons at risk of exclusion or those who have small enterprises. In order to reach this target group, MicroStart cooperates extensively with community organisations and has established networks with public institutions, in particular jobcentres, who work with unemployed persons. Qredits also cooperates with partner organisations - for example, many of Qredits' applicants were informed of the possibility to receive a microcredit to start a business by the State Employee Insurance Agency<sup>84</sup> (either in person or via their website).

**Table 16 Comparison of reported income level with national average of population at risk of poverty**

	Member State	Micro-borrowers at risk of poverty	National average of population at risk of poverty
<b>Mikrofond EAD</b>	BG	13,6 %	18,6 %
<b>ADIE</b>	FR	55,0 %	14 %
<b>Inicjatywa Mikro</b>	PL	9,6 %	12 %
<b>Sberbank</b>	SI	58,9 %	14 %
<b>MicroStart</b>	BE	61,5 %	14 %
<b>Qredits</b>	NL	23 % <sup>85</sup>	11 %

Source: Survey of micro-borrowers, Eurostat

A cross-analysis between the income level of respondents in the survey sample and responses they provided to other questions shows several interesting correlations. Respondents with income below the national poverty threshold who had applied for a loan and been rejected prior to receiving a Progress Microfinance backed credit were more likely to have been rejected due to missing/insufficient collateral than respondents with higher income (62 % vs 41 %). Half of the respondents at risk of poverty used the loan to finance a new business, whereas respondents with higher

<sup>84</sup> Uitvoeringsinstituut Werknemersverzekeringen, UWV

<sup>85</sup> Approximate value – the data collected by Qredits on income level is not aligned to the “at-risk-of-poverty” threshold determined by Eurostat for the Netherlands which for 2012 was EUR 12 337. The share of survey respondents with income of less than EUR 10 000 is thus taken as a proxy.

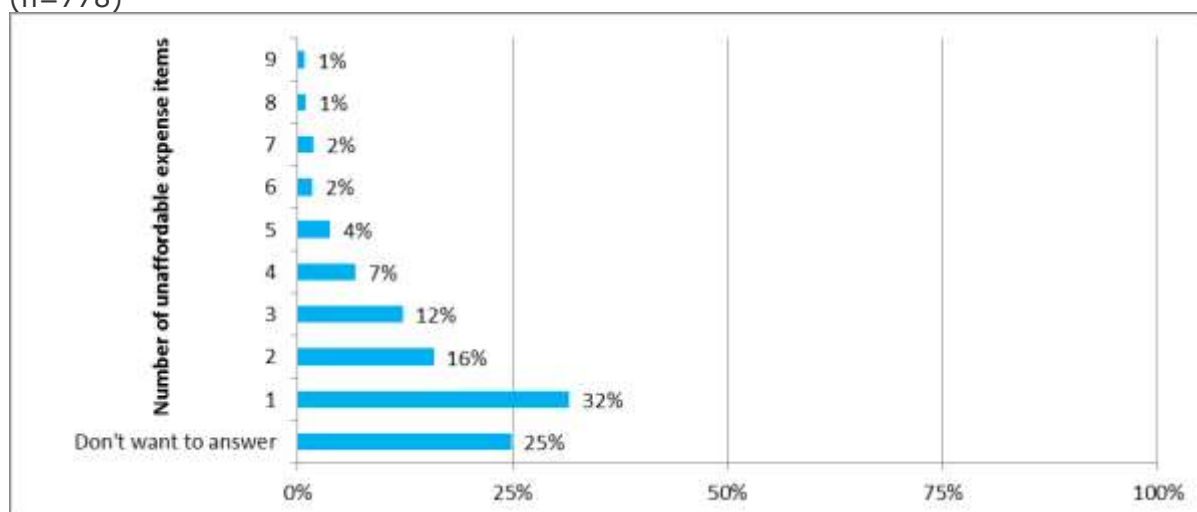
income used the loans mostly for businesses that have been operational for at least a year.

A further indicator of the micro-borrowers' income level is the extent of their material deprivation, as measured in their ability to afford different types of expenses. Materially deprived persons have living conditions severely constrained by a lack of resources and experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

As evident from Figure 24, 17 % of all respondents to this question indicated four or more expenses that they had difficulty covering, which classifies them as severely materially deprived persons. The average level of population under severe deprivation in the EU for 2012 was 9,9 %.<sup>86</sup> Due to the inconsistent response rates and survey samples amongst intermediaries, it is not possible to make a comparison on an intermediary or country level for this indicator.

**Figure 24 Q19 Micro-borrowers' ability to afford expenses**

(n=778)



(Source: Survey of micro-borrowers, responses from Qredits included)

The survey results, although not representative of the entire population of borrowers receiving financing backed by the Progress Microfinance facility, provide strong evidence that the recipients of the facility have lower than average income.

#### 4.1.9 Equal opportunities for men and women

Data from the social reporting shows that in total, there was approximately a 60:40 male-female ratio of final recipients in 2013. This result was also confirmed by the survey (63 % male, 37 % female), which also covers borrowers who applied for a loan as a legal person.

Some microcredit providers had a higher ratio of female recipients, such as Millennium BCP and Banco Espirito Santo in Portugal, where in 2013 about half of final recipients

<sup>86</sup> Eurostat



were female.<sup>87</sup> Furthermore, Inicjatywa Mikro stated that 68 % of their clients were female, although the provider had no specific strategy to target women.

**Table 17 Gender of final recipients**

	Male		Female		Total
	No.	%	No.	%	
<b>2011</b>	88	62	54	38	142
<b>2012</b>	617	60,7	399	39,3	1 016
<b>2013</b>	2 016	63,7	1 149	36,3	3 165

(Source: FCP and FMA Social reporting for 2011, 2012 and 2013)

Further evidence of the outreach of the facility with respect to gender can be found in the reported data on the employees of micro-borrowers who receive credit as legal persons. The results of the social reporting for 2013 show that 38,22 % of the employees of such borrowers are female, while 61,78 % are male.

Eight microcredit providers indicated that they implemented specific strategies to target women. Some focussed on marketing and promotional material (Qredits, Siauliu Bankas, CCB) to promote entrepreneurship among women. Others engaged with women through third-party associations and organisations. For example Microfinance Ireland engaged via a network for female entrepreneurs. Three providers (Millennium Bank, Pancretan CB, Siauliu Bankas) had set up partnerships/participation with programmes and associations that supported female entrepreneurship, also involving the providers in conferences. Crédal indicated that they had set up specific training programme for women.

Those providers involved in agricultural related loans (Patria Credit, FAER) indicated that although not final recipients themselves, women were frequently a core part of the enterprise or household and thus were also involved in the outreach of the loan. Mikrofond's representatives were of the opinion that special activities to increase the access of microcredits to women aren't actually necessary in their national context, and cited the current ratio of female borrowers (44 %) as an indicator of their equal access to credit.

At the same time, the survey results offer several indications of the relevance of microfinance specifically for women. To begin with, in the surveyed sample, there was a higher share of female first-time micro-borrowers (72 % vs 62 %). In addition, more female respondents considered that they would not be able to receive a credit with similar conditions to their Progress Microfinance loan elsewhere (64 %) compared to male respondents (50 %).

Based on the survey results, the financial situation of female borrowers also appears to be worse than that of men - a higher share of female respondents were unemployed at the time of application (30 % vs 23 %) and had income placing them at risk of poverty (47 % vs 41 %). At the same time their businesses tend to develop not as well as those of men - 45 % have been able to increase their turnover compared to 55 % of men

Overall, these results show that the ratio of female to male borrowers is close to the targeted 40:60 ratio stated as judgement criteria in the evaluation, despite the fact that few of the intermediaries actively target women. To achieve the desired share of

<sup>87</sup> Some intermediaries have higher percentages of female beneficiaries, but given the small sample sizes of the data they have provided, the results are not significant statistically.

at least 40 % female micro-borrowers, and given the relevance of access to finance for female micro-borrowers, the intermediaries can be encouraged to pursue the implementation of specific activities targeting such.

#### **4.1.10 Eligibility and selection criteria as a method to reach specific target groups**

The effort to reach out to under-represented and disadvantaged groups was also evident in the selection of final recipients. A number of microcredit providers implemented systems and criteria in order to ensure that certain target groups were eligible for microloans.

According to data collected from interviews, 10 providers implemented specific selection criteria that support the outreach to target groups. MicroStart indicated that they actively sought out clients, as low levels of trust amongst potential clients meant they were unwilling to come and seek out help. Other providers (Qredits, Patria Credit, ICREF, Banca Transilvania) undertook a preliminary assessment of clients in order to see whether they fell under the target groups indicated by the Progress Microfinance instrument.

Finally, several providers (Millennium bcp, Patria, Crédal, Microfinance Ireland) stipulated that clients must show difficulty in accessing traditional credit and be unable to receive funding from "normal" sources. Patria Credit required that the client prove such financial exclusion (main indicator is the lack of sufficient guarantees to allow him to draw a "standard" credit) and Microfinance Ireland required that a potential customer must have been first declined by a bank in order to become eligible for a microloan.

With regards to eligibility and identifying the need for this type of microfinance, one MFI pointed out that as a result of the economic crisis, some target groups who would previously have been bankable are now considered eligible for microcredits as a result of the crisis. This point was reiterated by the EIF microfinance team: the impact of the crisis may require a potential broadening of the scope of the target groups, as more people experience financial instability and vulnerability in hard-hit countries. Several intermediaries (Mikrofond, JOBS MFI, Banka Transilvania) were of the opinion that in the situation of a lasting economic downturn, microenterprises can be considered as vulnerable by default, both due to the higher risks they are faced with and their reduced access to finance.

#### **4.1.11 Overall conclusion on the effectiveness of Progress Microfinance**

The evidence collected and analysed in the course of the evaluation indicates that Progress Microfinance is effective in terms of increasing access to finance for microenterprises overall, reaching micro-entrepreneurs who lack access to the conventional credit market.

The evidence of the Facility's effectiveness in terms of reaching specific target groups as well as microenterprises in the social economy is less conclusive. While some of the intermediaries work predominantly with customers who can be considered vulnerable, the majority do not target particular groups such as minorities, women or disabled persons. A finding of the evaluation is that in the current economic environment, financial exclusion is a problem for a broad, heterogeneous group of microenterprises and is not restricted to specific vulnerable groups.

## 4.2 Impact of Progress Microfinance

Following the assessment of the effectiveness of the Progress Microfinance facility in reaching its objectives to increase access to finance for microenterprises, it is also relevant to look closer at the longer-term impacts of the instrument. As discussed under Section 3.1, the objectives of the Facility are two-fold: on the one hand, by enabling microcredit providers in the EU to increase their lending activities, it aims to make microfinance more readily available to persons who wish to start up or develop microenterprises, and on the other hand, by reducing the risk borne by the microcredit providers, to enable microcredit providers to lend to groups who would normally not qualify for financing. The results achieved in this regard are discussed in the following section.

### 4.2.1 Impact on microcredit providers

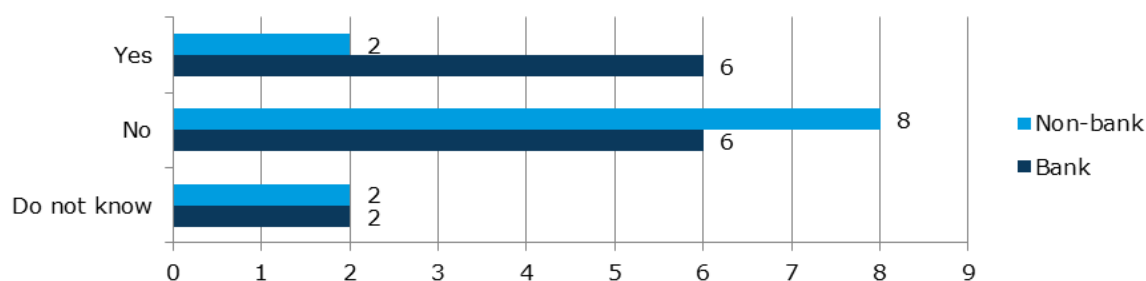
The interviews and cases studies carried out in the context of this evaluation identified a number of different ways in which the impact of Progress Microfinance materialises directly on microcredit providers.

#### Impact on access to finance for providers

To begin with, for several intermediaries, Progress Microfinance played a direct role for their ability to start operations – the receipt of a guarantee was a condition for MicroStart (BE) and Microfinance Ireland to receive financial support from their founding investors. The senior loan JOBS MFI received allowed it to start operations.

Overall, half of the interviewed intermediaries were of the opinion that they could not have found similar debt financing elsewhere (Figure 25). In particular the MFIs that are non-banks would have had difficulties finding alternative financing, whereas bank institutions would have secured such through their access to the financial markets. Some of the intermediaries stated that had it not been for Progress Microfinance, they would have had to downscale their lending activities in terms of number of credits (Mikrofond, FAER) and the size of loans offered (Siauliu Bankas, ADIE).

**Figure 25 Do you think your institution could have found similar debt financing elsewhere?**



(Source: Interviews with intermediaries)

The MFIs that saw other possibilities for funding, would have found it through different types of sources, such as regional funding programmes, savings banks, national banks, credits institutes or the like, but the general opinion of the interviewees was that Progress Microfinance would still be a preferred funding instrument. This is illustrated by the example from an intermediary:

*"We do not like to be reliant on a single source of funding. However, we still need to grow as an organisation and we do need to find funding elsewhere - mainly nationally. However, [Progress Microfinance] would not be easy to replace - because of the openness, the quality, the flexibility of the fund. In terms of amount, the Progress Microfinance funding is the second biggest source of funding for us."*

This is supported for example by Mikrofond EAD, who stated that there are no comparable products available with similar flexibility and volume for a fixed price. Mikrofond's representatives found Progress Microfinance to be particularly relevant in Bulgaria, where traditional sources of microfinance were limited due to the effects of the financial crisis and withdrawal of support to microfinancing from development aid providers.<sup>88</sup> Progress Microfinance was available to fill this gap. The interviewees mentioned that the other possible sources of funding can have several limitations, such as being too expensive (Qredits) or that the national guarantees only support smaller loans (ADIE).

At the same time, Progress Microfinance was also found to help microcredit providers get access to **additional funding**, for example, Mikrofond and FAER managed to leverage the received senior loan in negotiations on price and conditions of funding from other lenders. Qredits, Patria Credit and ADIE also used their guarantees to obtain better rates on lending. Créa-Sol expected to be able to leverage their more diversified funding base (as a result of Progress Microfinance) in future negotiations with investors and lenders.

The anecdotal evidence collected over the course of the evaluation suggests that whereas larger banks tend to have sufficient own funds or generally good access to the financial markets, smaller microfinance providers are more constraint in their access to finance. This is also the assessment of the EIF, where the interviewees confirmed that there are differences in the negotiations between MFIs, who cannot access the market elsewhere on the one hand, and banks that can. Based on these findings it can be concluded that Progress Microfinance had a clear positive impact on the access of microcredit providers to financial resources for their microfinance operations. This also confirmed by a study of the EMN which points to the high relevance of public and in particular EU funds for financing microcredits.<sup>89</sup>

### **Impact on lending volumes, microcredit products and target groups**

In order to assess an impact or perceived changes resulting from Progress Microfinance, it is important to set a benchmark against which any changes are to be evaluated. As reported in Table 5, all intermediaries which had been active prior to their agreements for a Progress Microfinance instrument reported that they have been providing microcredits - microcredit institutions as their main business and banks as part of their general lending activity or as a specific product. Progress Microfinance instruments were not found to have precipitated the shift of focus to micro-lending where it did not exist previously, but there was substantial evidence for the contribution of the facility to the intermediary's ability to grow their microcredit portfolio (Inicjatywa Mikro, Credal, , FAER, Patria Credit, ADIE, Societe Generale Expressbank, Sberbank). Only a few of the intermediaries were able to offer concrete estimates of the development of their portfolio following the conclusion of a Progress Microfinance agreement - the available data is presented in the following table.

