European Progress Microfinance Facility
- Interim evaluation

In-Depth Analysis

On 17 December 2014, the Committee on Employment and Social Affairs (EMPL) requested an implementation report on the European Progress Microfinance Facility for employment and social inclusion, initiated in 2010, which triggered an automatic implementation assessment from DG EPRS. The original request referred to the European Commission's report on that instrument's functioning in 2013, but in view of the larger (interim) external evaluation, the report was later adapted and given a wider scope. The purpose of the EMPL report is to focus on job creation by facilitating access to finance for the unemployed and for economically inactive people, and analysing to what extent help was provided to disadvantaged groups.

This analysis has been drawn up by the Ex-Post Impact Assessment Unit of the Directorate for Impact Assessment and European Added Value, within the European Parliament's Directorate-General for Parliamentary Research Services, in advance of the first EMPL discussion on the matter on 7 May 2015. It looks at the implementation of the relevant legal act (Decision 283/2010) on the basis of the existing data and documents, with special attention given to the Parliament's input, the European Commission implementation reports and the interim evaluation prepared for the Commission by an external consultancy.

Abstract

The European Progress Microfinance Facility for employment and social inclusion was established by Decision 283/2010 and will be in operation until April 2016. Although only a limited number of conclusions can be made on the basis of data available so far, some criticism towards this instrument has already been reflected in the set-up of the next EU multi-annual framework to cover microcredit, namely the Programme for Employment and Social Innovation (EaSI). The specific effects of the Microfinance Facility, especially those related to social and employment matters, seem to correspond to the objectives that were set in response to the financial crisis in Europe. The commitment of 100 million euro from the EU budget (supplemented by an equal amount from the European Investment Bank), allowed a growing number of financial intermediaries to offer small loans (below and above 5,000 euro - but in any case below 25,000 euro which is the maximum limit of the micro-credit's definition) to persons starting-up or developing their own micro-enterprises (and often previously unemployed).
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Executive summary

In response to the worsening credit market in the European Union, and in order to contribute to the goals of the Europe 2020 Strategy on Growth and Jobs, the European Progress Microfinance Facility for employment and social inclusion was established by a Decision of the European Parliament and the Council in March 2010. The Microfinance Facility offers guarantees and funded instruments to microcredit providers (banks or non-bank institutions) who in turn are able to extend credit to individual persons and/or enterprises.

The management of the specific financial instruments of the European Progress Microfinance Facility (EPMF) is carried out by the European Investment Fund, on the basis of special agreements with the European Commission, which remains responsible for the overall implementation. In addition to the annual reports, and in accordance with the establishing Decision itself, an interim evaluation analysing multiple aspects of the microcredit provision facilitated with the EU action was prepared for the Commission by an external consultancy. It was made available to the Parliament's services in advance of the official publication, for the preparation of this Analysis.

The number of credit intermediaries involved in EPMF grew to 60 providers in May 2015, covering 22 of the 28 current EU Member States, and - by September 2013 - disbursed 13,252 microloans with an overall value of 124.6 million euro (with the most recent estimates of the European Commission further increasing these figures to 31,000 final recipients and 270 million euro).

The socio-economic effects of the Microfinance Facility are compared with the objectives set by Decision 283/2010, that is the provision of microfinance to persons in difficulties with regard to the labour market, facing social exclusion and/or in a disadvantaged position for the conventional credit market, who want to start or further develop their own micro-enterprise. The available data indicate that the funds and guarantees available under EPMF indeed contributed to the job-preservation and job-creation in Europe, but there was relatively little focus on such vulnerable groups as migrants or disabled persons. In line with a separate objective of gender equality, a rather balanced outreach was observed.

As in the case of other EU programmes, special attention was given to the complementarity of EPMF with other instruments, especially the European Social Fund. However, only part of the microcredit providers was actually involved in the suggested cooperation with entities (for example organisations representing the final recipients) providing training and mentoring services, while some offered such themselves. There was also little confirmed reaction to a suggestion made on the basis of Parliament's amendment, which was for the Member States to establish national contact points to promote and coordinate actions in their respective territories. In a separate institutional observation, the voluntary European Code of Good Conduct for Microcredit Provision still seems to be too little known in the sector.
The Microfinance Facility will continue to operate actively (offering its products) until April 2016, but it is already in the process of being replaced (alongside some other programmes) by the new Programme for Employment and Social Innovation (EaSI), established for the period 2014-2020. Improved monitoring and social reporting in the remaining period of EPMF as well as EaSI could lead to more informative evaluation of the effectiveness and sustainability of the microcredit-oriented action taken at the EU level.
1. **Background information**

Microfinance, which is nowadays present in many parts of the world, offers people that are for some reason excluded from standard financial services (for example by being considered – if unemployed – as too risky by the banks) the opportunity to obtain small loans in order to start or develop productive activities. Those activities are mostly small or even micro businesses, which in turn generate regular income for their owners and - if there are any - other employees. In an Overview of the microcredit sector in the European Union, published by the European Microfinance Network, a steadily growing trend was identified over recent years in the microfinance provision in the EU, characterised by a wide and diverse set of institutions active in the market.\(^1\) Although the availability of data for employment impact, client outreach and social performance (which makes the foundation of micro-credits) was found to be limited, the general impact of that sector in Europe in 2013 alone was considered - on the basis of enterprises supported - to be above 250,000 jobs.\(^2\)

In the first part of this Analysis, the basic information is presented on the European Progress Microfinance Facility (hereafter - the Microfinance Facility or EPMF), a specific instrument established by the European Union in 2010. This part covers the explanation of 'microcredit' and 'micro-enterprise', the process that led to the adoption of a Decision establishing EPMF and that legal act's basic features, as well as the influence of the European Parliament on the construction of Microfinance Facility and the latter's future perspectives.

