

Annex IV (e)

Microfinance and Social Entrepreneurship Portfolio Guarantee Product

- Specific provisions -

<p>Background</p>	<p>The Microfinance and Social Entrepreneurship Portfolio Guarantee Product builds on the successful implementation and deployment by EIF of the Employment and Social Innovation guarantee financial instrument, in the previous programming period, 2014-2020.</p>
<p>EU Policy Objective</p>	<p>The Microfinance and Social Entrepreneurship Portfolio Guarantee Product aims to enhance access to finance for micro- and social enterprises (including self-employed), thus supporting the development of a nascent market for inclusive and social finance.</p> <p>The following target areas are addressed by this product:</p> <p><u>Microfinance</u></p> <p>The policy objective is to promote quality, sustainable employment and social inclusion by supporting entrepreneurship and income-generating activities, in particular for persons in vulnerable situations who wish to start up or develop a micro-enterprise, including on a self-employed basis. Micro-borrowers and micro-enterprises continue to face difficulties in accessing finance to start up and scale up often due to a lack of collateral and credit history, thus they are perceived as high risk by traditional banking channels.</p> <p><u>Social Entrepreneurship</u></p> <p>Social enterprises play an increasingly important role in the European economy and recovery in terms of promoting active labour market participation, creating jobs and building a fairer and more inclusive Union, in line with the European Pillar of Social Rights. Generally, social enterprises have novel business models with the social mission as a priority, which can entail difficulties in accessing finance to start up and scale up their businesses as financial intermediaries may perceive them as riskier than traditional SMEs.</p> <p>Social enterprise finance is still a recent development in Europe and part of an emerging market ecosystem that is not yet fully developed and public funding in this area is still lacking, especially at national level. In particular, an important funding gap has been observed for tickets of up to EUR 500 000.</p>
<p>Type of (Counter-) Guarantee</p>	<p>The Microfinance and Social Entrepreneurship Portfolio Guarantee Product shall be offered by EIF only in the form of a Capped (Counter-) Guarantee.</p>
<p>Applicable (Counter-) Guarantee Rate</p>	<p>The (Counter-) Guarantee Rate shall be up to 80% in respect to each Guarantee Transaction, as applicable, covering: Microfinance and/or Social Entrepreneurship.</p>

Applicable (Counter-) Guarantee Cap Rate	The (Counter-) Guarantee Cap Rate shall be set up to the level of expected loss and shall not exceed 30%.
Target Final Recipient	<p>Is a Final Recipient that is:</p> <ul style="list-style-type: none"> a) either a natural person or Micro-Enterprise - with respect to Microfinance b) a Social Enterprise - with respect to Social Entrepreneurship <p>which meets the Product Eligibility Criteria applicable to Final Recipients.</p>
Product Eligibility criteria	<p>The Financial Intermediary shall ensure that the Final Recipient Transactions, must comply with at least one of the following criteria:</p> <p><u>Microfinance Criteria</u></p> <p>Final Recipient Transactions shall support Microfinance.</p> <p><u>Microfinance</u>¹ refers to Debt Financing provided on an unsecured basis (debt financing benefitting only from a personal guarantee or similar), except in duly justified cases, coupled with accompanying business development services², such as individual counselling, training and mentoring, extended to persons and Micro-enterprises that experience difficulties accessing credit for the purpose of professional and revenue-generating activities..</p> <p>Financial (Sub-)Intermediaries shall:</p> <ul style="list-style-type: none"> a) be required to endorse (for banks) or comply with (in case of non-banks) the European Code of Good Conduct for Microcredit Provision (“the Code”) within a limited grace period (18 months for Brownfield Institutions, 36 months for Greenfield Institutions). b) offer, directly or indirectly, business development services (including but not limited to mentoring, training, coaching) for the targeted Guarantee Final Recipients during the implementation of the microfinance guarantee. <p><u>Social Entrepreneurship Criteria</u></p> <p>Final Recipient Transactions shall support Social Enterprises.</p>
Greenfield Institution	Means a Financial Intermediary that has an operating history of less than 3 years.
Brownfield Institution	Means a Financial Intermediary that has an operating history of at least 3 years.
Enhanced Access to Finance Measures	For the purpose of Enhanced Access to Finance Measures, compliance with the requirements under Enhanced Access to Finance Measures Implementation described in Annex II or III, as the case may be, will be considered satisfied through any of the following:

¹ As defined in article 2 of the European Social Fund Plus (ESF+) Regulation

² EIF will rely on representations from the Financial Intermediary.

	<p>a) <u>Reduction of cost of financing</u>: a reduction of the interest rate, or in case of Counter-Guarantee the guarantee premium, applicable to the Guarantee Transaction (taking into account the underlying risk and the actual cost of funding related to the Final Recipient Transaction); or</p> <p>b) <u>Support to excluded segments</u>:</p> <p>(1) the launch of a new product aimed at Target Final Recipients, to the extent that such Target Final Recipients would not be considered for financing (or to the same extent) under its standard lending practice, in the absence of the guarantee support or</p> <p>(2) the continuation of a product supported by an EIF (counter-) guarantee under Employment and Social Innovation guarantee financial instrument, in the previous programming period, 2014-2020, which would not have been continued without the support under the IEU transaction,</p> <p>by the Financial Intermediary aimed at Target Final Recipients (new geographical areas, new types of Final Recipients and/or new business lines).</p> <p>c) <u>Reduction of collateral requirements</u>: reduction of the collateral requirements applicable to the Final Recipient Transactions, e.g. if collateral is requested for the Final Recipient Transaction, it shall be limited, on a continuing basis, to the personal guarantee of the entrepreneur.</p> <p>d) <u>Financing at longer maturities</u>: as result of the guarantee support, the Financial Intermediary will deviate from its standard lending practice and offer longer maturities than those that would otherwise be typically offered; and</p> <p>e) <u>Bespoke financing arrangements</u>: providing bespoke repayment terms to Final Recipients Transactions (e.g. participating and/or subordinated loans), to the extent that such option would not typically be made available (or to the same extent) under its standard lending practice in the absence of the guarantee support.</p> <p>For the avoidance of doubt, the above list is not exhaustive and the Financial Intermediary can propose further additional Enhanced Access to Finance Measures.</p>
<p>Minimum Principal Amount of a Final Recipient Transaction</p>	<p>No minimum principal amount is applicable</p>
<p>Maximum Principal Amount of a Final Recipient Transaction</p>	<p>Means:</p> <p>a) With respect to Microfinance: EUR 50 000*.</p> <p>b) With respect to Social Entrepreneurship: EUR 2 000 000*.</p> <p>* or EUR equivalent</p>

Minimum Maturity of a Final Recipient Transaction	The scheduled minimum maturity of the Final Recipient Transactions shall be 3 months
Maximum Maturity of a Final Recipient Transaction	No maximum scheduled maturity of the Final Recipient Transactions is required, provided that the coverage of the Final Recipient Transactions shall not extend beyond Individual (Counter-) Guarantee Termination Date. The EIF may set a maximum scheduled maturity for the Final Recipient Transactions in the relevant Individual (Counter-) Guarantee Agreement.
Obligor Limit	The aggregate principal amounts outstanding under all Final Recipient Transactions entered into by a Financial (Sub-) Intermediary with the same Final Recipient shall not exceed EUR 7.5 million (or EUR equivalent).