<sup>88</sup> According to the intermediary. Traditional sources of microfinance such as development aid providers do not consider EU Member State as their target beneficiaries.

<sup>89</sup> EMN 2011-2012 (Unterberg et al.). Overview of the Microcredit Sector in the European Union. [http://www.european-microfinance.org/docs/emn\\_publications/emn\\_overview/1.overview2010-2011-final.pdf](http://www.european-microfinance.org/docs/emn_publications/emn_overview/1.overview2010-2011-final.pdf)

**Table 18 Microcredit portfolio development**

Intermediary	Date of signature of loan/guarantee agreement	Portfolio development
<b>Credal</b>	2012-04-27	The share of micro-credits in the portfolio grew by 20 % between 2011 and 2012. Microcredits grew by 12 % more than the rest of the intermediary's portfolio.
<b>Sialiu Bankas</b>	2011-06-28	Share of microcredits in the portfolio of the bank increased from 0 % to 0,2 % between 2011 and 2012.
<b>Inicjatywa Mikro</b>	2011-11-30	The microcredit portfolio of the intermediary grew from EUR 37m in 2011 to EUR 57m in 2012.
<b>Sberbank</b>	2011-12-20	The overall lending to microenterprises (also credits over EUR 25 000) grew from EUR 12m in 2011 to EUR 15m in 2012 and EUR 29m in 2013.

As discussed previously, several intermediaries began operating with an active loan or guarantee instrument which allowed them to start their lending activities (Microfinance Ireland, JOBS MFI, Qredits, MicroStart).

With regard to the impact of the facility in terms of increasing access to finance for different target groups, as discussed under section 4.1, the results are somewhat mixed. While some of the intermediaries target microenterprises without differentiating with respect to their characteristics, others focus specifically on those found to be financially excluded or who belong to a particular vulnerable group. Several of the non-bank institutions in fact have a social mission that addresses vulnerable groups as their *raison d'être* (e.g. ADIE, MicroStart, Credal). This heterogeneity of the group makes it particularly challenging for the evaluators to detect evidence of change brought about by the evaluated facility.

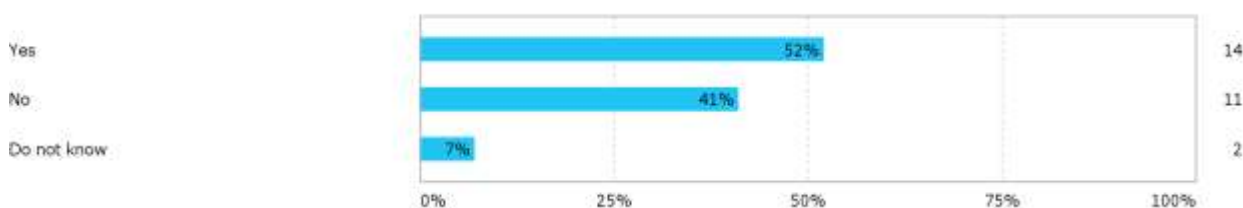
There are only a few intermediaries that started working with particular groups they had previously deemed too risky – e.g. Qredits were able to finance single entrepreneurs without co-signers, CCB could finance start-ups of young individuals, FM Bank and Mikrofond started to work with start-ups as well. Erste Bank can offer loans to clients who lack collateral and Banco Popolare di Milano can work with clients whose credit rating would otherwise be considered insufficient. While the majority of intermediaries did not change their lending scope and strategy explicitly towards vulnerable groups, all were of the opinion that Progress Microfinance allows them to provide more access to credit to microenterprises in terms of lending volume.

### **Impact on microcredit conditions**

The impact of Progress Microfinance on intermediaries can also be found in the changes that intermediaries introduced in their products as a result of their use of the facility.

As shown in Figure 26, in 52 % of the cases, the use of Progress Microfinance loans or guarantees had a direct impact on rates, terms and conditions under which intermediaries provide microcredit products.

**Figure 26 Have the conditions for credits been affected by the support provided by Progress Microfinance?**



(Source: Interviews with intermediaries)

A number of intermediaries were able to lower the interest rates on microcredits (Qredits, BTRL, SGEB, Patria, Mikrofond, ADIE, BCCM, Erste Bank), with decreases ranging from 0,5 percentage points to as much as 6 percentage points (Patria Credit). Other changes, facilitating the access of vulnerable groups to financing, include an easier access to grace period and lowering of collateral requirements (Qredits) and waiving the need for collaterals (Erste Bank).

*"As this instrument is more a "signal to the territory" than a profit generating undertaking, the bank committed itself to keep the pricing as low as possible so as to be able to cover the costs. This resulted in a competitive and appealing product being offered to clients." (Interview with an intermediary)*

On rare occasions the support from Progress Microfinance has in fact led to the interest rate being higher than on other similar products. According to MicroStart, it has been necessary to increase the interest rate to finance the losses caused by the too low cap on the guarantee. SEFEA, which functions as an intermediary with sub-intermediaries, has had to price the instrument at a higher level than similar products where general market conditions apply. This has led to a lack of interest towards the instrument from the part of clients (i.e. MFIs, not final recipients), and only one credit had been disbursed at the time of reporting. Millennium bcp offers a microcredit product backed by a government guarantee, which at the time of reporting had better pricing and conditions compared to their Progress Microfinance product line and consequently was more popular among customers.

Based on the interviews and case studies with the microcredit providers, it is thus possible to conclude that many of the providers, and in particular banks, who would have had the possibility to find similar funding elsewhere, would have provided microcredits also without the support from Progress Microfinance, but this would have been done on a more narrow scale, to a smaller target group, with smaller volumes or to a smaller number of recipients. Progress Microfinance has clearly supported the development of the microcredit market and led to an increased supply of microcredits to groups that would otherwise not have access to such financing (see section 4.1.1 for a more detailed description of the effectiveness of the facility in increasing access to finance for the target group).

### **Positive externalities resulting from the facility**

Progress Microfinance also led to some positive externalities where microcredit providers are concerned. For several of the MFIs, the support they receive through Progress Microfinance has improved their brand. The positive impact of the cooperation with an EU institution and being applicable for funding through an

instrument administered by the European Investment Fund comes through clearly in the interviews with the microcredit providers.<sup>90</sup>

*"It is a clear boost to our image to say that we are working with the EIF. The fact that we have gone through a process of approval with the EIF improves our image."*  
(Interview with an intermediary)

For example, in Bulgaria the microcredit business does not always have a good image due to the presence of many loan shark lenders and having a credible partner, such as the EIF, is supporting the microcredit providers in being considered as credible and trustworthy microcredit providers and partners.

An interesting finding is also that Progress Microfinance is mentioned to have improved the image of EU funding in general among the final recipients. In Romania, Patria Credit mentioned that Progress Microfinance has "put a human face on EU funding and it has shown that EU funds are within reach, and that there are persons (loan officers) that help you access it".

Other microfinance providers mention that the improved image has been more CSR related and resulted from the increased focus on the MFI's activities as an institution that is socially responsible (Siauliu Bankas), that helps vulnerable people (CCB), or as an innovative actor, being a first-mover in the field of microcredits (BCCM, Emil Banca).

There are also MFIs who plan to use the lessons learned from their experience with Progress Microfinance to apply for other sources of funding, for example by scaling up in terms of their applications for Community funding. This is in particular relevant for some of the bigger players, such as Erste Bank, but also Créa-Sol mentions that the capacity-building gained through the participation in Progress Microfinance will be essential when looking into broadening their sources for finance.

For others, Progress Microfinance has been a channel to receiving new clients and for example Erste Bank have experienced that 80 % of the persons receiving microcredits are new clients to the bank.

#### **4.2.2 Impact on micro-borrowers**

The impact of Progress Microfinance on microenterprises can be assessed based on the information reported in the survey and during the case study interviews with clients of the facility's intermediaries.

As evidence of the impact of the Progress Microfinance backed microcredits on employment, one can compare the self-reported change of status of the micro-borrower in the time span between their application for the microcredit and the present (see Table 19). While almost a third of all respondents were unemployed or inactive at the time of applying for a microcredit, only 4,7 % of the micro-borrowers had such a status when answering the survey. In fact, 77 % of the respondents who were unemployed/inactive when they applied for a microcredit are now self-employed. Extrapolated to the total number of Progress Microfinance recipients until 2013,<sup>91</sup> these results would imply that more than 2700 unemployed/inactive persons so far started their own business as a result of Progress Microfinance.

<sup>90</sup> This is mentioned at least by microStart, Qredits, Millennium BCP, Patria Credit, Microfinance Ireland, Mikrofond EAD, Jobs MFI, FAER, ICRED, Pancretan CB, Créa-Sol, Crédal and BES.

<sup>91</sup> 12,364 Final Beneficiaries based on data up to 30.09.2014 according to the Progress Microfinance – Annual Implementation Report 2013

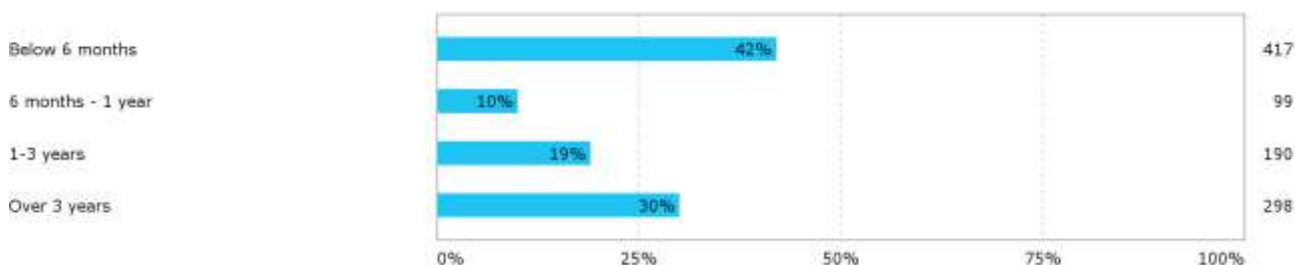
**Table 19 Cross analysis of the status of recipients at the time of microcredit application and at present %<sup>92</sup>**

		Q22 What is your main activity at the moment?							Total (Q 6)	Pct (Q6)
		Self-employed	Employed	Unemployed / inactive	Student	Other	I don't want to answer			
Q6 At the time of application for microcredit, were you?	Self-employed	94 %	8 %	1 %	0 %	2 %	0 %	408	52,4 %	
	Employed	46 %	61 %	2 %	0 %	7 %	0 %	83	10,7 %	
	Unemployed / inactive	77 %	7 %	13 %	0 %	10 %	3 %	205	26,3 %	
	Studying	33 %	0 %	17 %	67 %	17 %	0 %	6	0,8 %	
	Other	32 %	10 %	4 %	0 %	53 %	6 %	77	9,9 %	
	Total (Q 22)	606	106	37	6	77	13	779		
	Pct (Q 22)	77,8 %	13,6 %	4,7 %	0,8 %	9,9 %	1,7 %			

(Source: Survey of micro-borrowers, answers from Qredits not included)

About half of the surveyed businesses receiving EPMF-backed microcredits were newly created - 42 % of the respondents reported that their enterprise had been active for less than 6 months at the time of loan application. The Annual Implementation Report 2013 which covers all intermediaries shows that 44,3 % of all micro-borrowers under the facility have had their business for less than a year.

**Figure 27 Q9 How old was your business (in years) at the time of receiving microloan?**



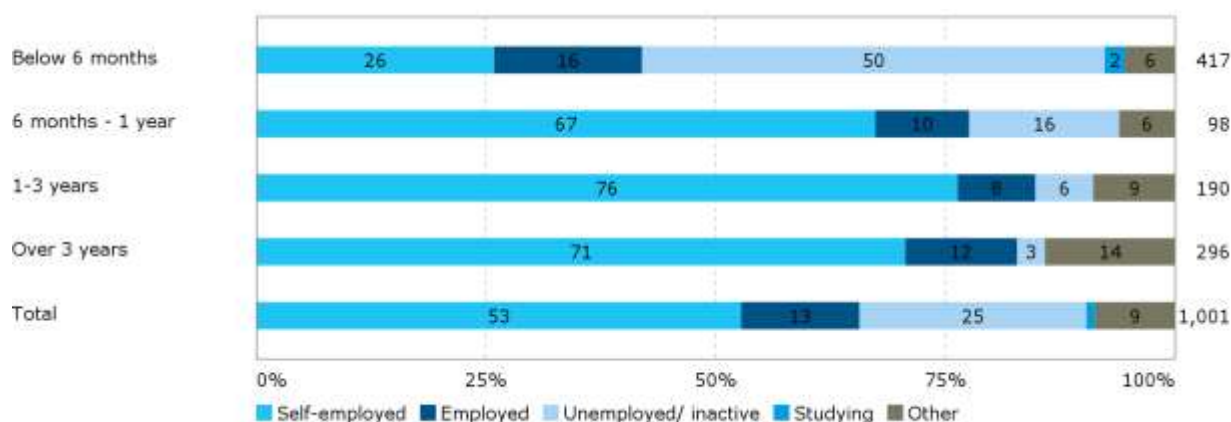
(Source: Survey of micro-borrowers, answers from Qredits included)

The additional analysis of the information received under this question also revealed that borrowers who were unemployed or studying at the time of loan application were also more likely to use the financing for the starting of a business, whereas applicants who were already employed or self-employed financed an existing micro-business with the credit.

<sup>92</sup> Respondents were given the choice to select more than answer on Question 22, which is why the sum of responses under each option exceeds the total number of responses (779).



**Figure 28 Q9 How old was your business (in years) at the time of receiving microloan? (Crossed with: Q6 At the time of application for microcredit, were you?)**



(Source: Survey of micro-borrowers, answers from Qredits included)

It should be noted that the overrepresentation of respondents from ADIE in the survey has exerted certain influence on the results on impact questions, as the proportion of ADIE customers who received a loan less than a year after they established their business is higher. If the ADIE results are excluded, the share of businesses older than 3 years goes up to 40 %, whereas the share of business with less than 6 months of operation decreases to 36 %.

The survey data is in line with the data presented in the Annual Implementation Report 2013, according to which 44,3 % of the businesses receiving a microloan under the Facility had been established for less than a year at the time of application.

The cases studies also offered multiple examples of borrowers for whom microcredit to start a business was the only alternative to unemployment and of borrowers who created jobs by hiring staff once they set up their company (for more details see Section 4.3.1). While some argued that they would not have been able to start their business at all without an EPMF-backed loan, others indicated that it would have taken them much more time to set-up their business and to achieve the same results.

Due to data constraints, the evidence is anecdotal and no comparison or control group has been used. Still the evaluators consider that these results are strong indicators of the likely job-creation and business-creation effect of the Progress Microfinance facility.

### 4.3 Sustainability of impacts

The sustainability of the Progress Microfinance supported microcredits has been assessed by analysing the development of microenterprises and businesses since the approval of the credit, access to finance in mainstream banking, overall debt levels and survival rates of businesses. Sustainability is difficult to assess with any certainty at this still early stage in the implementation of the facility, but the evaluation findings give an indication of likely sustainability in the future, in particular in relation to the sustainable long-term development of the supported businesses.