### 1.1. The meaning of 'micro'

By 2014, there were 45 different microcredit providers in 19 Member States, providing - within the framework of EPMF - microcredits to self-employed and micro-entrepreneurs. It is thus necessary to have a clear understanding of what 'micro' means.

Microfinance - which covers more than just credit, but originated from it - is the provision of basic financial services to poor (low-income) people who traditionally lack access to banking and related services (definition of the Consultative Group to Assist the Poor - CGAP).

**Micro-credit** is defined as a loan or lease under 25,000 euro to support the development of self-employment and micro-enterprises. It has a double impact, sometimes also referred to as ‘the two sides of the microfinance coin’: an economic impact - as it allows the creation of income generating activities, and a social impact - as it contributes to financial inclusion and therefore to the social inclusion of individuals.\(^3\)

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1 EMN Overview, p. 10; its Executive summary was also published separately, as an EMN policy note.
2 EMN Overview, p. 11.
Consequently, a separate recital (14) in Decision 283/2010 which established the Microfinance Facility, states that for the purposes of this decision, ‘microfinance’ shall include guarantees, micro-credit, equity and quasi-equity extended to persons and micro-enterprises covered, micro-credit being defined as loans under 25,000 euro. It also defines the term ‘micro-enterprise’ as an enterprise employing less than 10 people, including self-employment, and whose annual turnover and/or annual balance sheet total does not exceed 2 million euro. In addition, in the following recital (15), ‘micro-enterprise in the social economy’ is defined as a micro-enterprise which produces goods and services with a clear social mission or which provides services to members of the community with a non-profit purpose.

1.2. The road to Microfinance Facility

Support for micro-enterprises and micro-finance institutions in Europe has been the subject of a number of actions and acts in the past, such as those providing risk protection to financial institutions for new micro-credit portfolios under the Growth and Employment initiative (1998-2000), the Multi-Annual Programme for the promotion of enterprise and entrepreneurship (2001-2005), and more recently - the Competitiveness and Innovation Framework Programme (2007-2013), as well as the JASMINEx5 and JEREMIEx6 programmes. The main reason for such support was and is the relative problem of many potential entrepreneurs to access the conventional credit market. Quite tellingly, some credit intermediaries surveyed by the external evaluation published by the European Commission, considered 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.’

Due to national specificities and differences in the history of microcredit development, especially between Eastern and Western Europe, but also between North and South, almost each EU Member State has a different situation with regard to its existence and functioning. In a Working Paper of the European Investment Fund, published in November 2009, its authors showed that there was a wide spectra of final beneficiaries and intermediaries, and concluded that there was no common microfinance business model in Europe. While the microfinance market was considered immature and fragmented, the study pointed to its growing importance as a market segment with a potential to counter poverty and unemployment while fostering financial and social inclusion.

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4 As in Article 2(3) of the Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises.
5 Joint Action to Support Microfinance Institutions.
6 Joint European Resources for Micro to Medium Enterprises.
7 Ramboll evaluation, p. 65.
8 EIF working paper on the European microfinance market, Kraemer-Eis and Conferti, 2009.
Following a number of communications and other documents, the European Parliament's legislative-initiative resolution, and the Commission's legislative proposal, which highlighted the crisis-related context and the importance to 'retain and bring more people into the labour market', the European Progress Microfinance Facility for employment and social inclusion was established by Decision 283/2010 (hereafter - the Decision) adopted on 25 March 2010 by the European Parliament and the Council.

1.3. The Decision - main features

The Microfinance Facility offers its products - guarantees and funded instruments, such as loans and equity - not to individual persons or enterprises, but to microcredit providers, that is banks or non-bank institutions, which are also referred to as microfinance intermediaries (MFIs). This is of course done with the aim of improving accessibility and availability of microfinance to the final recipients, also known as the micro-borrowers.

In order to ensure 'concentrate leverage' from international financial institutions, this 'single EU-wide facility' was made subject to the management of the European Investment Fund (EIF), on behalf of the European Commission (being responsible in accordance with the Decision's Article 5(1)). With the exception of support measures (set out in Article 4(1)(d)), the Commission was in fact authorised to conclude appropriate agreements with the international financial institutions (especially EIF and European Investment Bank - EIB), with special attention given to 'additionality and coordination with existing European and national financial instruments' and a 'comprehensive and balanced coverage between the Member States'. These agreements are only available on demand, and will be mentioned below.

