

# European Progress Microfinance Facility for employment and social inclusion

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In accordance with Decision No 283/2010/EU establishing a European Progress Microfinance Facility which entered into force on 8 April 2010, the Commission presents its first annual report taking stock of implementation of Progress Microfinance. . The report is based on the implementation reports submitted by the European Investment Fund (EIF). Since Progress Microfinance was established only recently, the report focuses on the key features of the instrument, the design of the products and the first stages of implementation. It also describes communication work undertaken by the Commission and the EIF, how Progress Microfinance complements other EU instruments and the outlook for further development.

Before the crisis, potential demand for micro-credit in the EU in the short term was estimated at over 700 000 new loans worth approximately EUR 6 296 million. Most microcredit in the EU is provided by non-commercial microfinance institutions (NGOs, foundations, government bodies, Member States' promotional banks and non-bank financial institutions), but these providers do not currently have the capacity or resources to meet this heavy demand. The European Parliament recognised the problem and asked the Commission to step up its efforts to develop microcredit in the EU. This resulted in the adoption of the Decision establishing Progress Microfinance Facility. The financial contribution from the EU budget adds up to EUR 100 million for the period 1 January 2010 to 31 December 2013. Of that sum, EUR 60 million comes from the PROGRESS programme (Decision No 1672/2006/EC) and EUR 40 million from the margins of the budget. The possibility of the budgetary authority deciding a 'payback' of up to EUR 20 million to the PROGRESS programme via the draft annual budget over the period 2011 to 2013 was part of the agreement between Parliament and Council on the adoption of the Decision.

The Commission estimates that the Union's contribution of EUR 100 million will leverage microloans of more than EUR 500 million over eight years thanks to the following:

- **additional funding from other investors:** it is assumed that the EU's investment can attract funding from third parties. The European Investment Bank (EIB) is already committed to matching the EU contribution and making EUR 100 million available for the 'funded instruments' part. A further EUR 47 million is expected from other investors;
- **the revolving nature of the funds:** the funds can be used more than once during the lifetime of the Progress Microfinance Facility. The Decision provides for the last (re-)investment to be made in 2016;
- **leverage generated by the products:** estimates suggest that every euro committed in guarantees could generate at least six euros in microcredit, while the funded instruments are expected to have a leverage effect of between one and three.

The report goes on to describe the setting-up and key features of the guarantees window and of the funded instruments respectively and who benefits from them. It notes that the guarantees window has essentially been modelled on the SMEGguarantees window of the Competitiveness and Innovation Programme (Decision No 1639/2006/EC). The agreements signed and the transactions forecasts suggest that the various instruments on offer are attractive to a wide range of intermediaries. Approximately one third of transactions under preparation are expected to be with banks and two thirds with non-banks. As regards funded instruments only, 53 % of the contracts, in terms of volume, are likely to be signed with smaller banks and 47 % with non-bank microfinance institutions. This means that the first transactions will be well balanced in terms of the types of intermediary targeted, which will also help reach the broad range of micro-borrowers targeted by Progress Microfinance.

So far, the transactions forecasts point to greater interest in funded instruments than in guarantees, which means that the way the EU resources have been apportioned between the two sections of Progress Microfinance (75 % versus 25 %) has been right. Of the range of products offered under the FCP, senior loans have, as expected, been the most in demand (63 %). Nevertheless, all available financial instruments, i.e. senior loans, subordinated loans, risk-sharing loans and direct and indirect equity, are included in the forecast for transactions, which demonstrates that the wide product range reflects actual demand across targeted intermediaries and helps optimise EU-wide outreach.

The Commission and the EIF also expect satisfactory fund absorption. Over the period 2010-13, EUR 25 million will be made available each year to the Microfinance Facility. In 2010 EUR 10 million was committed for guarantees and EUR 18 million for funded instruments. Another EUR 24 million contributed by the EIB takes the aggregate amount made available to the FCP up to EUR 42 million. For 2011 the Commission has committed close to EUR 5 million for guarantees<sup>4</sup> and EUR 20 million for funded instruments.

As regards guarantees, a further EUR 8 million are expected to be absorbed in 2011, while the forecast for transactions involving funded instruments suggests that EUR 44 million will be absorbed up to the end of the year.

The next annual report, to be presented in June 2012 based on the 2011 implementation reports provided by the EIF, will assess in greater detail the accessibility of funding to individual sectors and types of beneficiary, together with the geographical and sectoral distribution. It will also provide initial indications of the impact and sustainability of Progress Microfinance.