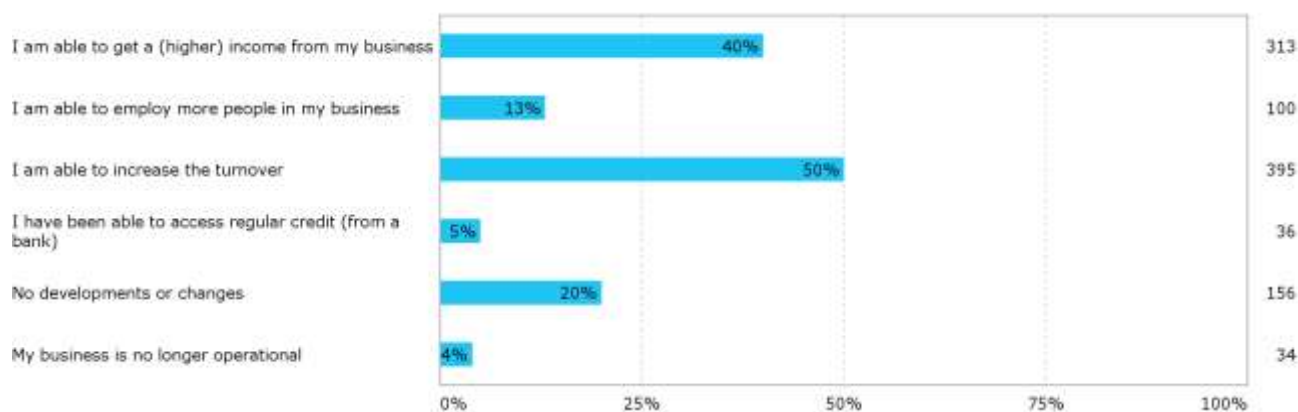
#### 4.3.1 Development of business since approval of microcredit

When asked about the development of the business since their receipt of the microcredit, the respondents reported generally very positive results – in 50 % of the

cases, as a result of the microcredit the recipients were able to increase their turnover and in another 40 % - to increase their income from the business.

**Figure 29 Q10 How has your business developed since the microcredit?**

(multiple choice, n=784)



(Source: Survey of micro-borrowers, answers from Qredits not included)

In 13 % of the cases, more employees were hired. According to the respondents, a total of 201 employees were hired since approval of the credit, which means that 0,25 employees were hired per microcredit. While it would be helpful to interpret this data in a broader context, no benchmarks for job creation were identified other than a recent publication on the job creation effect of microfinance in France, according to which approx. 1,5 jobs are created/preserved per microcredit.<sup>93</sup> In general, a micro enterprise employs merely two persons on average in the EU; over 30 % do not have any other employees and roughly 70 % have fewer than five.<sup>94</sup> The results of the survey indicate that the job creation effect of Progress Microfinance is thus smaller, but one should also take into account the fact that 64 % of the surveyed respondents had taken out their credit less than a year ago and the job creation effect might take somewhat longer to materialise. In addition, the Annual implementation report of Progress Microfinances indicates that as of 2013, the total number of self-employed and employees of microenterprises who are final recipients was 17 913 (recorded at the point of concluding a loan agreement).<sup>95</sup> This means that on average 1.6 persons are employed by each recipient of the facility and the credit they have received contributes to the preservation of their job. The job preservation effect is thus in line with the established benchmarks.

Some 5 % of the respondents indicated that they have been able to access regular credit from a bank following their microcredit. In 20 % of the cases there had been no developments or changes to the business, whereas 4 % of the respondents reported that their business was no longer operational (for more details on survival rate trends see Section 4.3.4).

<sup>93</sup> Bernd Balkenhol and Camille Guézennec, 2014, Microcredit in France: What impact does it have on employment?, International Labour Office publication; available on: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_247028.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_247028.pdf)

<sup>94</sup> Data by Eurostat summarised in Deutsche Bank Research, 2014, Business demographics and dynamics in Europe; available on [http://www.dbresearch.com/prod/dbr\\_internet\\_en-prod/prod000000000333112/Business+demographics+and+dynamics+in+Europe%3A+Trends+in+the+co mposition+of+the+company+landscape.PDF](http://www.dbresearch.com/prod/dbr_internet_en-prod/prod000000000333112/Business+demographics+and+dynamics+in+Europe%3A+Trends+in+the+co mposition+of+the+company+landscape.PDF)

<sup>95</sup> Based on data from 2013 Progress Microfinance – Annual Implementation Report 2013 on aggregated number of natural persons benefitting from loans under the facility, aggregate share of employed individual micro-borrowers and total number of employees reported by micro-enterprise final recipients.

The results of the case studies to a large extent confirm the results from the survey. Although there were large differences in maturity in businesses, from start-ups to mature microenterprises, interviewed clients saw the microcredit as decisive for the development and growth of their businesses. Most MFIs in the case studies provide both working capital and capital investment credit, both considered essential for microenterprises to be able to expand and grow, as illustrated by the following “performance story” from a client at Mikrofond in Bulgaria.

#### **Client of Mikrofond, Bulgaria**

The borrower is the owner of hairdresser’s studio in the town of Vratsa, Bulgaria. The borrower had several years of experience as a hairdresser working for an employer, when in 2005 she decided to set up her own studio. Based on a recommendation from acquaintances she approached Mikrofond, and has been receiving microcredits from them ever since. The latest credit (4<sup>th</sup> in a row) was taken out in September 2012 and the borrower has used it to finance her attendance of trainings in new hairdressing techniques in Vienna and for the purchase of new supplies, seen as essential for the satisfaction and growth of her clientele. She has the long term plan of growing her business sufficiently to move to a ground-level studio (current studio is housed on the first floor of a residential building in the town centre) and hire apprentices.

A positive progression in income or profit could mainly be seen among established microenterprises, as start-ups are generally self-employed and with little possibility of taking out a real salary in the beginning. For the start-ups it was often more a matter of Progress Microfinance credits providing the ability to do a capital investment or investment in stock, to enable the establishment of the business. This can be illustrated by the following example from Qredits in the Netherlands.

#### **Client of Qredits, the Netherlands**

The borrower started a website design company together with a partner in February 2013. He applied for a loan with Qredits because at the time he had a registered debt history which hindered him in getting a loan with a commercial bank. While the client initially had anticipated taking out a loan of EUR 25 000, discussions with his business adviser ultimately led him to take out a loan of EUR 10 000 for five years. The loan was used to buy software and a second-hand car to visit clients. In terms of the impact of the loan, the borrower explained that it played a very important role in starting up the business and buying the necessary equipment. He felt that without the loan, it would have been much more difficult to set up the business and it would have taken a lot more time for him to earn enough to make a living with his company.

### **4.3.2 Access to mainstream banking**

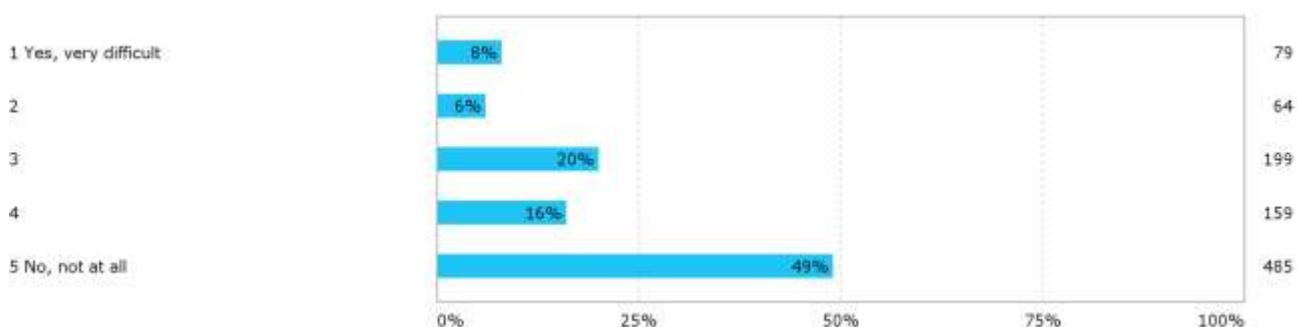
Regarding access to mainstream banking, findings from the case studies do not offer evidence of a general move from microcredit to regular credits amongst micro-borrowers. In most cases, it was rather a question of continued microcredits, often with the same provider, rather than shifting to mainstream banking. This is also confirmed by the survey results, with a large share of respondents indicating they will take subsequent microcredits. In most instances this was due to the rather small scale of microenterprises and a high satisfaction with services provided from MFIs – interviewed borrowers offered anecdotal evidence of the support they receive from their lenders and how they found this beneficial for their business and ability to manage their finances.

Often, interviewed clients had not even considered applying for a regular business credit, deeming it impossible to obtain. Many of the microenterprises supported through a Progress Microfinance credit are still very young<sup>96</sup> (in the survey almost half were under one year at time of loan approval, and in the reporting from EIF 44 %), which means that they do not live up to the criteria set by many banks in terms of establishment, profitability and turnover. Hence, in the context of this interim evaluation it is too early to assess whether the Progress Microfinance supported credits have contributed to access to mainstream banking in the long term.

### 4.3.3 Debt levels of micro-borrowers

There is no evidence of Progress Microfinance loans generating over-indebtedness among micro-borrowers. When looking at survey results, a majority of the respondents found no or little difficulty meeting repayment requirements (approx. 65 %) indicating that over-indebtedness was not common among the surveyed micro-borrowers.

**Figure 30 Q16 Is/was it difficult for you to meet the repayment requirements for you microcredit?**



(Source: Survey of micro-borrowers, answers from Qredits not included)

A cross-analysis of the above results with the indicated income levels shows that the micro-borrowers with income below the national poverty threshold appear to find it slightly more difficult to repay their credits than borrowers with income above the threshold - 33 % of the former found repayment to be a challenge or had a neutral experience with it, versus 20 % of the latter category.

During the conducted case studies, no situations of over-indebtedness were encountered. This could be due to selection bias (since in most cases interviews with clients were organised by the MFIs), but was also confirmed by the generally low loss rates<sup>97</sup> reported by the visited MFIs (see Section 3.4.1 for a discussion of loss rates). However, interviewed borrowers often commented that the microcredits were indeed expensive, noting that in most cases they were more expensive than conventional credit. On the other hand, the opposite was also mentioned, e.g. that so called loan sharks would have been the only other option to a microcredit, with much higher costs. In general, analysis of qualitative information shows that the smaller the credit, the less likely the borrower was to complain about the interest rate and overall cost. When a borrower was more knowledgeable and/or had done research to know what interest rates were applied by regular banks, they often mentioned the cost as an issue, while also acknowledging and appreciating the additional support and flexibility provided by microcredit providers.

<sup>96</sup> Annual implementation report 2013, EIF

<sup>97</sup> Loss rate is the ratio of defaulted loans, in %

#### **4.3.4 Survival rates of microenterprises**

Originally, the evaluation intended to assess survival rate at 6, 12 and 18 months after credit maturity and after approval. With the data the evaluators have available now (social reporting and survey data), this has not been possible. The social reporting contains no data on survival rate of businesses, and the survey results are not representative enough to draw firm conclusions.

Among the survey responses, only 4 % (34 respondents) answered that their business was no longer operational, which is a fairly small share, especially if extrapolated to the total number of microcredit clients (4 % translates to approx. 500 business no longer operational overall). The survival rate of businesses financed through an EPMF-backed microcredit appears to be much higher than of microbusinesses overall - according to Eurostat data for 2011, the survival rate of 1 year-old microenterprises in the EU was 87 %.<sup>98</sup> However, due to the risk of bias in response rates and distribution between countries/MFIs, this finding needs to be interpreted with care and it is currently not possible to draw firmer conclusions regarding the survival rate of Progress Microfinance supported businesses.

#### **4.4 Complementarity and synergies with other programmes and initiatives**

Progress Microfinance does not exist in isolation, and there are other EU funded initiatives targeting the same objectives. In order to assess whether Progress Microfinance has contributed to strengthening the overall framework for support to microenterprises and self-employed, the evaluation has looked at synergies and complementarities between Progress Microfinance and other EU funded and national initiatives.

##### **4.4.1 Synergy and complementarity between Progress Microfinance and the European Social Fund**

The European Social Fund (ESF) 2007-2013 has in its focus four key areas: increasing adaptability of workers and enterprises, enhancing access to employment and participation in the labour market, reinforcing social inclusion by combating discrimination and facilitating access to the labour market for disadvantaged people, and promoting partnership for reform in the fields of employment and inclusion.

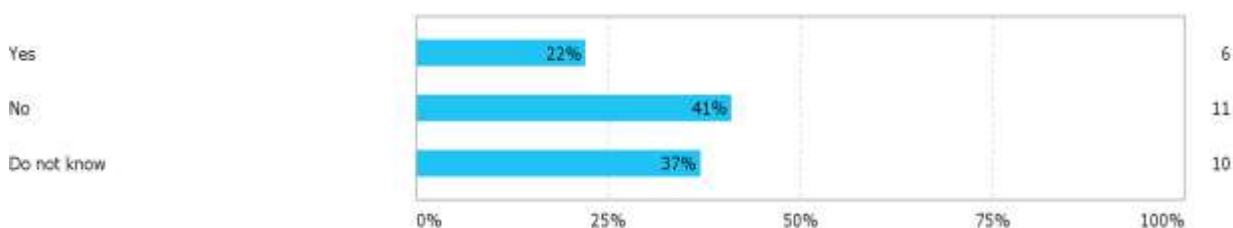
These objectives make the activities undertaken with its support particularly relevant for the objectives of Progress Microfinance, and the Decision establishing the facility specifies that it should be complementary to ESF. The intention is that cooperation between the different organisations benefiting from these two instruments could lead to increased synergies in the field of support to vulnerable groups and thus to multiplication of positive effects.

However, only approximately one fifth of the intermediaries are cooperating with organisations that are supported by the ESF. A large number of respondents had difficulty answering this question as they had no knowledge of whether the organisations they cooperate with are supported by the ESF or not.

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<sup>98</sup> Own calculations for EU-27, data for Ireland and Malta not included due to unavailability.

**Figure 31 Do you have any cooperation with organisations/entities supported by the European Social Fund?**



(Source: Interviews with intermediaries)

The interview data indicates that banks in particular seem to have difficulties in cooperating with organisations/entities supported by the ESF, as only 1 of the 14 banks interviewed stated that it had been successful in finding such cooperation partners (examples are offered further in this section). In comparison, 5 of the 12 non-bank entities interviewed stated that they have cooperated with organisations supported by the ESF.

One MFI that explores the synergies between microfinance and ESF support is Crédal (BE). Crédal's overhead, administrative costs and costs attached to business support are partially funded through grants from the ESF. The MFI also cooperates with Village Partenaire, a Brussels based business support centre supported by Belgian municipalities, the ESF and the ERDF. The centre directs clients compatible with Crédal's microcredit products to the MFI and helps ensure that those clients have well-developed business plans.

Another example is FAER which cooperates with its parent FAER foundation and has implemented two projects funded through the ESF aimed at professional formation: one project was focused on entrepreneurship while the second regarded rural tourism. As a result of the course on entrepreneurship, a large number of participants (approx. 200) subsequently applied for funding from FAER to finance their business. In this respect, clear evidence was found on complementarity in between the ESF and Progress Microfinance.

Several of the interviewed intermediaries (amongst others FM bank, MicroStart and Mikrofond) have attempted to initiate cooperation, but have found it difficult to find relevant cooperation partners or have been met with unwillingness on the part of ESF-funded organisations to cooperate. However, it should be assumed that cooperation is also a learning process, as explained by one respondent:

*"This is getting better; we had difficult times with this in the beginning. We have tried to contact organisations providing grants to our recipients, but they didn't want to talk to us. Now it's changing, in the new perspectives they have to cooperate with us, as much more European grants will be repaid and not just handed out to entrepreneurs."*  
(Interview with an intermediary)

It has not been possible to identify tangible barriers to cooperation between Progress Microfinance funded financial intermediaries and ESF projects, and it seems to be mainly down to difficulties in communicating, lack of interest from ESF projects and/or intermediaries and other non-tangible issues. In theory there should be clear synergy potential between ESF funded projects on self-employment and start-up projects, but in reality this has not been fully realised. For example MicroStart in Belgium works with dreamStart, a project focussing on young entrepreneurs in the Brussels region by providing courses and business advice in courses of two months duration. DreamStart

is funded by the Bruxelles region and other partners, but not ESF, although the scope and objective is very similar to many ESF projects.