In accordance with Article 3 of the Decision, the financial contribution from the EU budget was set at the level of 100 million euro, indicated for the period from 1 January 2010 to 31 December 2013 but once committed - available also in the following years. The Microfinance Facility also benefits from an additional 100 million euro provided by the EIB, assured on the basis of a specific agreement with the European Commission.

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9 Adopted on 24 March 2009 (2008/2122(INI)).
10 COM(2009) 333 final; it was accompanied by an ex-ante evaluation (SEC(2009)907) which contained information about the needs to be met, the objectives to be achieved, the risks linked with the proposal and the alternative scenarios.
11 Idem, Explanatory Memorandum, p. 2.
12 OJ L 087/1, 07.04.2010.
13 See the Decision's recital 12.
14 Such as communication activities, monitoring, control, audit and evaluation which are directly necessary for the effective and efficient implementation of this Decision and for the achievement of its objectives.
15 Article 5(2).
16 60 million euro were reallocated from the Progress programme, by Decision 284/2010. Additional 3 million euro have been added in 2010 from the earlier EP preparatory action (see below), and 2 million euro from a global transfer procedure 2012/2013.
EIF is obliged to transmit annual implementation reports to the European Commission, setting out the supported activities in terms of financial implementation, distribution and accessibility of funding with regard to sectors and type of beneficiaries, applications accepted or rejected, contracts concluded, actions funded and results. The Commission in turn presents its own report, which should specifically contain the total number of beneficiaries and the distribution of amounts geographically and per sector.

1.4. The Parliament’s input

An early-stage mandate in support of the European microfinance sector was the European Parliament Preparatory Action, a 4 million euro project under which the EIF has, since April 2010, made four risk capital investments and loans to non-bank MFI.

During the legislative procedure leading to the adoption of the EPMF Decision, the Parliament proposed that:

- The rationale for EPMF is clearly stated, namely that an increasing amount of micro-finance to vulnerable people who are in a disadvantaged position with regard to access to the conventional credit market in the European Union is provided by non-commercial microfinance institutions, credit unions and banks implementing corporate social responsibility (CSR). In this context, Parliament stressed that the Microfinance Facility could help these providers, which supplement the commercial banking market, with an increased availability of micro-finance to meet the current levels of demand – this is reflected in recital 8;

- Since in many cases the providers of micro-finance in Europe are commercial banks, they should become important partners in the Facility, with a view to re-establishing trust on the credit market and with a focus mainly on customers with no credit standing – added as recital 9;

- It is underlined that public and private bodies providing micro-finance under the Decision should comply with principles of responsible lending and thereby avoid, in particular, over-indebtedness of persons and undertakings – this was introduced as recital 10;

- Equality between women and men should be actively pursued as regards access to micro-credit facility – promotion of equal opportunities was specified among the Decision’s objectives in Article 2;

- National contact points to facilitate the implementation of the instrument are established – this was added to the final recital 7.

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17 See the Decision’s article 8(1).
18 See the Decision’s article 8(2).
19 As set out in Gönz Report, adopted by EMPL on 10 November 2009.
20 This and the previous two recitals provide thus an indication for the practical implementation of Article 4(2), which set the material scope of the Decision: The Facility shall be open to public and private bodies established on national, regional and local levels in the Member States which provide microfinance to persons and micro-enterprises in the Member States.
Following relatively short negotiations with the Council, the legislative resolution was adopted by Parliament on 15 December 2009 with a big majority of 516 votes to 82, with 4 abstentions.

### 1.5. The financing process

The overall objective of the Microfinance Facility was and is to generate 46,000 microloans by 2020, with an estimate amount of joint leverage reaching 500 million euro. This aimed leverage was already indicated in the EC response to the Parliament’s resolution of 24 March 2009, and later - in the Explanatory Memorandum of its legislative proposal. It was also stated as EPMF’s specific ‘operational’ objective in the ex-ante evaluation accompanying the legislative proposal. As explained earlier, the provision of those loans is facilitated by support or guarantees for the credit providers that sign an appropriate contract with the European Investment Fund (EIF).

According to the management agreement between the European Commission and the EIF, microcredit 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.’ In response to a call for expression of interest in guarantees, the intermediaries submit proposals to the EIF which examines the applications, puts them for approval by its Board and the European Commission, and then negotiates and signs the contracts. The procedures are broadly the same for the funded instruments, apart from the fact that there are no calls for expression of interest and applications are approved only by the EIF Board.

Following a modest beginning, the number of credit intermediaries involved in EPMF grew from 26 providers in 2012 to 40 providers in 2013, and 60 in May 2015. The detailed overview presented by the external evaluation covers 44 contracts (for guarantees and funded instruments) concluded between the EIF and 28 intermediaries by the end of June 2013.

In effect, by September 2013, microcredit providers had disbursed a total of 13,252 microloans with an overall value of 124.6 million euro. The last European Commission implementation report, published in October 2014, raised this to an estimation of more than 20,000 final recipients and 182 million euro, and the most recent figures provided in its presentations - 31,000 and 270 million.

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21 See above – footnote 9.
22 SEC(2009)907, p. 10; the Microfinance Facility was then planned to last for up to 8 years.
23 Annex 1 to the Fiduciary and Management agreement between the EU and the EIF for the European Progress Microfinance Facility for Employment and Social Inclusion. For the selection criteria for intermediaries seeking to secure a guarantee, and information from interviews with non-participating MFIs, see Ramboll evaluation, pp. 20-21.
25 They will likely be published in the up-coming European Commission implementation report 2014.
1.6. The future of Microcredit Facility

The successor-instrument for the Microfinance Facility (as well as some other programmes) is the Programme for Employment and Social Innovation (EaSI), which was already agreed by the European Parliament and the Council. Activity in the third ‘axis’ of EaSI, covering microfinance (for which – as well as for supporting social entrepreneurship – 21% of the total 919,469 million euro for the 2014-2020 period was allocated) was supposed to begin already in 2014, but – as confirmed by the European Commission – is still in the process of preparation.

It is important to realise that lessons learned from the implementation of the Microfinance Facility have already fed into the design of EaSI, specifically on the basis of a ‘Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument’, prepared on the European Commission’s request by Evers & Jung. The new programme was intended to react to the criticism that during the 2007-2013 financial period the European Union’s support for microfinance was scattered among several separate, although complementary, programmes. In addition, increased attention is supposed be given to capacity-building for microcredit providers, and more technical assistance will be offered under one of EaSI axis.

The formal end of EPMF, as set out in the agreement between the European Commission and the European Investment Fund, will be on 7 April 2016 when the remaining funds should in principle be paid back to the EC. The Commission estimates that approximately 70 million euro will be available from the Microfinance Facility and the reflow of these funds to the EIB will probably start in 2016. The European Commission’s report on EPMF in 2013 simply stated that it (the Microfinance Facility) will continue to offer its products until 2016 to keep addressing the financing gap on the EU microfinance market.

In order to ensure legal clarity, the EaSI Regulation deleted the provision of the Decision’s Article 8(3), which stated that following the presentation of the third annual report and on the basis of a proposal by the Commission, the European Parliament and the Council may review it (the Decision establishing EPMF).

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26 Regulation 1296/2013
28 This has already been noted in the European Commission implementation report 2011, published in July 2012 (COM(2012) 391 final, p. 16).
29 Evers & Jung, Study on imperfections…, p. 36.
2. Implementation of EPMF

In accordance with Article 8(5) of the Decision, the European Commission shall make efforts to ensure that the Microfinance Facility meets its objective and is accessible across the European Union to those who are at risk of social exclusion or who are finding it difficult to enter the conventional credit market.

In procedural terms, as specified by Article 8(1) of the Decision, the European Commission is obliged to present each year a quantitative and qualitative annual report on the undertaken activities. This implementation report should in particular contain information relating to applications adopted or rejected, contracts concluded, actions funded, the total number and type of beneficiaries and the distribution of amounts geographically and per sector. The annual reports should also contain information on the impact and sustainability of the Microfinance Facility, expressed by the total number of persons and microenterprises which are still employed or in business at the end of the period of EPMF support. Finally, the reports should include information on the Facility’s complementarity with other EU interventions, notably the European Social Fund.

The most recent European Commission report on activities and developments in the Microfinance Facility (in 2013) was published on 20 October 2014. This part of the analysis provides basic information on the scope of EPMF application, its two financial elements (support and guarantees), social and employment impacts, as well as synergies with other EU instruments.

2.1. Geographical and sectoral scope

With the ultimate aim to support microcredit throughout the whole European Union, the Microfinance Facility also tries to have a balanced geographical distribution. The European Investment Fund was thus required to issue guarantees for intermediaries in at least 12 EU Member States (which was achieved in the first full year of implementation – 2011) and to respect a concentration limit per country. Until March of 2013 only one country reached such a limit (Romania), resulting in the denial of funding for further intermediaries from that country.

By the end of March 2012, contracts for funded instruments were signed in nine Member States (BG, CY, EL, ES, FR, LT, PL, RO and SI), and 1 year later – in ten (with the addition of IT and PT, but without EL). The guarantees had been issued in six countries by March 2012 (BE, EL, NL, PL, PT, RO) and nine by March 2013 (the list above plus IE, FR and AT). The geographical coverage later increased, and the EPMF was extended into three more Member States (DK, SK and UK) during the rest of 2013, two more (SE and CR) in 2014, and another two (EE and HU) in early 2015. The Microfinance Facility thus covers 22 of the 28 current EU Member States.

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31 Evers & Jung, Study on imperfections..., p. 48/49.
The Commission’s implementation report for 2011 underlined that the 1079 micro-enterprises financed by the then five reporting microcredit providers are active in a variety of sectors. The predominant sectors were already then trade (28.5%) and agriculture (20%). In 2013, the sector distribution remained broadly similar to the previous ones, with more than half of final recipients coming from trade (3% increase since 2012) and agriculture (7% decrease).

2.2. Financial support

The financial support in form of funded instruments (senior and subordinated loans, equity participation and risk-sharing loans) is provided to microcredit intermediaries via a Luxembourg-based 'Fond Commun de Placement' (FCP), established in November 2010 and comprising 178 million euro).