As pointed out in the 2010 Implementation report of Progress Microfinance, individuals taking out microloans may be granted an interest-rate rebate under an option offered by the ESF Regulation.<sup>99</sup> ESF managing authorities in the Member States may design specific operations for micro-entrepreneurs in order to cover all or part of the interest rate on loans, which would reduce the financial burden on micro-entrepreneurs and, hence, complement Progress Microfinance. In the context of this evaluation, no evidence of such initiatives was identified.

An analysis of the ESF interventions targeting the objective of promoting access to employment<sup>100</sup> shows that in the countries where case studies were carried out there are a number of initiatives which pursue objectives related to those of Progress Microfinance and which could potentially create synergies. Evidence of this study suggests that - apart from ESF-programmes in Poland and Romania providing microfinance - ESF support complementary to Progress Microfinance mainly pertains to training and business development services.

- In **Bulgaria**, several schemes promoting the integration of vulnerable groups of young people and long-term unemployed aged 50+ into the labour market were implemented with focus on the provision of training, work practice schemes and subsidised employment. Where entrepreneurship was targeted, this was for unemployed persons in general, rather than specific vulnerable groups. The ESF OP 2007-2013 supports subsidies for self-dependent economic activity and vocational training for self-employed.
- In **Poland**, Priority Axes of the ESF-OP "The labour market open for all" and "Promotion of social integration" promote employment among different vulnerable groups. The promotion of self-employment is one pursued approach to increase employment, which is implemented via loan programmes at regional level and training offers.
- In **Romania**, the ESF Operational Programme Human Resource Development also contained actions for active employment measures and the promotion of equal opportunities. Microfinance plays a leading role in supporting job-creation through self-employment and support for SMEs. This applies both for the ESF and the ERDF.<sup>101</sup>
- In the **Netherlands**, employment interventions under the ESF have targeted vulnerable groups such as unemployed job seekers, people above 55 years of age, people partially unfit for employment or with a medical disability, as well as more specific groups, such as adult prisoners and juvenile delinquents and people on a hospital order who can be re-integrated into society in the short-term. Support of self-employment and of business start-ups and is provided by national programmes, but not by the ESF.<sup>102</sup>
- In **Belgium**, access to employment ESF interventions also targeted the unemployed, inactive people and people on welfare, more specifically focusing on women, ethnic minorities, disabled people, young people deemed to be at risk of failing in education and the transition to working life (NEETS), older workers and people subject to multiple deprivations. The OPs of the Wallonie and Brussels region supported measures to encouraging unemployed and

<sup>99</sup> Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999, OJ L 210, 31.7.2006, p. 12.

<sup>100</sup> Based on thematic country reports on access to employment by the ESF Expert Evaluation Network for the Member States in which case studies were carried out.

<sup>101</sup> European Microfinance Network, European National Action Plans for Social Inclusion, p. 38 f.

<sup>102</sup> ESF-OP 2007-2013. Retrieved from: [http://docs.minszw.nl/pdf/135/2007/135\\_2007\\_1\\_18081.pdf](http://docs.minszw.nl/pdf/135/2007/135_2007_1_18081.pdf); European Microfinance Network, European National Action Plans for Social Inclusion, p. 32

inactive persons to start up a business. More specifically, the Wallonian ESF-OP financed a programme which provides training, support and low interest microloans (max. EUR 10 000) to female entrepreneurs.<sup>103</sup>

These cases illustrate the potentials for creating synergies between the ESF and Progress Microfinance microloans. But the difficulties financial intermediaries encounter in establishing collaboration and lacks of information on ESF funding in some cases suggest the need for a stronger strategic approach in the Member States to coordinate Progress Microfinance and ESF support activities in order to fully utilize these potentials and to prevent possible overlaps, e.g. between grant and loan programmes. On one hand, it would be ideal to outline the principles of complementarity of ESF and Progress Microfinance already in the OPs. On the other hand, practice of implementation should be reflected in the reporting of the microcredit providers to the EIF. This would also create a more systematic knowledge base about complementarity. The data collection on this study gave a rather fragmented picture in this respect and secondary literature is very limited on this subject.<sup>104</sup>

#### 4.4.2 Synergies and complementarity with other EU funded programmes

##### JASMINE

Just under half of the intermediaries participate in the pilot initiative JASMINE (Joint Action to Support Microfinance Institutions), which has been providing technical assistance to microcredit providers since 2010.

**Table 20 Have you taken part in the activities within JASMINE, technical assistance?**<sup>105</sup>

Participating in JASMINE	Not participating in JASMINE
BCCM	Banca Popolare di Milano
Créa-Sol	Banca Transilvania
Crédal	BES
Emil Banca	CCB
FAER	Erste Bank
Jobs MFI	FM Bank
MicroStart	ICREF
Mikrofond	Inicjatywa Mikro
EAD Patria Credit	Millennium BCP
Qredits	Pancretan CB
	SEFEA <sup>106</sup>
	Siauliu Bankas
	SocGen Expressbank
	Sberbank

The reasons for non-participation mentioned by the interviewees included for example lack of resources (teams of insufficient size), but there were also some intermediaries who mentioned that they had not been aware of the possibility (Pancretan CB, ICREF, BES). SEFEA did not participate as it is a financial institution that does not work directly with final recipients, but lends resources to smaller financial intermediaries, who make use of Jasmine directly.

<sup>103</sup> European Microfinance Network, 2009, COPIE 2 Access to finance baseline study. Retrieved from: [http://www.cop-ie.eu/sites/default/files/TG\\_Access\\_to\\_Finance\\_baseline\\_study\\_finance\\_2009.pdf](http://www.cop-ie.eu/sites/default/files/TG_Access_to_Finance_baseline_study_finance_2009.pdf), p. 34

<sup>104</sup> The only study (European Microfinance Network, 2009) which is systematically analysing the role of ESF support for micro-enterprises is limited to five Member States (BE, CZ, DE, LT, ES)

<sup>105</sup> The respondents at Siauliu Bankas did not know if they participate or not.

<sup>106</sup> PerMicro, a sub-intermediary through SEFEA has participated in a JASMINE technical assistance programme



A number of benefits from JASMINE experiences were identified with regard to Progress Microfinance. For example MicroStart mentioned that the assessment and training provided through JASMINE were very useful before they scaled up their operations to also cover Progress Microfinance. For other intermediaries the benefits have been more indirect, as the technical assistance has been used to strengthen the professional capabilities of the employees of the microcredit providers. For example training on how to rate the applicants has been deemed beneficial.

In addition, Crédal actually became aware of Progress Microfinance, through their involvement in JASMINE. Representatives of the MFI noted that JASMINE was very hard work, but that it had been very valuable because the experience helped the MFI improve the quality of the proposal they sent to Progress Microfinance.

The findings of the evaluation thus confirm the complementarity between JASMINE and Progress Microfinance. Microcredit providers who benefitted from JASMINE reported that the capacity building has helped them in preparing the application and to professionalise the implementation.

### **CIP**

The 2007-13 Competitiveness and Innovation framework Programme (CIP) aims to facilitate access to loans and equity finance for SMEs where market gaps have been identified. CIP is provided through the High growth and innovative SME facility (GIF) as risk capital to innovative SMEs in their early or growth stages, and through the SME guarantee facility (SMEG) which provides loan guarantees to encourage banks to make more debt finance available to SMEs.

While the CIP Microcredit Guarantee Window is available for the provision of loan guarantees to microcredit organisations, since September 2010, Progress Microfinance has the first call on microcredit deals. Guarantees under CIP can still be provided when they are unavailable under Progress Microfinance, for instance where no budget is available under the latter, where the intermediary operates in a non-Member State and is therefore not eligible under Progress Microfinance, where the amount exceeds the concentration limit per Member State or where the portfolio of the intermediary has a mainly commercial focus.<sup>107</sup> The evaluation did not encounter cases where such arrangements have been necessary.

In the 2014-2020 period, CIP is succeeded by the Programme for the Competitiveness of enterprises and SMEs (COSME) 2014-2020.

### **JEREMIE**

JEREMIE is a joint initiative developed by the European Commission in co-operation with the European Investment Bank Group and other financial institutions in the framework of the 2007-2013 programming period of the Structural funds. JEREMIE offers EU Member States the opportunity to use part of the funds to finance small and medium-sized enterprises (SMEs) by means of financial engineering - equity, loans or guarantees. The Member States partially use finances from the ERDF-OPs to implement JEREMIE (see further below).

Amongst the Progress Microfinance intermediaries, Societe Generale Expressbank, BTRL and Inicjatywa Micro offer JEREMIE-backed products to their clients. According to a representative of Societe Generale, the complementarity between the two instruments as implemented by the bank is limited – JEREMIE products are better

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<sup>107</sup> Progress Microfinance 2010 Implementation report, p.13

known and offered on better conditions (amounts of up to EUR 2 million and lower interest rates) which make them more popular amongst the bank’s customer base. Since there are a number of restrictions on eligibility for JEREMIE financing,<sup>108</sup> loan applicants can be found to be ineligible for it. In these cases, Progress Microfinance products can be offered instead. The bank representative was however of the opinion that this applies only to a very small number of cases.

### European Regional Development Fund (ERDF)

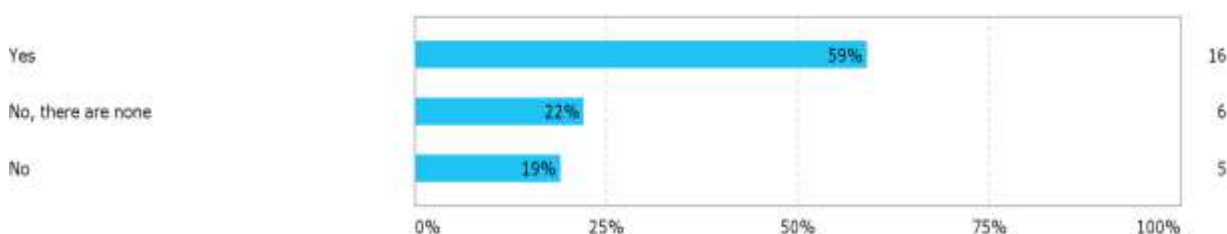
In general, the ERDF-programmes provide an array of instruments supporting particularly enterprises at large, ranging from grants for investments, over consulting schemes to financial instruments facilitating enterprises’ access to finance. Focus is on SMEs and can also include microcredit for very small one-person ventures or finance for start-ups. However, cases of specific grant or credit programmes for microenterprises supported by the ERDF were not identified in the course of the study. Rather, the findings suggest the presence of a clear delineation between Progress Microfinance supported microloans and ERDF loans by amount, purpose and geography of support. This was already analysed in relation to JEREMIE and can be illustrated by the following case. Inicjatywa Mikro is the only intermediary which used ERDF funds under the Operational Programme 'Development of Eastern Poland' (OP DEP) to offer a microcredit product in this particularly under-developed part of the country. The ERDF-backed loans were found to be complementary to Progress Microfinance – ERDF loans can be up to EUR 70 000, but are targeted only at investment costs and do not cover operating costs, whereas a Progress Microfinance loan will not exceed the threshold of EUR 25 000 and can cover operating costs.

Consequently, ERDF interventions are assessed as complementary in the sense that the eligibility criteria of each of the instruments ensure that Progress Microfinance will only be provided to very small enterprises. This finding relates to ERDF supported loans. It is not possible to draw any conclusions on differences between loans and other financial instruments in terms of their complementarity to Progress Microfinance.

#### 4.4.3 Synergy and complementarity with national/regional initiatives

More than half of the intermediaries have benefitted of or taken part in other national initiatives to increase access to finance for the target groups. For example Qredits and Jobs MFI are themselves direct results of national initiatives in this field.

**Figure 32 Has your institution benefitted of or taken part in other national initiatives to increase access to finance for the target groups?**



(Source: Interviews with intermediaries)

It is common that such initiatives target SMEs more broadly and for example Patria Credit, Emil Banca and SocGen Expressbank have participated in national initiatives

<sup>108</sup> E.g. eligibility rules with regard to the sector of economic activity of the borrower and the combinations with grant funding.

providing guarantees to SMEs. BCCM is participating in an initiative on the temporary suspension of the debts of SMEs.

Several intermediaries mentioned that the limitations of the national funds either in terms of their scope (target groups, geographical coverage) or volumes are limiting factors and have led to the need to also apply for guarantees or loans through Progress Microfinance. For example Crédal mentioned that the regional programme organised by the Region of Wallonia excludes many of the professional sectors otherwise covered by Crédal and the whole geographical region of Brussels.

The collected evidence does not show any indication of overlaps between the national programmes where the intermediaries are participating and Progress Microfinance. Either no such programmes exist (22 % of the intermediaries stated this) or the assessment of the description of such programmes shows that they are complementary to Progress Microfinance in terms of scope, volume or specific target groups.

## 4.5 Efficiency

The target for Progress Microfinance is an estimated amount of EUR 500 million distributed through some 46 000 microloans by the time the facility closes in 2020.

As was presented in an earlier section of the report, the implementation of Progress Microfinance has largely been working as intended in terms of volumes and disbursements. As can be seen in Table 6 and Table 7, the overall implementation has progressed well.

The intended target in terms of leverage effect was that the funds committed from the EU budget, should generate at least EUR 500 million in microcredits, i.e. a leverage effect of 5. Based on the latest available reporting data,<sup>109</sup> the guarantee instrument has an agreed volume of EUR 259,2 million, against EUR 20,96 million in committed aggregate guarantee cap volume (potential guarantees to pay in case of defaults). This corresponds to a leverage effect of 12,37.

The leverage effect for the funded instruments is harder to determine, as the funded instruments portfolio is not reported in the same manner as the guarantee instrument (i.e. without the agreed volumes to micro-borrowers). The latest data shows that operations amounting to net commitments of EUR 111,5 million had been signed with Intermediaries. These are expected to result in approximately EUR 204 million in micro-lending, which represents a multiplier effect of 1,89 against Progress Microfinance funds committed and a multiplier effect of 4,41 against the EU budget contribution to the committed funds.<sup>110</sup>

Based on the available information it is very difficult to predict if the target of 5 will be met. While the overall portfolio progression has been good, the implementation is rather uneven across MFIs. While some MFIs “over” perform or have funding needs exceeding expectations, other MFIs have not managed to start or grow a microcredit portfolio at all, see Table 7.

At the time of reporting it is not possible to conclude on whether the quantitative targets of the facility will be met. While the results so far are encouraging and progress has been good overall, it is difficult to assess with any certainty if it seems likely that 46 000 microloans will be signed or if the leverage effect of 5 will be reached. As with any quantitative targets, the ex-post elaboration should carefully

<sup>109</sup> FMA Semi-Annual implementation report 2014, based on data until 31/03/2014

<sup>110</sup> FCP Semi-Annual implementation report 2014, based on data until 31/03/2014

assess the relevance of the targets to the overall objectives and the context of Progress Microfinance's implementation across Member States.

## 5. Evaluation and monitoring arrangements

As has been mentioned earlier, this report concerns an interim evaluation of the Progress Microfinance, assessing primarily the implementation and preliminary results of the programme. In the future an ex-post evaluation will need to be carried out, analysing further long terms results and impacts of the facility. To this end, the evaluation has looked into data availability and constraints, as well as the current monitoring and evaluation arrangements as a part of the assignment.

In the following sections the monitoring and social reporting is described and assessed, followed by recommendations for improvements. There after an analysis of possible designs for an impact evaluation and the availability of evaluative information is presented.