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By the end of March 2014, the EIF signed 27 agreements with microfinance intermediaries to provide them with funded instruments. According to the external evaluation, around half of the MFIs reported to develop the intended portfolio at the time. The intermediaries provided somewhat conflicting opinions with regard to the difficulties of the market, indicating the economic downturn to either be the reason for less interest in starting new companies (especially taking into account the relatively higher costs of getting a micro-credit), or the rationale for more unemployed persons interested in getting one (credit).

The share of defaulted loans for the funded instruments is currently 1.59%.

2.3. Guarantees

The guarantees (funded only from the European Commission's resources, to the joint amount of 23.8 million euro) are issued under a Fiduciary and Management Agreement (FMA) between the European Commission and the European Investment Fund, launched in July 2010. It is important to note that the maximum guarantee rate covered by this instrument is 75%.

The number of intermediaries supported by a guarantee increased from 12 in 2012 to 27 at the end of 2013. By the end of March 2014, the EIF signed 30 agreements and according to the external evaluation, around 2/3 of the MFIs reported to develop the intended portfolio.

It was expected that the overall guarantee budget provided by the EU will be fully used by the end of 2014, and that is indeed the case at the moment of writing this analysis. The total commitment to microcredit providers amounted to 134.7 million euro (including guarantees, where the total cap amount is 20.7 million euro), and the total disbursement of funded instruments is 60.17 million euro. The net amount of called guarantees was relatively low, at 1.34 million euro, with two institutions having called almost 90% of this amount. The net amount of called guarantees was expected to increase significantly over time and at the end of March 2014, it had increased to 2.11 million euro. When issuing new financial instruments under EaSI, the provision of guarantees to microfinance intermediaries is supposed to be prioritised.

The share of defaulted loans for the guarantees is currently 1.96%.

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34 Ramboll evaluation, Executive summary - Efficiency.
35 Idem.
2.4. Social and employment impact

The ex-ante evaluation, which accompanied the Commission's proposal for the Decision, explained that the 'combination of the general credit squeeze with the increasing levels of unemployment means that people who would like to either become self-employed or start a micro enterprise cannot do so.'\(^{36}\) The overview of existing efforts at European and national levels led to a conclusion that they need to be strengthened in order to increase the supply of micro-credits especially to those who need it most - that is the unemployed or vulnerable people who want to go into self-employment but do not have access to bank credits.\(^{37}\)

According to the ex-post evaluation, almost 60% of the EPMF final recipients in the period from 2011 to 2013 were unemployed at the time of applying for the loan which allowed them to start a business\(^ {38}\). This figure is somewhat divergent from the results of the micro-borrowers' survey, where 'only' 33% confirmed this situation, but this is explained by the fact that enterprises (which were also questioned) could not possibly claim the 'unemployment' status as such. Of course, there are differences in these percentages between specific Member States and credit providers.

Another finding, although certainly not unexpected, was that the final recipients of the Microfinance Facility have on average lower income, which matches the objective that it should support those who would otherwise have big difficulty in launching any kind of new economic activity.

With regard to the age of final recipients, the Commission reported a huge majority (84.4%) which were in the middle group of 25-54 year-olds, with those aged under 25 constituting only 5.9% of loan-takers (compared to 5.2% in 2012). What turned out to be more difficult in measurement is the amount or proportion of applications from migrants, minorities and or disabled persons, since the applicants did not necessarily provide such information when asking for the credit.

According to the external evaluation, numerous MFIs make purposeful efforts to reach potential clients of migrant origin (for example by having branch offices in relevant population areas) and young people (targeting employment fairs and other educational-based events), but much less so with regard to persons with disabilities.

As the education-criteria (where lower education would for example qualify the person to have less chances for obtaining a standard credit, but also increase the risk of being unemployed), the evaluation - based on a small research sample - could not provide clear conclusions in either direction.\(^ {39}\)

Based on the responses from the MFIs themselves, and with a disclaimer concerning low availability of data on various group outreach at the interim phase of the Microfinance Facility, the external evaluation stated that 'overall, intermediaries do

\(^{38}\) Ramboll evaluation, p. 56.
\(^{39}\) Idem, p. 61.
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.40 With social enterprises making only a limited part of the final recipients of EPMF, exemplary opinions indicated that such entities are less likely to ask and/or get a microcredit, due to their usual limitations and capabilities41.

The European Commission report on 2013 claimed that social and employment impact of the Microfinance Facility was confirmed, in the sense that entrepreneurship can flourish with sufficient funding, and that it can help disadvantaged groups find a way out of unemployment. An interesting case could additionally be made by those enterprises that - thanks to the support from EPMF - move from informal (‘shadow’) economy to the regular business sphere. As for the development of entrepreneurship in general, the external evaluation considered that ‘it is too early to assess whether Progress Microfinance supported credits have contributed to access to mainstream banking in the long term.’42

2.5. Synergies with other EU instruments

As already stated above, when presenting the future of the Microfinance Facility, the criticism of separate instruments existing at EU level with support for microfinance led to the establishment of a new, broader programme (EaSI) for the period 2014-2020. In the 2013 report, the European Commission provides only general conclusions that synergies between EPMF and other EU instruments were sought ‘in order to ensure efficient coordination and smart complementarity’. A reference is made to the fact that all microcredit providers are required to work with entities providing training and mentoring services, particularly those supported by the European Social Fund (ESF), but only around 50% are said to have done this43.

The external evaluation rightly pointed to JASMINE44, which provided many intermediaries with technical assistance and training, and identified cases demonstrating the potential for creating synergies between the Microfinance Facility and programmes funded by ESF, for example the latter’s interventions to promote access to employment. However, only 20% of intermediaries reported cooperation with entities supported by the ESF, such as business support centres (which means that the remaining 30% of the half mentioned above cooperated with other entities). The consultants concluded 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’.45

40 Idem, p. 11.
41 Idem, p. 54.
42 Ramboll evaluation, Executive summary - Sustainability.
43 The European Commission indicated that this figure has later risen to 80%.
44 Joint Action to Support Microfinance Institutions.
45 Ramboll evaluation, Executive summary - Complementarity.
3. The Facility's objectives and effects

The external evaluation first presents the two objectives of the Microfinance Facility as being the increase of lending activities by the microcredit providers, and improving the access to microfinance by high-risk groups. This distinction might properly reflect the two-fold characteristic of instruments provided by EPMF (actual lending vs guarantees) but not the objectives as set in Article 2 of the Decision - which are better reflected later (in part 4) of the evaluation report. It rightly refers to the general objectives of the Progress Programme, as well as the Microfinance Facility's coherence with the employment and social goals of the Europe 2020 Strategy on Growth and Jobs.46

Full text of Article 2 of the Decision establishing EPMF:

1. The Facility shall provide Union resources 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 micro-enterprise, including self-employment; (b) micro-enterprises, especially in the social economy, as well as micro-enterprises which employ persons referred to in point (a).

2. The Facility shall provide Union resources for access to microfinance, and actively promote equal opportunities for women and men.

This part of the analysis looks at the already visible effects of Microfinance Facility, in view of its objective(s) set by the Decision, and some additional – institutional – aspects.

3.1. Micro-credits covered by the Microfinance Facility – Are they different from what the market offers?

The detailed conditions of specific micro-credits (incl. interest rates, fees, collateral, repayment, and duration) vary significantly between countries and intermediaries47, but it is these conditions that ultimately make a difference for the individual or business decision to take a credit. The external evaluation was not able to identify 'clear trends when it comes to comparing the pricing of the Facility-backed products and other comparable products or larger loans'.48 On the other hand, it made an interesting analysis of the non-bank intermediaries’ compliance with the voluntary European Code of Good Conduct for Microcredit Provision, with a surprising discovery that although one-third of the MFIs interviewed confirmed the signature of that code, half of them didn’t, and – which is somewhat stranger – 19% didn’t know if

46 Ramboll evaluation, p. 8.
47 See table on pages 31-34 of Ramboll evaluation.
48 Ramboll evaluation, p. 35/36.
they did or not. The importance of the Code should not be underestimated, as among its provisions there is for example a specific one on avoiding over-indebtedness\(^{49}\), which was an issue raised by the European Parliament before the Decision’s adoption.

### 3.2. Micro-credits covered by the Microfinance Facility – What is measured?

In the legislative financial statement, which accompanied the legislative proposal, the European Commission proposed two indicators to measure the output of the Microfinance Facility: volume of credit and number of beneficiaries of the loan\(^{50}\). This was in line with the overall aim of the Microfinance Facility: ‘to allow for achieving the objectives set in terms of disbursing loans to the unemployed and disadvantaged groups and thus creating employment and social inclusion’\(^{51}\).

With regard to the most important objective – the employment-creation impact, the Microfinance Facility certainly helped a number of unemployed people start their own business: while a quarter of the borrowers surveyed by the external consultants were unemployed when applying for a credit, the majority of them reported being self-employed at the time of the evaluation. But while the overall unemployment rate of micro-borrowers participating in the survey was less than 5% (after the credit)\(^{52}\), the evaluation admitted that evidence for the job-creation and business-creation effect of the EPMF is still ‘anecdotal’. Also, only 13% of the surveyed borrowers hired an employee as a result of the loan, and the evaluation pointed rather to the job-preservation effects on the already existing businesses\(^{53}\).

### 3.3. Micro-credit covered by the Microfinance Facility – Is the objective being reached?

In terms of monetary figures, microcredit providers disbursed a total of 13,252 microloans with an overall aggregate value of 124,6 million euro by September 2013. This was somewhat below the EIF projection of 142,4 million euro, in accordance with the objective set (see point 1.5. above)\(^{54}\). In addition, the leverage effect of 5,5 as of March 2013 was above the set target of 5,0 (meaning that the funds committed from the EU budget of EUR 100 million should generate EUR 500 million in microcredits).

A positive conclusion of the external evaluation is based mostly on extrapolating survey results to the whole Microfinance Facility. The 17% of final recipients stating that their application for a credit was earlier rejected by another financial institution led the external consultants to indicate that around 2,400 individuals and businesses in Europe would have been otherwise completely excluded from the credit market. The

\(^{49}\) Clause 1.10. For some examples of procedures used by micro-credit providers to assess the eligibility of applicants – see Ramboll evaluation, p. 40.

\(^{50}\) See COM(2009)0333, p. 16.