### 5.1 Set up of monitoring and social reporting

As a part of the loan or guarantee agreements, the microcredit providers are obliged to submit to the EIF semi-annual reports on progress in the credit portfolios and annual social performance reports.<sup>111</sup> The EIF collects and aggregates the data and report to the European Commission and the Investors Committee.<sup>112 113</sup>

The reporting by the intermediaries is done on an individual level, meaning that the intermediaries need to enter the information on each final recipient line by line in an excel file and forward the results electronically to the EIF. The information concerns mainly the characteristics of the final recipients, i.e. age, gender, education level, employment status and whether he/she belongs to a specific target group (minority/disabled/both). Furthermore it concerns the employees of microenterprises, more specifically number of employees, male/female, disabled, minority etc. The data is collected from the final recipient, at the time of the loan agreement and should subsequently be followed up when the loan expires, with data on the number of employees.

The questionnaires used are different depending on whether the final recipient is a natural or a legal person. This means that for legal persons (which are the majority), there is no data on the age, gender, education level, etc., as this data is only collected for natural persons. Hence, for a significant number of microcredits, data on characteristics of the borrower is not collected, leading to an incomplete picture. For legal persons, only data on employees is being collected, and not on the owner or legal representative (which in the case of micro-enterprises mostly is the owner/founder).

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<sup>111</sup> Article 25.4(e) of the Standard Senior Facility Agreement between the EIF and an intermediary: "The Borrower shall ask each Eligible Final Beneficiary to provide the relevant information. It being understood that (i) the provision of such information by the Eligible Final Beneficiaries shall be subject to applicable laws and neither be a mandatory requirement nor constitute a condition precedent to the relevant Eligible Micro-Transaction or an Eligibility Criteria and (ii) failure to do so shall not affect the Eligible Micro-Transaction granted or to be granted to the Eligible Final Beneficiary or require the Lender or the Borrower to take any further steps." Analogous requirement is featured in Article 15.2(c) of the Standard Guarantee Agreement

<sup>112</sup> Article 2.4 of the Standard Guarantee Agreement between the EIF and an intermediary says: 'In the framework of the Action, EIF shall collect, and report on, relevant information related to coordination in accordance with Annexes 2, 3 and 7. '

<sup>113</sup> The investor's committee is set up under the FCP and comprises of representatives of the investors in the sub-fund.

As indicated above, the EIF is required to collect and transmit the social reporting data to the European Commission, which uses the information in its reporting activities.<sup>114</sup> .

According to the intermediaries, the social performance report has been provided as required in the agreements. Although some considered it to be cumbersome due to the administrative burden of collecting the data, the majority saw it as a reasonable and acceptable requirement. Further discussion on the experience of intermediaries with the reporting requirements is presented in the following paragraphs.

It is not likely that the requirement of social reporting in itself has been a barrier to finalising agreements with intermediaries. In the interviews conducted with non-participating MFIs, it was not the only or main reason for not entering into an agreement with Progress Microfinance. Other reasons stated, such as too expensive products (compared to subsidised government schemes), product not corresponding to needs, or market conditions not considered favourable for micro-lending, were lent greater importance by the interviewees than the reporting requirements.

The EIF has been subject to an assessment by CGAP (Consultative Group to Assist the Poor) in 2013, where it was assessed that the social reporting was cumbersome and should rather be done at the MFI level than at the final recipient level. A quote from the report states that *"EIF's focus on meeting EC mandates has meant a heavy burden of data collection at the end-client level. While this is a requirement from the Commission, it is institutionally cumbersome and there are serious questions as to its effectiveness in understanding institutional social performance issues. EIF should negotiate with the Commission to develop a more rational sampling methodology to confirm segments reached, but the bulk of the performance monitoring should ideally be focused at the institutional level, not at the end client level."*<sup>115</sup> While the remark from CGAP is relevant and understandable, the evaluators see little possibility to gather comprehensive data apart from at final recipient level. Although a third of the interviewed intermediaries found social reporting to be a considerable additional burden (see Table 21), there is no evidence that it has been detrimental to recruiting intermediaries or clients (see further in next section). At the same time, the social reporting data is needed by the European Commission for analysis of the results reached by Progress Microfinance and as evidence to be used in the policy decision-making process.

### **5.1.1 Implementation of the social reporting**

At the time of reporting, all intermediaries had provided the EIF with the social reporting required. The views of the intermediaries on the difficulty of data collection differ to a high extent, mainly depending on the data collection and storage systems that the intermediary is using. Broadly, the experiences of the intermediaries can be divided into the following:

- No additional burden, as information already available
- Some additional burden, but in line with the expectations of the intermediary
- Considerable additional burden

As evident from the following table, most of the participating institutions found the request for social reporting to result in no additional burden or some burden, but not considerable such.

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<sup>114</sup> It should be noted that while the intermediaries are to ask each final recipient to provide the relevant social reporting information, final recipients are not legally obliged to provide it and non-provision of the information does not preclude the conclusion of a micro-credit transaction with a final recipient or impose any further obligations in this regard on the intermediary or the EIF. However, intermediaries are strongly encouraged to report and 97,4% final recipients provided the data in 2013.

<sup>115</sup> EIF Smart Aid report 2013 p.8, CGAP. <http://www.cgap.org/publications/eif-smartaid-report-2013>

**Table 21 Level of burden caused by social reporting<sup>116</sup>**

No additional burden (5)	Some additional burden (8)	Considerable additional burden (8)
Crédal	ADIE	Banca Transilvania
FAER	Créa-Sol	BCCM
FM Bank	Erste Bank	BES
Jobs MFI	ICREF	Microfinance Ireland
Patria Credit	Inicjatywa Mikro	Mikrofond EAD
	MicroStart	Pancretan CB
	Millennium BCP	Qredits
	SocGen Expressbank	Sberbank

Most of the five intermediaries who reported the social reporting to be easy also stated that this information is already available in their existing database.<sup>117</sup> Eight intermediaries reported that the social reporting in general is acceptable, even though it brings with it some additional burdens, such as recoding the data, addition of some variables into the database, or a few additional calls to the final recipients.

Eight intermediaries considered the social reporting to cause a considerable additional administrative burden and to be very time consuming. In most cases this is either because the intermediary still works a lot with paper files, because data needs to be extracted from the system individually for each client, because the whole IT system had to be changed to be compatible with the requirements or simply because much of the information is not available. Some specific issues that the interviewees mention concern the following:

- It is difficult to find information concerning the share of self-employed final recipients as this is not always specified
- It is difficult to collect information on the number of jobs created and the turnover, to know if the recipient can finance his/her private life with the new business
- Collecting data on the type of minority (ethnicity, disability) is considered to be ethically sensitive and difficult
- Collecting data at the end of the loan period is difficult, as the clients have no incentive to provide the intermediary with such information

During the case study visits, several intermediaries specifically criticised the social reporting requirements on ethnic background/minority status or disability, which could be interpreted as a sign of discrimination. Intermediaries from Bulgaria and Romania offered several examples of clients who are from an ethnic background, but don't identify themselves as such even if given the opportunity, most likely for fear of discrimination.

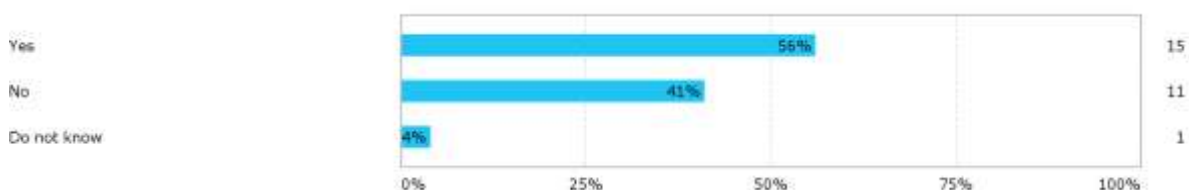
Representatives of Societe Generale Expressbank were furthermore of the opinion that the requirement to collect data on the employees of enterprises receiving a credit runs contrary to national legal obligations on the protection of personal information.

In addition to the social reporting, more than half of the intermediaries follow-up or compile statistics on the results of the microcredits they provide.

<sup>116</sup> No information is available on CCB, Emil Banca and Siauliu Bankas. Banca Popolare di Milano and SEFEA have not had any final beneficiaries and have thus not submitted social reporting yet.

<sup>117</sup> It should be noted that Case Study findings from Patria credit showed that data was only collected for legal persons, and thus does not cover the whole portfolio.

**Figure 33 Do you follow-up or compile statistics (apart from the financial follow-up) on the results of the microcredits provided?**



(Source: Interviews with intermediaries)

However, when looking closer at the type of data that the intermediaries collect, it can be seen that it is often clearly for their own business purposes rather than to follow up on the social impact of the microcredits. The intermediaries often follow up on the number of employees in the companies and the income changes. For example Microfinance Ireland is collecting information on positive impacts to develop success stories that they can use to promote the microcredit scheme (see Table 22).

**Table 22 Explanation of follow-up activities**

Intermediaries	Compiled statistics	Explanation
<b>ADIE</b>	No	Information included in the systems is only based on the loan. There is no further collection of information after the loan is completed. Financial follow-up does exist.
<b>Banca Popolare di Milano</b>	Yes	Plans exist to compile some statistics for their own use, beyond what is mandated in the EIF agreement.
<b>Banca Transilvania</b>	No	Data collected is only used for the reporting obligation, nothing else. The portfolio of microcredit through the facility is not large enough to warrant an analysis.
<b>BCCM</b>	No	BCCM only comply with the requirements set out in the agreement with EIF. Once the loan agreement with the client expires, there is no follow-up. However, the situation is constantly monitored for the whole duration of the contract.
<b>BES</b>	No	
<b>CCB</b>	Yes	This is done in connection with the social reporting and CCB assesses to what extent the credit has helped final recipients to employ more people or otherwise expand their activities.
<b>Créa-Sol</b>	Yes	Créa-Sol do try and follow up on the impact of loans, but experience difficulties in communicating with app. 50 % of clients. It is not done in a systematic way but they do surveys, questionnaires etc.
<b>Crédal</b>	Yes	An impact study has been carried out and Crédal has looked closer at different professions. It was a benchmarking study, to assess the social impact of the credit on the client. This can be used to compare the expectations in business plans to those of new clients. There are plans to publishing a summary of the findings.
<b>Emil Banca</b>	No	Given the small dimension of the bank, analysis would be quite expensive and unlikely to be statistically significant due to the small population of final recipients.
<b>Erste Bank (micro)</b>	Yes	Try to assess the social impact of the programme and also in other initiatives the bank carries out in social banking. Try to measure the advantage in the private life of the client. Try to ensure that they are not unemployed in the future and to assess if the client can finance his/her private life. In this way the sustainability of the effect can be assessed.
<b>FAER</b>	Yes	No additional information available.
<b>FM Bank</b>	Yes	Not specific statistics, but there are internal reports.



Intermediaries	Compiled statistics	Explanation
<b>ICREF</b>	No	In terms of population and sector impact, there is some analysis done. At a personal client level, there is no follow up.
<b>Inicjatywa Mikro</b>	No	Some follow-up is carried out, mainly concerning communication about repeat loans. 15-20 % of clients take repeat loans, and it is important to collect financial information about the clients' situation and business development.
<b>Jobs MFI</b>	Yes	Intermediary looks at the number of employees hired after the loan. In the annual financial reports from clients the credit rating is analysed and based on these it is possible to follow up on how their income has changed etc.
<b>MicroStart</b>	Yes	Every three months the recipient profiles are analysed. An impact study will be carried out, regarding the number of jobs created and survival rate of enterprises supported.
<b>Microfinance Ireland</b>	Yes	A check is carried out to see if the clients are still in business. Micro-borrowers are asked if the intermediary can support in any other way. This will be done in an annual review done by each assessor. The intermediary wants to use the positive cases as case studies to promote the scheme, as so far the numbers have been disappointing. Six people have agreed to do these success stories.
<b>Mikrofond EAD</b>	Yes	Yes - number of employees hired. The intermediary also tries to assess income change in secondary loan applications.
<b>Millennium BCP</b>	No	There is no formal collection of information, but they are in close contact with the clients. The project manager generally knows how the business is running.
<b>Pancretan CB</b>	No	
<b>Patria Credit</b>	Yes	The data collected is used in order to establish an index of social impact. For this purpose a series of indicators has been established, based on the data collected. This is done for the first time this year.
<b>Qredits</b>	Yes	A questionnaire is sent to the client 1 year after the client was granted the loan with questions regarding development of business and changes in situation. The questionnaire is repeated yearly.
<b>SEFEA</b>	No	Nothing has been done so far as no clients showed interest in the instrument. It is the intention of the intermediary to compile annual reports on the sub-intermediaries and their portfolio of clients, but no actual statistics have been compiled as of today.
<b>Siauliu Bankas</b>	Yes	There is an evaluation of financial statements every quarter, to see if they managed to increase their turnover, nr. of employees.
<b>SocGen Expressbank</b>	No	The follow up outside the financial one is more through the customer relationship but it is not formalized and there is no storage in a database.
<b>Sberbank</b>	No	The microloans were introduced in June-July 2012, so no follow up until now and there are no plans to start doing this yet. The assessment right now is that if there are no problems of loans defaulting, it has worked.

### 5.1.2 Assessment of current monitoring arrangements

Based on the above discussions, it can be concluded that even though the social reporting has caused additional burdens to some of the intermediaries, it does not seem to be a hindering factor in terms of the implementation of Progress Microfinance.

The social reporting data is used by the European Commission to justify the use of EU funding for the facility. The social reporting data is mainly used to describe the characteristics of the target group, which in itself holds little evaluative value (in terms

of results or changes for the final recipients) but rather relates to accountability in terms of whether the stated target groups are being reached. Even so, this information is incomplete as the same information is not gathered from legal and natural persons. It has also proved difficult and sensitive to gather information on specific target groups, such as minorities and disabled, since it is considered discriminatory to ask and/or register such information.

The intermediaries were sceptical as to whether it will be possible to gather “ex-post” data (when the loan has expired and been paid back) from the final recipients, since at that point in time they will have little incentive to supply information (and the information would be very hard to verify).

Many of the intermediaries are collecting different types of data regarding results, either regularly or as specific studies with a sample of clients. Although it would be beneficial to use this data to a higher extent, it would pose challenges to following the entire Progress Microfinance portfolio as such, since data would be in different formats, content and shape. Unfortunately this means that some intermediaries have to report “double”, once for internal purposes and once for EIF and the Commission, something which is unavoidable to achieve regular monitoring data.

### **5.1.3 Recommendations for monitoring and social reporting**

The limited use made so far of the results of social reporting calls for a review and adjustment of the methodology. Additionally, the process can be made easier, to reduce the burden on the intermediaries.

The process of gathering social data can be facilitated, through the use of better adapted instruments, for example with on-line entry of data via the web rather than an excel-based system. This would enable a real time overview of portfolios, rather than yearly summaries which could lead to a more active use of the data. For example, the ratio men and women benefitting from credits, or the ratio unemployed/employed could be followed in real time, which would leave more room or time for adjustments in implementation if needed. The system should be simple, low-cost and secure, in order to ensure sustainability. Data entry should be made by loan officers, but the overall management and analysis should be centralised with the management contract for Progress Microfinance, with direct access for investors. If deemed relevant, financial data and follow up could also be added.