\(^{52}\) Ramboll evaluation, Executive summary - Impact.

\(^{53}\) Ramboll evaluation, Executive summary - Sustainability.

\(^{54}\) Ramboll evaluation, Executive summary - Efficiency.
fact that for 68% of final beneficiaries, their application for a microcredit provided within the framework of EPMF was their first ever of that kind, equally led to the figure of 8,560 persons and enterprises taking advantage of credit thanks to this EU instrument.\(^5\)

While the final recipients mostly indicated missing collateral as the reason for not obtaining the credit elsewhere (in those cases where they actually asked for it, of course)\(^6\), it was on the basis of intermediaries’ responses that the external evaluators considered that belonging to ‘unprofitable target groups’ (young, unemployed or self-employed, immigrants and minorities) was blocking access to other forms of credit. It should be noted that this information thus does not have a strong evidence base, but the evaluation report provides convincing case-studies in support of an argument that micro-finance indeed fills a certain gap in the financial system. It also admits that it is difficult to prove that the Microfinance Facility increased access to finance of specific groups, as they were mostly already target-customers of the relevant micro-finance providers.

With regard to Article 2(2) of the Decision (on the gender aspect) the 60/40 male/female ratio (set by the European Commission in its evaluation criteria) is found close to being reached as the approximate ratio in micro-credits supported under the Microfinance Facility was reported in 2013 to be 63/37, ‘in spite of an apparent lack of targeted efforts by the intermediaries’.\(^7\) In the more detailed part of the evaluation, a number of intermediaries is referred to as targeting women specifically.\(^8\)

### 3.4. Additional institutional arrangements

In addition to the standard formulation of ensuring proper complementarity with other EU instruments, as described above (under point 2.5.), the Decision establishing the Microfinance Facility also introduced one institutional obligation and made one suggestion, both aimed at improving the future use of EPMF.

#### 3.4.1. Representative organisations

The obligation concerns cooperation of microcredit providers with organisations ‘engaged in representing the interests of the final beneficiaries of micro-credit and with organisations, in particular those supported by the ESF, who provide mentoring and training programmes to those final beneficiaries’.\(^9\) The first part of this requirement is normally transposed into contract agreements between the European Investment Fund and the MFIs, but intermediaries openly admit that they cooperate with the beneficiaries’ representative organisations (including migrant, ethnic, and producers’

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\(^{5}\) Ramboll evaluation, p. 51.

\(^{6}\) High debt level and non-acceptance for the business plan being also listed; gender, ethnic and disability issues almost non-existent; see Ramboll evaluation, p. 52.

\(^{7}\) Ramboll evaluation, Executive summary - Effectiveness.

\(^{8}\) Ramboll evaluation, p. 64.

\(^{9}\) See Article 4 of the Decision.
associations), in order to reach potential clients and advertise their products. On one hand, claimed that its non-cooperation with such associations is due to its policy of avoiding political influence.

The second part of the requirement (on training) seems to have been somewhat misunderstood by the external evaluation, which provides information – based on interviews with the intermediaries – on training and mentoring provided by the credit-providers themselves (sometimes against a cost-covering fee), which could raise the question of how the provision of financial products is separated from advice, and if the latter is independent or not.

3.4.2. National contact points

The suggestion following the Parliament’s amendment that Member States establish national contact points to promote, coordinate, assess and monitor all the actions taken under the Microfinance Facility in their respective territories, was eventually only reflected in a recital (7) of the Decision. The rationale for this institutional proposal was quite ambitious, aiming at making EPMF more effective, with a long-lasting impact in reaching the potential beneficiaries, and serving as a proactive element for both economic and local development policies. Unfortunately, as it currently stands, this incentive does not seem to have been widely used in more than a few Member States (such as Poland and Italy), as could have been expected from an optional provision for institutional support, the realisation of which would probably mean additional costs for national authorities.

3.5. External evaluation’s assessment

The results of the evaluation exercise contracted by the European Commission to Ramboll Management Consulting were eventually published only on 5 May 2015. Admitting that it assesses the Microfinance Facility mid-way through its operation, the report looks at the specific implementation and effectiveness of EPMF, measures its impact on lenders and borrowers, and examines the sustainability of the results. The contractors clearly underlined that due to the interim characteristic of the evaluation, their approach was mostly based on 'logically linked assumptions and hypothesis', and contribution analysis.
In addition to the elements mentioned - where relevant - above, the evaluation's conclusions were the following:

- Most of the intermediaries interviewed, especially non-bank financial institutions, considered that their activity was positively influenced by EPMF. More favourable lending conditions, namely lower interest rates (which are usually higher in micro-credits than conventional ones), were also indicated as an effect of the Microfinance Facility. What did not happen, was the provision of micro-credit in new areas. However, some lenders broadened the scope of their clients (to those with higher risk) thanks to the EPMF. The opinions received from MFIs led the evaluators to conclude that the Facility increased the availability of microfinance for microenterprises, since the EU instrument permitted them (the intermediaries) to take more risks in granting credits.66

- The relevance of the specific EPMF instruments was subject to a number of interesting observations made by the micro-credit intermediaries67. The risk-sharing loan was for example considered too complicated ('even for banks') to be used much, the instruments' flexibility too low, and additional conditions resulted in adverse effects (namely administrative costs). Interestingly, one intermediary reported that some of its clients terminated the loans after being asked to ensure visibility of the EU source of funding.