The feedback received from intermediaries during the evaluation indicates that there are difficulties in collecting comprehensive data on indicators currently used to identify vulnerable target groups such as migrant minorities or persons with a disability, as such indicators are sensitive and subjective as based on perception. The results of the survey with final recipients also showed that such data is difficult to collect. While acknowledging the importance of collecting such data for the purpose of policy making and analysis, the evaluators recommend that its limitations in terms of validity and comprehensiveness are recognised and that alternative indicators of vulnerability are considered. Other indicators could indeed be more relevant and easier or less sensitive to collect as observable facts, such as poverty/income levels, which can be seen as a more reliable measure of vulnerability and risk of social exclusion. Furthermore, data on income of borrowers and level of indebtedness at the time of loan application is already collected by most intermediaries (see Appendix D) and access to it could be facilitated if the intermediaries are encouraged to collect it in electronic format.

The same indicators should be gathered for legal and natural persons. Even though legal persons do not have a gender or education per se, these indicators are applicable to the applicant who would generally be the owner of the microenterprise.

In terms of results and impacts, such as increase in number of employees, revenue, survival rate of businesses, etc., these indicators will be best collected either through a sample based approach as a part of an evaluation, or be extrapolated from data collected by the intermediaries. Several of the intermediaries follow up on their clients on a regular basis through visits and phone calls, and it should be possible to gather results data during these occasions.

## 5.2 Available information for possible counterfactual evaluation

There is a clear wish to conduct a counterfactual evaluation in the future impact evaluation of Progress Microfinance. However, Progress Microfinance does not lend itself easily to an overall impact evaluation based on experimental approaches. Firstly, the actual selection of microenterprises includes an element of self-selection in the decision to apply for a loan. Secondly, it is likely that microfinance providers assess applications differently, in terms of approving a microloan or not (and even between staff there may be differences). Thirdly, the target group is highly heterogeneous, with the common denominator being a wish to start and/or develop a microenterprise. Further, in terms of the actual "treatment", i.e. the loan, conditions are different (interests, fees, counselling or not etc.) which adds to the challenge of an impact evaluation.

There are various options for conducting a counterfactual analysis of the net impact of a policy or intervention on their intended recipients, but whether it is feasible to use them in practice depends to a large extent on data availability and on the way the treatment group has been selected.

In a counterfactual analysis, the net impact is measured by comparing the factual with the counterfactual. The factual is the actual outcome for the treatment group. The counterfactual is the hypothetical situation of the treatment group, had it not been treated. *The factual can be observed; the counterfactual not.* Therefore, constructing the counterfactual is at the heart of statistical impact evaluation.

The counterfactual can be constructed by selecting a control or comparison group (of individuals for example), which is like the treatment group in every way, except that it is not subject to the intervention. If the treatment group has been randomly selected from a larger group of eligible redundant workers, then the evaluation has an experimental design. The non-treated individuals then form the control group.

If the participants have been selected in a, as often is, non-random way (including self-selection), then under certain conditions a quasi-experimental design can be chosen. A comparison group is then formed by (certain) comparable non-treated individuals. To this end it will be necessary to obtain information of the characteristics of the final recipients who have received a microcredit with support from Progress Microfinance, in order to match a control group with similar features.

Such an analysis needs to be done at the intermediary level. The following presents the information available at the intermediary level.

### 5.2.1 Data availability – Final recipients

As shown in Table 23, the majority of respondents maintain information about their clients in a database. However, only 11 of them (39 %) have all of the specified indicators in their database (see Annex D for a complete overview per intermediary).

**Table 23 Data availability – Final recipients**

	Personal Identifier	Annual income	Educational level	Age	Debt levels	Employment status	Other
Available data in a database	22	20	16	20	15	17	11
Total in database %	79 %	71 %	57 %	71 %	54 %	61 %	39 %
Available data in credit file	5	8	9	6	12	8	3
Total in Credit file %	18 %	29 %	32 %	21 %	43 %	29 %	11 %
Available data, but unspecified documentation system	1	0	0	0	0	0	2
Available, unspecified %	4 %	0 %	0 %	0 %	0 %	0 %	7 %
No data available or no response	0	0	3	2	1	3	12
No data available or no response %	0 %	0 %	11 %	7 %	4 %	11 %	43 %

From the respondents who have indicated that they keep additional data about their clients, the most commonly collected information was about marital status and family situations, with some pointing out that for enterprises they maintain statistics on the number of employees, and the structure of the workforce (number of women, minorities), as well on the projections for job creation of the borrowers.

Overall, it can be concluded that for quite a few intermediaries, the necessary information to construct a quasi-experimental counterfactual is available and accessible. Certain data are likely to be unavailable, in particular target group data such as minority, disability or other similar information which are often deemed sensitive (and even illegal) to register at the individual level.

As mentioned, any counterfactual evaluation will need to be done at the level of intermediaries, i.e. to analyse each intermediary separately. This also includes identifying an appropriate comparison group, at the intermediary level, matching as closely as possible the final recipients. The possibilities to identify such a comparison, for example through Public Employment Services (PES), business associations or alike, has not been explored in the interim evaluation.

### 5.2.2 Data availability – Loan applicants who did not receive a microcredit

A possibility for a comparison group could be to assess what has happened to the individuals who for different reasons were not granted a microcredit. In this way, the evaluation could assess the difference in employment outcome/self-employment or business development for this “non-treated” group and the group who received a microcredit. This would not be a counterfactual in its strict sense (because the applicants may have been rejected for good reason, and are likely to differ from the approved applicants), and could generate “false positives” in terms of the impact of Progress Microfinance. On the other hand, if the results of a comparison showed little or no difference between the clients/non-clients, it would be a strong indication of lack of impact.

As shown in Table 24, the data availability for loan applicants who did not receive a microcredit is much more inconsistent if compared to the data available for existing customers. As the majority of respondents explained, the reason for this is that the application process usually starts with a meeting with an agent of the intermediary,

who through the initial talks with the applicant performs an assessment of their suitability for a microcredit. Many of the non-eligible candidates are already rejected at this initial stage, and as a result the number of cases where a formal loan application is submitted and then rejected, by e.g. the credit committee of the intermediary, is relatively low. Where data is available, it is usually in the credit file of the applicant, rather than a database. A number of respondents indicated they do not keep data on unsuccessful applicants due to legal requirements about personal data protection.

A complete overview of data availability per intermediary is presented in Appendix D.

**Table 24 Data availability - Loan applicants who did not receive a microcredit**

	Personal Identifier	Annual income	Educational level	Age	Debt levels	Employment status	Other
Available data in a database	10	7	7	8	7	8	5
Total in database %	36 %	25 %	25 %	29 %	25 %	29 %	18 %
Available data in credit file	5	8	6	7	7	7	5
Total in Credit file %	18 %	29 %	21 %	25 %	25 %	25 %	18 %
Available data, but unspecified documentation system	4	2	2	2	2	2	3
Available, unspecified %	14 %	7 %	7 %	7 %	7 %	7 %	11 %
No data available or no response	9	11	13	11	12	11	15
No data available or no response %	32 %	39 %	46 %	39 %	43 %	39 %	54 %

### 5.3 Future options for impact evaluation

Based on the above analysis of what information can be made available on both clients and non-clients, certain intermediaries seem more feasible for a counterfactual evaluation, notably ADIE (FR) ICREF (ES), Inicjatywa Mikro (PL), Créa-Sol (FR), BCCM (IT) and MicroStart (BE).

Several intermediaries have quite ambitious follow-up and evaluation plans or procedures in place. However, all of them are based on time series approach rather than counterfactual, i.e. they do not entail any kind of comparison groups.

During case studies the future impact evaluation was further discussed with the intermediaries and there was a clear interest from MicroStart (BE), Qredits (NL) and Inicjatywa Mikro (PL) to participate in evaluation efforts. In general it can be seen that the more "social" the mission of the intermediary, the more interest they seem to have in following up on clients. Banks and intermediaries with larger portfolios, several different funding sources and less clear social focus function more as mainstream banks and have a stronger focus on performance of portfolio than on development of clients' businesses.

Overall, the intermediaries stress that data collection has to be aligned to their own follow-up procedures rather than create additional work. In terms of creating control groups, this needs to be adapted to each intermediary.

## 6. Conclusions and Recommendations

In this section the evaluators present their conclusions on Progress Microfinance, as well as the recommendations derived thereof based on the evidence available mid-way through the implementation of the Facility.

The evidence gathered leads the evaluators to conclude that Progress Microfinance has been implemented successfully by the European Commission and the European Investment Fund. The Facility has contributed to the ability of financial intermediaries in the Member States to provide access to finance to microenterprises and start-ups, which in turn generate employment and sustainable economic growth. Scope for improvement is to be found in increasing the complementarity between the implementation of the Facility and other EU policies and programmes, as well as national activities. Additional improvements can be achieved through the fine-tuning of the financial instruments through which Progress Microfinance is offered.

More detailed conclusions and recommendations as regards the implementation of the facility, its effectiveness, impact and sustainability are presented in the following sections.

### 6.1 Implementation of the Progress Microfinance Facility

The issue of microcredits has been in focus on the EU level since the 2007 when the European Commission launched the Communication "A European initiative for the development of microcredit in support of growth and employment".<sup>118</sup> The establishment of the European Progress Microfinance Facility via Decision 283/2010 of the European Commission and the European Parliament led to concrete measures with regard to the provision of microcredits by European Union funds. Since then, the European Investment Fund has gradually increased its resources and focus on microcredit products. It has a microfinance team, which manages both the funded instruments and the guarantees. This is done with support from other departments, where primarily legal service, risk management and compliance functions are involved. The team has six investment managers, who are the main advisors to the intermediaries, as well as support staff. The microfinance team has also been managing JASMINE, which has contributed to synergies between the programmes, as participants in Progress Microfinance have been involved in JASMINE and vice-versa.

The development of the facility was somewhat slow in the beginning and according to interviews the implementation did not correspond to expectations (in terms of growth in portfolio).<sup>119</sup> In particular, the guarantee instrument was off for a slow start, with less interest shown in guarantees than in debt financing. Following the implementation of more targeted marketing efforts and changes to the design of the instrument, the guarantees budget has nearly been fully utilised according the latest data for 2014, with interest from potential intermediaries surpassing the available funding. The funded instruments have generated an increasing interest as well among potential intermediaries since the first year of operations, and by the first quarter of 2014, the number of guarantee agreements already exceeds the number of senior loans.

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<sup>118</sup> Communication from the Commission to Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions of 13 November 2011 "A European initiative for the development of micro-credit in support of growth and employment" COM(2007) 708 final.

<sup>119</sup> In interviews EIF representatives referred to expected growth agreed with the Commission, but the evaluators have not been able to identify the agreement.

Overall, in most cases the intermediaries feel that sufficient information and advice has been provided. Even so, for many intermediaries the due diligence process and subsequent negotiations were difficult and they felt rather inadequately equipped to deal with what was perceived as “an army of lawyers”. Some of the intermediaries also mentioned that given the relatively small amounts involved (particularly guarantees<sup>120</sup>) the effort and cost of the process were questionable. On the other hand, several intermediaries mentioned that the process had significantly contributed to their capacity-development and professionalisation.

Intermediaries also commented on what they perceived as the inflexibility of (conditions of) the agreements. Several intermediaries (particularly smaller ones) would prefer more flexible agreements, with possibilities to amend or change some of the conditions, such as amounts and/or disbursement rates. It was generally felt that the “penalties” stipulated in agreements were too harsh, especially since accurate predictions on demand were difficult to conduct. Nevertheless, as highlighted by the EIF, it is important that Progress Microfinance instruments are offered at conditions as close to the market ones as possible, so that commercially sustainable business models and a sustainable microfinance market are developed.

The social reporting appears to be less of an issue than assumed by the EIF. Although difficult to handle for some intermediaries, most of the participating institutions found the request for social reporting to result in no additional burden or some burden, but not considerable such.

Recommendation	Expected impact
<p><b>Continually work with and support intermediaries in connection with negotiations, especially smaller MFIs who do not have capacity or experience in similar negotiations and/or agreements. EIF should ensure that all conditions of the agreement are fully understood by the intermediary.</b></p>	<p>Smaller MFIs and start-up MFIs have greater access to the facility.</p>
<p><b>Stronger focus on intermediaries with a clear mission to support vulnerable groups with little or no access to other funding sources</b></p>	<p>Better/clearer focus on vulnerable groups.</p>
<p><b>Improve flexibility in agreements between intermediaries and the EIF, allowing for (reasonable and limited) changes during the duration of the agreement.</b></p>	<p>Minimise the risk of adverse effects for smaller, less experienced MFIs.</p>
<p><b>Ensure that there is some cost/benefit ratio involved in terms of amount of funding provided and the amount of resources required for the negotiations and agreement stage.</b></p>	<p>Minimise the risk of adverse effects for smaller, less experienced MFIs.</p>

### 6.1.1 Financial instruments and lending volumes

Overall, the division of the funding into two separate instruments (debt financing and guarantees) has been seen as relevant. The fact that two different agreements were necessary for intermediaries which use the two instruments has led to additional administrative burden (reporting, contracts, etc.), but due to the non-profit nature of guarantees (with the Commission as sole investor) it was not possible to do otherwise.

According to the intermediaries, the amounts as well as the instruments have mostly met their needs. There has been feedback from an intermediary regarding the insufficient size of the guarantee cap, however the relevance of the cap cannot be assessed by the interim evaluation, as it is based on data up to mid-2013, in which overall portfolio losses of the intermediaries using a guarantee have not materialised. The interviews also revealed that not all intermediaries had fully understood the guarantee cap, and consequently what amount of defaults could be covered.

As for the funded instruments, almost all loans have been senior loans, which has clearly been the most attractive product due to its simple and straight forward nature. It is easy to understand and manage, and for many intermediaries it has provided access to capital to increase their portfolio, although the leverage effect of the senior loan is lower compared to that of other instruments. The other instruments have been seen as too complicated and difficult to understand. In particular equity is seen as difficult, since it requires certain stability, additional investors and an exit strategy, something which smaller or new MFIs cannot provide, thus making the investment too risky. It is also the opinion of the EIF that ways of simplifying the equity instrument should be explored, in order to increase its relevance and making it applicable for small MFIs. Currently, one of the requirements for the equity instrument is that the intermediary applying for it has other equity investors – this was reported by the EIF to be a hurdle for many small MFIs who have difficulties finding other equity investors willing to take the risk. In addition, The EIF recommend that equity provision should not be part of a debt-based fund, but rather a separate vehicle with more flexible guidelines and requirements, and target returns adjusted to the higher losses incurred by start-up microfinance institutions. .

As mentioned already, the budget available for guarantees is about to be reached (EUR 25m). It is generally acknowledged that the guarantee has been working very well in generating leverage and demand has picked up during the last two years. As an alternative to the current set-up, it could be considered to provide guarantees with general market conditions, rather than for free. This could, however, entail binding liabilities and adverse effects which are difficult to foresee (for example in cases of fraud or alike) and it would require amending the guarantee language significantly so that the guarantee survives many events of default.

Recommendation	Expected impact
<b>Increase the guarantee part of Progress Microfinance, as it is highly successful in terms of leverage.</b>	Higher leverage and better outreach to riskier groups.
<b>Explore if and how a guarantee could be provided within the framework of the funded instruments (i.e. with a fee)</b>	If the guarantee is provided as a funded instrument with participation by the EIB/EIF, the instrument would benefit from the EIF's AAA rating and the larger volumes available, which would be relevant given the currently high demand for the instrument.



## 6.2 Implementation at the level of intermediaries

At the level of intermediaries there is a great variance in how Progress Microfinance has progressed, especially in terms of loan portfolios. While some intermediaries have been off to a flying start, others have been struggling to promote their offer and have experienced difficulties in attracting clients. The reasons vary, but can be summarized as follows:

- Amount offered (< EUR 25 000) considered too low for start-ups or microenterprise by a limited number of intermediaries/countries. This depends on the expectation of the clients as well as the intermediaries, the MFIs which target vulnerable groups in general do not consider the amount too low.
- Difficulties reaching out to target group. Some intermediaries have not been successful in marketing or reaching clients. This can be due to little or low demand for the product and risk averse clients.