- On the borrowers' side, their survey68 indicated that 17% were formerly rejected by the conventional credit market, 68% individuals were applying for the first time, and 56% considered that it would have been impossible to get a similar credit elsewhere.69 The Microfinance Facility could in result take credit (in the non-financial meaning of the word) for lowering the threshold for accessing finance.

- The specific objective of supporting 'social economy' did not seem to be reached, and as one of the most illustrative quote stated: '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'.70

- With regard to effect on employment, the final result (almost 60%) was clearly influenced by one financial institution (from France), while without it only 25% of persons receiving credit were unemployed at the time of application. An important positive element of the microcredit provision was nevertheless the job-preservation, in those enterprises which would possibly disappear without such support. Additionally, the evaluation indicated that 'half of the businesses younger than six months were run by borrowers who were unemployed when receiving the microloan'.71

66 Ramboll evaluation, p. 54.
68 With significant reservations about the non-representative results explained by Ramboll evaluation, p. 5/6.
69 Ramboll evaluation, Executive summary - Effectiveness.
70 Ramboll evaluation, p. 55.
71 Ramboll evaluation, Executive summary - Effectiveness and Impact.
- There was a small share of EPMF usage by persons with minority and/or migration background, but as the data of this aspect were based on self-reporting, the results are less reliable (some loan applicants were said to possibly fear discrimination in case they disclosed their ethnic background72).

- With regard to sustainability of EU support, the survival rate of businesses financed through the Microfinance Facility-backed microcredit (96%) was found higher than the European average but accompanied by a serious reservation about the possibility to draw firm conclusions in this matter.73

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72 Ramboll evaluation, p. 58.
73 Ramboll evaluation, Executive summary - Sustainability.
4. Conclusions

The Microfinance Facility is the first dedicated instrument available for all microcredit providers that operate in the European Union, but due to the different levels of development and market interest it is still not used in all Member States (currently 22 out of 28), and only by some intermediaries, each contracted separately.

As indicated by some intermediaries themselves (including commercial banks, which point to their CSR policies), it is mostly a not-for-profit activity. As the European microfinance sector is characterized by a wide range and diversity of institutions (including NGOs, foundations, and associations), the majority of MFIs are still rather small organisations with limited outreach (only slightly more than 50% issue more than 100 microloans per year). The institutional capacities to grow and serve a higher number of clients continue to differ among the diverse landscape of the prevalent MFIs. At the same time, there is also a trend towards efficiency, professionalization, and self-sustainability in that sector, which requires access to stable funding for its growth.

Following the identification of objectives, that is allowing access to micro-credits for those who would otherwise have problems in obtaining a loan from the conventional credit market, the Microfinance Facility effectively permitted a growing number of persons and micro-enterprises to invest or develop their small businesses, albeit the reach-out to vulnerable groups (more specific than ‘only’ unemployed, such as minorities, women or disabled persons) was not able to be ensured as seemingly wished for by the legislator. The finding of the external 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.

The level of sustainability of all supported enterprises is difficult to assess at this stage, due to the relatively young maturity of the loans made on the basis of Microfinance Facility: 64% of recipients surveyed by external consultants took the credit less than a year earlier and the job-creation effect can take longer to materialise. This was also underlined by the last European Commission report (2013) which indicated that around 44% of all enterprises supported by EPFM existed less than 1 year, which makes sustainability assessments more challenging.

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74 Ramboll evaluation, p. 15.
75 Evers & Jung, Study on imperfections..., p. 12.
77 Ramboll evaluation, p. 65.
78 Ramboll evaluation, Executive summary - Sustainability.
The continuation of Microfinance Facility was and is advised, and is already ensured in the framework of EaSI (2014-2020), which already contains some improvements. It remains to be seen whether the European Commission will still be able to use the results of present interim evaluation and make any corrections either to EPMF in the current programming period\textsuperscript{79}, or in the implementation of its successor later on. In the words of the Study published before its implementation report, the Microfinance Facility ‘has established itself in the European microcredit sector, although the efficiency and effectiveness of the individual financing instruments need to be improved for the new facility.’\textsuperscript{80}

\textsuperscript{79} Ramboll evaluation, p. 1.
\textsuperscript{80} Evers & Jung, Study on imperfections..., p. 64.
The European Progress Microfinance Facility for employment and social inclusion was established by Decision 283/2010 and will be in operation until April 2016.

Although only a limited number of conclusions can be made on the basis of data available so far, some criticism towards this instrument has already been reflected in the set-up of the next EU multi-annual framework to cover microcredit, namely the Programme for Employment and Social Innovation (EaSI).

The specific effects of the Microfinance Facility, especially those related to social and employment matters, seem to correspond to the objectives that were set in response to the financial crisis in Europe. The commitment of 100 million euro from the EU budget, allowed a growing number of financial intermediaries to offer small loans to persons starting-up or developing their own micro-enterprises (and often previously unemployed).