Still, in other MFIs the implementation has surpassed expectations, with a great demand and outreach, such as for example MicroStart and Qredits. It seems there are two ways in which MFIs have managed to develop their portfolio quickly, either through a clear mission and strategy for outreach or through building on their existing client base in the case of more established MFIs.

Only half of the intermediaries offer business development services themselves to the clients in the form of coaching, business plans, mentoring or other. Other intermediaries do not provide these services directly, but have entered into agreements with other entities, something which appears to work well when the support is provided by well-established organisations. Several of the intermediaries provide business development services for a fee. Very few of the MFIs have cooperation with ESF projects; often they cite difficulties in finding relevant cooperation partners as the reason for this.

The difficulties financial intermediaries encounter in establishing collaboration and lacks of information on ESF funding in some cases suggest the need for a stronger strategic approach in the Member States to coordinate Progress Microfinance and ESF support activities in order to fully utilize these potentials and to prevent possible overlaps, e.g. between grant and loan programmes. On one hand, it would be ideal to outline the principles of complementarity of ESF and Progress Microfinance already in the OPs. On the other hand, practice of implementation should be reflected in the reporting of the microcredit providers to the EIF.

Recommendation	Expected impact
<b>More strategic coordination of Progress Microfinance, ESF and national support activities targeting microenterprises.</b>	Increased synergies between training, mentoring, business support, grants and microcredits.
<b>Enforcement of contract requirements on cooperation between intermediaries and ESF-funded organisations providing business development services.</b>	Business services offered to all micro borrowers. Potential negative impact on interest of intermediaries in using the instruments, if these conditions are deemed difficult to satisfy.

### 6.2.1 Effectiveness of Progress Microfinance in reaching its target groups

The data available from the interim phase does not allow for strong conclusions on target group outreach. The social reporting provides some indications, but is not considered completely reliable or complete at the time of writing of this report.

From the conducted interviews and case studies it can be concluded that intermediaries target primarily microenterprises, often with a focus on those who are financially excluded, but without specifically addressing particular target groups such as minorities, women or disabled. It was generally considered that in the current economic environment, financial exclusion is a problem for a broad, heterogeneous group of microenterprises and is not restricted to specific vulnerable groups. Hence, it is considered relevant to have a broader focus on what is considered “vulnerable groups”, irrespective of individual characteristics.

<b>Recommendation</b>	<b>Expected impact</b>
<b>Clarify the scope of the target group, to focus on the financial exclusion, rather than characteristics.</b>	The intermediaries focus on vulnerable groups, and not general credit portfolio.
<b>Include individual characteristics as factors to take into account, for example minorities, women, disabilities, etc., rather than as selection criteria.</b>	Continued focus on marginalised groups, in order to ensure sufficient supply of relevant products and services to these groups taking into account the specificities of demand from them.
<b>Enforce the provisions of agreements with intermediaries requiring them to cooperate with organisations representing final recipients.</b>	The intermediaries improve their outreach to target groups.

### 6.2.2 Social enterprises and specific groups

There is very little evidence of support to social enterprises, apart from the support to the intermediaries themselves (as social enterprises). This has not been put in focus in the implementation of Progress Microfinance by any of the intermediaries and as result the representation of social enterprises in the recipient of microcredit with support by the Facility is assessed as being rather low. It is questionable if the same results would have been achieved in terms of outreach and disbursements, if the objective of social enterprises had been emphasized strongly.

<b>Recommendation</b>	<b>Expected impact</b>
<b>If the objective is to be kept, it could be relevant to set aside part of the funding targeting specifically social enterprises rather than in general for the facility.</b>	A targeted sub-instrument could increase interest among MFIs to invest in developing the market.

### 6.2.3 Equal opportunities

Based on these results it can be seen that the ratio of female lenders is close to the 40:60 female-male ratio stated in the evaluation criteria, however the collected evidence indicates that this is not the result of a concentrated effort to promote equal opportunities. As only seven of the microcredit providers are actively targeting the microcredits to women, it cannot be concluded that the intermediaries have actively promoted microcredit to female entrepreneurs.

### 6.3 Impact of Progress Microfinance on microcredit providers

There is clear evidence that participation in Progress Microfinance has generated positive effects for the intermediaries. The participation in a programme funded by the EU and the EIB and managed by the EIF has brought extra credibility and trust from both partners and final recipients. There have been few adverse or unintended effects, apart from when the funding has not functioned as intended (difficulty selling the product). According to interviews, being “approved” by the EIF for a financial instrument under Progress Microfinance opens many doors for the intermediaries, and gives them a stamp of quality and increased recognition.

As mentioned earlier, the national initiatives are often targeting SMEs more generally and not specifically the microcredit market. Based on these findings it can be concluded that it would be difficult in particular for non-banks and smaller banks to find similar funding elsewhere. This is also the assessment of the EIF, where the interviewees confirmed that there are differences in the negotiations between MFIs, who cannot access the market elsewhere on the one hand, and banks, who have other funding possibilities on the other hand (ordinary credit market and funding by available own capital). While government funding and other sources are available in some cases, in order to build a sustainable microcredit market in Europe with viable and self-sustained microcredit providers, the provision of loans and guarantees through Progress Microfinance may promote this more effectively than national grants. One of the explaining factors is that the MFIs receiving guarantees or loans through Progress Microfinance go through a “professionalization” process during the negotiation process, due diligence and reporting.

Progress Microfinance has clearly supported the development of the microcredit market and led to an increased supply of microcredits to groups that would otherwise not have been applicable to receive such financing. Evaluation findings so far point towards the establishment of Progress Microfinance as a key player in the European microcredit market. Intermediaries report that Progress Microfinance instruments have been an essential factor to their development– according to the MFIs, without access to the facility the microcredit market would be substantially smaller. This is likely to be particularly true in Western Europe, where the market and culture for microcredits is considerably younger than in Eastern Europe. Most intermediaries state that similar funding, with favourable conditions, is not available elsewhere.

### 6.4 Impact and sustainability of Progress Microfinance on micro entrepreneurs

The positive impact of the loans backed by the facility on micro-borrowers can be established on several levels.

The main objective of the facility is to increase **access to finance** to micro-enterprises, particularly to those in a disadvantaged position with regard to their access to traditional sources of finance. As a clear indication of the outreach towards financial excluded entrepreneurs, 17 % of the surveyed micro-borrowers received a loan backed by Progress Microfinance after having been rejected for a loan by another financial institution and 68 % were first-time borrowers. The majority of surveyed borrowers were also of the opinion that they would not be able to receive a credit with similar conditions elsewhere.

The evaluation established evidence of the **job-creation** and **business-creation** impact of the facility. While almost a third of all surveyed micro-borrowers were unemployed or inactive at the time of applying for a microcredit, only 4,7 % of them

are with such a status at the moment. In fact, 77 % of the respondents who were unemployed/inactive when they applied for a microcredit are now self-employed. In addition, more than half of the microcredits provided with support from Progress Microfinance were used by their recipients to finance a new business venture.

As regards the **development of the businesses** financed with microloans provided under a Progress Microfinance instrument, the reported results were generally positive in terms of increased income, turnover and hiring of additional staff. While the number of additional employees hired per microcredit was rather low, one should interpret this in light of the fact that 64 % of the surveyed respondents had taken out their credit less than a year ago and the job creation effect might take somewhat longer to materialise. The job preservation effect was in line with the established benchmarks.

While data constraints did not allow for a detailed assessment of the **survival rate** of microenterprises, the small share of defaults reported by micro-borrowers (4 %) and intermediaries provided positive indication that the survival rate of enterprises backed by the facility is satisfactory, especially when compared to the EU-average (87 %).

Overall, the evidence collected throughout the evaluation offered firm support for the positive assessment of the impact of Progress Microfinance on micro-borrowers.

## Appendix A: Evaluation Matrix

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
<b>Implementation</b>	How is the EPMF implemented?	at the level of the EIF?	<ul style="list-style-type: none"> <li>- Typology of microcredit providers</li> <li>- Application procedures relevant and adequate</li> <li>- Degree of relevance of the division of instruments (debt/guarantees)</li> <li>- Degree of administrative burden due to social reporting</li> <li>- Existence of adverse effects due to conditions</li> <li>- Degree of implementation of the Commission visibility requirements</li> <li>- Selection criteria for approving/rejecting intermediaries</li> </ul>	<p>N/A descriptive</p> <p>Application procedure assessed relevant and adequate by microcredit providers</p> <p>EIF and microcredit providers/guarantee institutions assess instruments relevant</p> <p>EIF assess administrative burden reasonable</p> <p>Absence of adverse effects</p> <p>Visibility requirements fully met</p> <p>Selection criteria ensures that target groups are reached</p>	<p>Desk research</p> <p>Interviews with EIF staff</p> <p>Interviews with EMN and MFC</p> <p>Interviews with microcredit providers</p>	Qualitative Data Analysis (QDA)
		at the level of microcredit providers?	<ul style="list-style-type: none"> <li>- Description (typology) of microcredit conditions</li> <li>- Description of procedures (information, debt-collection, non-discrimination, eligibility checks)</li> </ul>	<p>Alignment with the European Code of Good Conduct for microcredit provision</p> <p>Alignment with the European Code of Good Conduct for microcredit provision</p>	<p>Desk research</p> <p>Interviews with microcredit providers</p> <p>Interviews with microcredit providers who are NOT supported</p>	Qualitative Data Analysis (QDA)

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
			- Degree of cooperation between microcredit providers and organisations representing final recipients	Evidence of close cooperation between microcredit providers and organisations representing final recipients	Case studies in Member States	
			- Degree of cooperation with organisations supported by the European Social Fund	Evidence of close cooperation with organisations supported by the European Social Fund		
			- Degree of training provided to micro-borrowers (type, format, scope)	Evidence of training provided to micro-borrowers (type, format, scope)		
			- Degree of difficulty/cost required for social reporting by microcredit providers	Social reporting assessed reasonable by microcredit providers Social reporting did not influence decision to seek funding (or not)		
			- Degree of implementation of the Commission visibility requirements	Visibility requirements fully met		

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
<b>Effectiveness</b>	How effectively does EPMF reach its objectives?	To what extent has EPMF increased access to and availability of microfinance for;	<ul style="list-style-type: none"> <li>- Ration of lenders who have lost their jobs</li> <li>- Ratio of lenders who are at risk of losing their jobs</li> <li>- Ratio of lenders with difficulties entering labour market</li> <li>- Ratio of lender with difficulties re-entering the labour market</li> <li>- Ratio of female lenders</li> <li>- Age profile of lenders</li> <li>- Ratio of lenders at risk of poverty levels (Eurostat defined levels)</li> <li>- Ratio of lenders who are vulnerable and disadvantaged (disabled, minority)</li> </ul>	<p>Evidence of stated target group clearly reached – criteria:</p> <p>At least 60 % of all lenders belong to one of stated target groups</p> <p>The percentage of lenders at risk of poverty is at least equivalent or higher than at the national level.</p>	<p>Desk review (social reporting)</p> <p>On-line survey with microenterprises</p> <p>Case-studies</p>	<p>Quantitative analysis/Descriptive</p> <p>Qualitative Data Analysis (QDA)</p> <p>Contribution analysis</p>
		To what extent has EPMF increased access to and availability of microfinance for microenterprises, particularly in the social economy, as well as microenterprises which employ persons targeted	<ul style="list-style-type: none"> <li>- Ratio of business in the social economy</li> <li>- Ratio of microenterprises employing members of disadvantaged/vulnerable groups</li> <li>- Linkage between EPMF and increased access to microfinance</li> </ul>	<p>Evidence of enterprises in the social economy (at least 50 %)</p> <p>Evidence of employment of target group (at least 50 % of enterprises)</p>	<p>Desk review (social reporting)</p> <p>On-line survey with microenterprises</p> <p>Interviews with microcredit providers</p> <p>Interviews with EMN and MFC</p> <p>Case studies in Member States</p>	<p>Quantitative analysis/Descriptive</p> <p>Qualitative Data Analysis (QDA)</p> <p>Contribution analysis</p>

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
		To what extent has the EPFM actively promoted equal opportunities for men and women	<ul style="list-style-type: none"> <li>- Degree initiatives to promote equal opportunities</li> <li>- Profile of credits to women/men</li> <li>- Ratio of female lenders</li> </ul>	MFIs have actively promoted microcredit to female entrepreneurs Overall ratio female/male not less than 40/60	Desk review (social reporting)  Interviews with microcredit providers  Case studies in Member States	Quantitative analysis/Descriptive  Qualitative Data Analysis (QDA)  Contribution analysis
<b>Impact</b>	What is the impact of progress microfinance	at the level of microcredit providers	<ul style="list-style-type: none"> <li>- Opinion of MFIs on products provided</li> <li>- Degree to which EPFM conditions have influenced/alterd MFIs target group focus</li> <li>- Degree to which conditions for credits have been influenced by EPMF funding</li> <li>- Degree to which funding could have been provided elsewhere</li> <li>- # of banks who started microcredits when supported by EPMF</li> <li>- Share of volume microcredits in overall portfolio (numbers and value)</li> </ul>	Products are assessed relevant and adequate to the needs of the MFIs and of the credit markets  The PFM funding has contributed to an increased focus on the stated target groups  The PFM funding has contributed to adapted conditions for clients  Similar funding (target, conditions) could not have been found elsewhere	Interviews with microcredit providers  Interviews with microcredit providers who are NOT supported  Interviews with EMN and MFC  Case studies in Member States	Quantitative analysis/Descriptive  Qualitative Data Analysis (QDA)  Contribution analysis
		at the level of final recipients (incl. Job creation)	<ul style="list-style-type: none"> <li>- # and % of created business by sector</li> <li>- # and % of created business by size</li> </ul>	Increase in share of microcredits	Desk review (EIF reporting)  On-line survey	Quantitative analysis/Descriptive  Qualitative Data



Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
<b>Sustainability</b>	How sustainable are the impacts?	for the entrepreneur in terms of social economic situation and job creation	"Age" of businesses since microcredit		with microenterprises	Analysis (QDA)
			- Extent to which microenterprises links growth to access to microcredit	Microenterprises believe/assess that microcredits have contributed to growth	Case studies in Member States	Contribution analysis
			- Progression of income level	Income increased since microcredit approved	Desk review (EIF reporting)	Quantitative analysis/Descriptive
			- Access to mainstream banking	Access to mainstream banking improved since microcredit approved	On-line survey with microenterprises	
		- Overall debt levels	No over-indebted recipients	Case studies in Member States		
		- Percentage of defaults				
		for the enterprise in terms of its development	- Survival rate 6/12/18 months after microcredit maturity	N/A - will only be possible on a limited number of credits. Only few have reached maturity.	Desk review (EIF reporting)	Quantitative analysis/Descriptive
			- Survival rate 6/12/18 months after approval		On-line survey with microenterprises	Qualitative Data Analysis (QDA)
			- Survival rate per overall age of business/sector/target-group		Case studies in Member States	Contribution analysis
		for the microcredit provider	- Changes in loan repayment rates	Positive development	Desk review	Quantitative analysis/Descriptive
			- Financial information (overall loan portfolio, liquidity, guarantees etc)		Interviews with microcredit providers	Qualitative Data Analysis (QDA)
					Interviews with microcredit providers who are NOT supported	Contribution analysis

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy	
<b>Efficiency</b>	Is the PFM efficient in reaching its objectives/impact?	To what extent are MFIs able to implement the funds/guarantees as intended/planned?	- Progress of credit portfolios	Implementation has not deviated more than +/-20 %	Case studies in Member States	Quantitative analysis/Descriptive	
					Interviews with EIF		Qualitative Data Analysis (QDA)
					Interviews with microcredit providers		
		What has been the leverage effect achieved so far?	- Additional funding from other investors - Leverage effect (multiplier)	A strong likeliness of reaching in total 500 M EUR in funding A leverage of at least 5	Case studies in Member States Interviews with EIF	Quantitative analysis/Descriptive	
		To what extent could other instruments (grants) have generated the same effects? Or other effects?	- Comparison between likely impact of grants/PMF-set up	N/A	Interviews with EIF Interviews with EMN and MFC Interviews with microcredit providers Case studies in Member States	Qualitative Data Analysis (QDA) Contribution analysis	
<b>Complementarity</b>	How complementary is PFM to other initiatives and the European and National levels	How does PFM contribute to the objectives of JEREMIE/JASMINE/ESF and vice-versa?	Evidence of contribution: - MFI benefiting from several instruments experience positive effects - Microenterprise benefiting from several instruments experience positive effect	Clear complementarity between instruments, increasing positive effects (impact, sustainability)	Desk review Interview with EIF Interviews with EMN and MFC Interviews with microcredit providers Case studies in	Qualitative Data Analysis (QDA)	

Criteria	Question	Subquestions	Indicator/Descriptor	Norm/Judgment criteria	Data collection	Analytical strategy
					Member States	
		How does PFM contribute to the national level initiatives targeting the same groups/objectives?	- Evidence of complementarity to national level initiatives	Clear complementarity between instruments, increasing positive effects (impact, sustainability)	Desk review Interviews with microcredit providers Case studies in Member States	Qualitative Data Analysis (QDA)

## Appendix B: Interview list of stakeholders

Intermediary/ Organisation	Date of Interview	Face-to-face or Phone	Type
MicroStart	19/11/2013 26/11/2013	Phone	Intermediary
Crédal Société Coopérative	19/11/2013	Phone	Intermediary
Eerste Bank	20/11/2013	Phone	Intermediary
AB Siauliu bankas	21/11/2013	Phone	Intermediary
Sberbank	20/11/2013	Phone	Intermediary
FM Bank	15/11/2013	Phone	Intermediary
Pancretan	19/11/2013	Phone	Intermediary
Qredits	19/11/2013	Phone	Intermediary
Societe Generale Expressbank	19/11/2013	Phone	Intermediary
Cooperative Central Bank (CCB)	18/11/2013	Phone	Intermediary
Jobs MFI	20/11/2013	Phone	Intermediary
Mikrofond EFD	11/11/2013	Phone	Intermediary
Microfinance Ireland	20/11/2013	Phone	Intermediary
Banco Espirito Santo (BES)	22/11/2013	Phone	Intermediary
Banca Transilvania	20/11/2013	Phone	Intermediary
Patria Credit	21/11/2013	Phone	Intermediary
SEFEA	18/11/2013	Phone	Intermediary
FAER	12/11/2013	Phone	Intermediary
Emil Banca	13/11/2013	Phone	Intermediary
BCCM	13/11/2013	Phone	Intermediary
Millennium BCO	14/11/2013	Phone	Intermediary
ICREF	19/11/2013	Phone	Intermediary
ADIE	21/11/2013	Phone	Intermediary
Inicjatywa Mikro	26/11/2013	Phone	Intermediary
Créa-Sol	27/11/2013	Phone	Intermediary
Banco Popolare di Milano	22/11/2013	Phone	Intermediary
Citadele Bank	4/12/2013	Phone	Non participating intermediary
Friedrichs Foundation	21/11/2013	Phone	Non participating intermediary
Sparbanken Oresund	25/11/2013	Phone	Non participating intermediary
PerMirco	29/11/2013	Phone	Non participating intermediary
European Investment Fund	20/11/2013	Face-to-face	Guarantees, Securitisation and Microfinance
European Investment Fund	20/11/2013	Face-to-face	Strategic development and EU policies
European Commission, DG ECFIN	n/a	Phone	EU Commission
European Commission, Cabinet of Lazlo Andor (former DG EMPL)	n/a	Face-to-face	EU Commission

## **Appendix C: Questionnaire for Final recipients of Progress Microfinance**

*(English language version)*

Dear Sir/Madam,

You have applied for and received a microcredit with [MFI], with support and financing from the European Union. An evaluation is being conducted to assess how the financing has worked, and how the loan has helped your business. To this end it is very important to get your opinion, so we would be very grateful if you could take a few minutes of your time to:

- a) answer the following simple questions.
- b) answer a few simple questions by filling out a short survey. The survey can be accessed through the link below: [...]

Thank you in advance.

Ramboll Management Consulting  
Evaluators of the European Progress Microfinance Facility

An authorisation from the European Commission for Ramboll to carry out this survey is available here: <http://ec.europa.eu/social/BlobServlet?docId=11479&langId=en>

1. Did you apply for microfinancing from other institutions before receiving a microcredit?
  - Yes, but my application was rejected
  - Yes, I have applied for and received microcredits before – go to 3
  - No, I have not applied for a microcredit somewhere else – go to 4
  
2. Do you think the rejection for a credit was motivated by factors such as:
  - due to missing collateral?
  - due to high debt level?
  - due to business plan not accepted?
  - due to your gender?
  - due to your ethnic background?
  - due to a disability?
  - Other, please mention
  - I do not know
  
3. Where did you apply for a microcredit?
  - At an ordinary bank
  - At another microcredit institution
  - Other
  
4. How many times have you received a microcredit from (name of MFI)?
  - Once
  - Twice
  - Three times or more
  
5. When did you receive your (last) loan?
  - Less than a year ago
  - More than a year ago
  - More than two years ago
  
6. At the time of application for microcredit, were you?

- Self-employed
  - Employed
  - Unemployed / inactive
  - Studying
  - Other
7. What was your main source of income before you received the credit?
- Salary
  - Welfare benefit
  - Unemployment benefit
  - Help from family and friends
  - Savings
  - Other
8. How would you describe your business? You can select several options
- It is a not-for-profit organisation (social enterprise)
  - It is a for profit organisation
  - I/we provide services or support to people in difficulties
  - I/we employ people who would have difficulties finding other jobs
9. How old was your business (in years) at the time of receiving microloan?
- Below 6 months
  - 6 months - 1 year
  - 1-3 years
  - Over 3 years
10. How has your business developed since the microcredit? You can select several options
- I am able to get a (higher) income from my business
  - I am able to employ more people in my business, how many?
  - I am able to increase the turnover
  - I have been able to access regular credit (from a bank)
  - No developments or changes
  - My business is no longer operational
11. Did you receive non-financial support, advice and/or training as a complement to the credit?
- Yes, with paying a fee
  - Yes, for free
  - No, I did not – go to 14
12. What kind of non-financial support did you get? You can select several answers.
- Support to develop a business plan
  - Training in how to set up a business
  - Help with administration and accounting
  - Regular coaching and advice
  - Other, please specify
13. How important was the non-financial support for the success of your business?
- 1 Very important
  - 2
  - 3
  - 4
  - 5 Not at all

14. Would you have liked to receive (more) non-financial support or advice?
- 1 Yes, absolutely
  - 2
  - 3
  - 4
  - 5 No, not at all
15. Do you think you could have received a credit elsewhere, with similar conditions?
- 1 Yes, absolutely
  - 2
  - 3
  - 4
  - 5 No, not at all
16. Is/was it difficult for you to meet the repayment requirements for you microcredit?
- 1 Yes, very difficult
  - 2
  - 3
  - 4
  - 5 No, not at all
17. When you have repaid the microcredit, will you take a new microcredit?
- 1 Yes, absolutely
  - 2
  - 3
  - 4
  - 5 No, absolutely not

*The following questions concern your current situation and background factors. Some questions may be perceived as sensitive, but are very important for the evaluation to be successful. If you do not wish to answer to a question, please indicate that you don't want to answer.*

18. What was your total net income in 2012 including any benefits or other support (excluding the microcredit)?
- Above national threshold
  - Below national threshold
  - Don't want to answer
19. Did you in the last two years have difficulty to afford any of the following?  
Please select all which are relevant
- to pay rent or utility bills
  - keep home adequately warm
  - face unexpected expenses
  - eat meat or fish
  - a week holiday away from home
  - a car
  - a washing machine
  - a colour TV
  - a telephone
  - Don't want to answer
20. Are you?

- Male
- Female

21. How old are you?

- Under 25
- Between 25 and 30
- Between 31 and 40
- Between 41 to 54
- 55 or older
- Don't want to answer

22. What is your main activity at the moment? You can select several options

- Self-employed
- Employed
- Unemployed / Inactive
- Studying
- Other
- Don't want to answer

23. What is your highest education?

- I have completed a primary or lower secondary education (Max 10 years of school)
- I have completed upper secondary or post-secondary education (Max. 14 years of school)
- I have completed tertiary education (Completed vocational or academic education)
- Don't want to answer

24. According to your own assessment, do you belong to any of these groups?

- Migrant, foreign background, minority group (e.g. Roma)
- People living with disabilities
- Other disadvantaged group, please explain:
- Don't want to answer

25. This survey is anonymous. To receive more complete information about the way the microcredit has worked, we intend to interview some of the people who have received a credit with support of European funding. If you would agree to be one of the people we visit, please leave your name and a phone number where we can reach you below (please note that it is not certain you will be contacted).

Name:

Phone number:

This is the end of the survey. Thank you for your responses.

Your response has been saved and you may close the browser.



## Appendix D: Data availability

### Available data for customers

	Personal Identifier	Annual income	Educational level	Age	Debt levels	Employment status	Other	Other - Clarification
<b>Micro Start</b>	Database	Database	Database	Database	Database	Database	Database	Origin, single, married, number of children, purpose of microloan
<b>Qredits</b>	Credit file	Database	Database	Database	Credit file	Database	Yes (N/A)	Debt registration status (not in database); marital status (database); information on whether the recipient is coached or not.
<b>FM Bank</b>	Database	Database	Database	Database	Database	Database	Database	E-mails, telephone numbers.
<b>Millenium BCP</b>	Database	Database	Database	Database	Database	Database	No	
<b>Patria Credit</b>	Database	Database	Database	Database	Database	No	Database	For enterprises - data on the number of employees, and the structure of the workforce (number of women, minorities) at the date of the agreement.
<b>Credal</b>	Database	Database	Database	Database	Database	Database	Database	Marital status, family status, level of personal debt.
<b>Erste Bank (micro)</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	No	
<b>Erste Bank (SK)</b>	Database	Database	Database	Database	Database	Database	No	
<b>Microfinance Ireland</b>	Database	Credit file	No	Credit file	Credit file	Credit file	Database	Number of jobs for an existing business, their projections for job creation; start-up or existing, form of trading, referral source, appeals.
<b>ADIE</b>	Database	Database	Database	Database	Database	Database	Database	Number of children, number of years of experience in the field of business, savings amount
<b>Mikrofond EAD</b>	Database	Database	No	Database	Database	Database	Database	Job creation can be checked in an external database
<b>Patria Credit</b>	Database	Database	Database	No	Database	No	Database	Number of employees, and the structure of the workforce (nr of women, minorities) at the date of the agreement (EIF requirement).
<b>Siauliu Bankas</b>	Database	Database	Database	Database	Database	Database	No	
<b>CCB</b>	Database	Database	Credit file	Database	No	Database	Database	Data on the employees of the borrowers (whether they are from a minority group or have disability)
<b>Jobs MFI</b>	Database	Database	Credit file	Database	Credit file	Database	Yes (N/A)	Expectations for job creation at the time of the application, reports on number of employees at the end of the lending contract.
<b>FAER</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	No	
<b>ICREF</b>	Database	Database	Database	Database	Database	Database	No	
<b>Inicjatywa</b>	Database	Database	Database	Database	Database	Database	No	

	Personal Identifier	Annual income	Educational level	Age	Debt levels	Employment status	Other	Other - Clarification
<b>Mikro</b>								
<b>Pancretan CB</b>	Database	Database	Database	Database	Database	Database	Credit file	Financial standing information (assets owned), for existing companies - market information (e.g. track record on previous collaboration)
<b>Créa-Sol Banca Transilvania</b>	Database	Credit file	Database	Database	Credit file	Database	Database	Business activity, date of creation of the business, the legal status of the business, expected revenues of the business, number of jobs created.
<b>SEFEA</b>	Database	Credit file	No	No	Credit file	No	Credit file	Associates, Financial Statements, Turnover, Credit standing, associate history
<b>SEFEA</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	
<b>BCCM</b>	Database	Database	Database	Database	Database	Database	Database	Gender of employees (EIF requirement)
<b>Emil Banca</b>	Database	Credit file	Credit file	Credit file	Credit file	Credit file	No	Qualitative information on the previous history of the enterprise; business plan; whether the enterprise exports its product; accounts in other banks.
<b>SocGen Expressbank</b>	Database	Database	Credit file	Database	Credit file	Credit file	No	
<b>BES</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	No	
<b>Sberbank</b>	Yes (N/A)	Database	Credit file	Database	Credit file	Credit file	No	
<b>Banca Popolare di Milano</b>	Database	Database	Database	Database	Database	Database	No	Gender, economic sector of activity (NACE)

Available data for loan applicants who did not receive a micro product

	Personal Identifier	Annual income	Educational level	Age	Debt levels	Employment status	Other	Other - Clarification
<b>Micro Start</b>	Database	Database	Database	Database	Database	Database	No	
<b>Qredits</b>	No	No	Database	Database	No	Database	Database	marital status
<b>FM Bank</b>	Yes (N/A)	No	No	No	No	No	Yes (N/A)	Contact details
<b>Millenium BCP</b>	No	No	No	No	No	No	No	
<b>Patria Credit</b>	No	No	No	No	No	No	No	
<b>Credal</b>	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	
<b>Erste Bank (micro)</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	Yes (N/A)	
<b>Erste Bank (SK)</b>	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	Yes (N/A)	
<b>Microfinance Ireland</b>	Database	Credit file	N/A	Credit file	Credit file	Credit file	Yes (N/A)	
<b>ADIE</b>	Database	Database	Database	Database	Database	Database	Database	Number of children; number of years of experience in the field of business, savings amount
<b>Mikrofond EAD</b>	No	No	No	No	No	No	No	
<b>Patria Credit</b>	No	No	No	No	No	No	No	
<b>Siauliu Bankas</b>	Yes (N/A)	No	No	No	No	No	No	
<b>CCB</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	Yes (N/A)	
<b>Jobs MFI</b>	Database	Credit file	No	No	No	No	Credit file	Number of employed persons at the company in time of application
<b>FAER</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>ICREF</b>	Database	Database	Database	Database	Database	Database	No	
<b>Inicjatywa Mikro</b>	Database	Database	Database	Database	Database	Database	No	

<b>Pancretan CB</b>	No	No	No	No	No	No	No
<b>Créa-Sol</b>	Database	Database	Database	Database	Database	Database	Yes (N/A)
<b>Banca Transilvania</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	Yes (N/A)
<b>SEFEA</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>BCCM</b>	Database	Database	Database	Database	Database	Database	Yes (N/A)
<b>Emil Banca</b>	Database	Credit file	Credit file	Credit file	Credit file	Credit file	Yes (N/A)
<b>SocGen</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	No
<b>Expressbank</b>	Credit file	Credit file	Credit file	Credit file	Credit file	Credit file	No
<b>BES</b>	No	No	No	No	No	No	No
<b>Sberbank</b>	No	No	No	No	No	No	No
<b>Banca Popolare di Milano</b>	Database	Database	No	Database	Database	Database	No

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The evaluation serves as an interim evaluation of the European Progress Microfinance Facility, which aims to increase access to finance for micro-entrepreneurs, including the self-employed. It has a particular focus on, but is not restricted to, groups with limited access to the conventional credit market, such as female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, etc.

